

# POLICY BRIEF

## The Escalating US-China Strategic Conflict and Japan's Way Forward

### 1. Introduction

Initially, there were concerns in Japan and other Asian nations that the Biden administration would be too soft against China, unlike the former Trump administration.<sup>1</sup> This is because the preceding Obama administration gave the impression that it could not take a tough stance toward China, especially in the South China Sea, as it sought cooperation on the issue of climate change.

However, with President Joe Biden now in office, the United States has shown a surprisingly tough position against China, quite similar to that of the Trump era. In particular, a harsh attitude stands out concerning Taiwan, human rights, and the Senkaku Islands, issues which China is most sensitive to<sup>2</sup>.

In order to impose stronger pressure on China, the Biden administration is striving to deepen its cooperation with allies and partners. President Biden hosted the first summit meeting of the Quad members, the US, Japan, Australia and India, on 12 March. He also invited Japanese Prime Minister Yoshihide Suga to the White House on 16 April as his first face-to-face meeting. In these series of talks, Washington sought to further enhance cooperation on China policy.

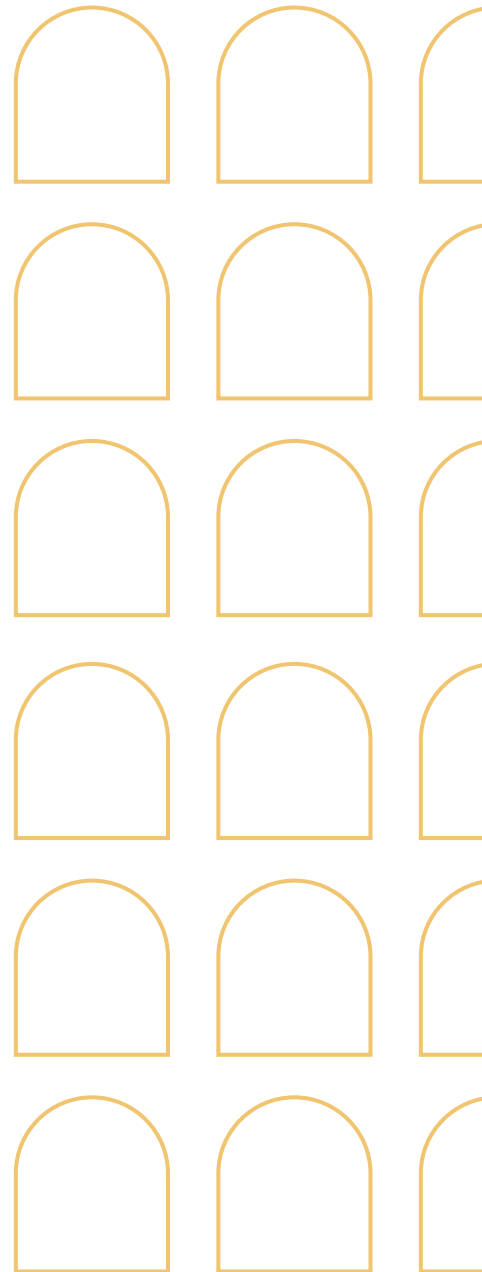
Why is the Biden administration advocating such a tough approach towards China? There are several reasons.

1 Y.A, "The Virtues of a Confrontational China Strategy", The American Interest, April 10 2020

2 "Biden and Suga reaffirm US commitment on Senkakus", Nikkei Asia, Jan. 28 2021

### Author

Hiroyuki Akita, Nihon Keizai Shimbun (Nikkei)



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First, the Democrats traditionally tend to be liberal and human rights issues are thus a priority. The Biden team is not an exception. Second, the Biden administration emphasises that it will work more closely with its allies than did the Trump administration. This approach effectively means that the United States will try to establish a multinational coalition to closely monitor China, which will inevitably raise tensions between the two countries. But there is another important factor that is aggravating the stress between them. The spread of the coronavirus that has caused hundred thousands of deaths of Americans. The enormous damage caused by this pandemic has greatly exacerbated US negativity toward China, especially against the Communist Party regime that did not act swiftly to prevent the coronavirus spreading around the world. At an initial stage of the outbreak, China allegedly covered up the facts and did not disclose information transparently. After that, Beijing promoted propaganda that justified this response. These factors have prejudiced not only the Biden administration but also the US Congress and the public against China.

Compromise is possible if the United States and China are at odds over specific national interests, such as maritime security or high-tech hegemony. However, if the basic nature of the Communist Party regime were considered to be the major source of US-China tensions, it would be difficult for both powers to seek compromise. The current confrontation between the two countries is at this stage.

This paper first analyses how the current pandemic accelerated the nature the US-China confrontation from the above perspective. Then, it speculates about how Japan will attempt to respond to this new reality.

Since the 'electric shock'-like reconciliation of the US and China in 1971, Japan's diplomatic nightmare has been a scenario in which the US and China shake hands without any Japanese involvement. The dilemma that Japan faces now is quite the opposite<sup>3</sup>.

To what extent will Japan cooperate with the US over its China policy as those two powers head toward intense rivalry? To what extent will Japan be able to absorb China's backlash if it were to adopt a

hawkish China policy in collaboration with the United States?

In short, Tokyo is prepared to further strengthen its cooperation with Washington in the hegemonic competition against China over high-tech and geopolitics. However, if the US pursues a very hostile approach to the China's Communist Party and moves in the direction of weakening it, this policy will be difficult for Japan to follow. In such a scenario, Japan will be forced to rethink its future options in dealing with China.

## 2. US-China conflict before the pandemic

□ Strained relations between the US and China have increased since the second term of the Obama administration. There were a variety of reasons, but essentially, a strategic competition arose between China, a rising power, and the United States, an existing great, but diminishing power. Specifically, strategic competitions in two areas increased tensions in bilateral relations: the geostrategic competition over the Indo-Pacific region and high-tech hegemony.

### Geostrategic Competition over the Indo-Pacific

The US-China geostrategic competition over the Indo-Pacific has intensified since the second term of the former Obama administration. China reclaimed the South China Sea and built seven military bases on artificial islands. At the meeting with China's president, Xi Jinping in September 2015, President Obama demanded a stop to the construction of the islands<sup>4</sup>. However, Xi flatly refused and the meeting ended without progress.

Immediately after the meeting, Obama ordered US military leaders to increase military pressure on China in the South China Sea<sup>5</sup>. From this point on, the United States began 'freedom of navigation operations' (FONOP) through a dispatch of US warships to within 12 nautical miles (about 22 kilometers) of China's artificial islands.

FONOPs were greatly accelerated by the Trump administration. The number of operations carried out between 2015 and 2016 was five, but increased to about 20 between 2017-19,<sup>6</sup>. In addition, the for-

3 Interview to Japan's government officials, July-December 2020

4 Interview to US government official, October 2015

5 Interview to an adviser to US Department of Defense, October 2015

6 "Troubled waters, Where the US and China could clash in the South China Sea", Bloomberg, December 17, 2020

mer Trump administration increased military pressure by sending US aircraft carriers to the South China Sea to conduct multiple exercises.

Even in the East China Sea, tensions between the United States and China intensified. China unilaterally created an air defense identification zone (ADIZ) over the East China Sea in January 2013. Incursions into territorial waters of the Senkaku Islands by Chinese patrol vessels also increased.

During the Trump era, geostrategic competition extended beyond the East China Sea and South China Sea to the entire Indo-Pacific. China started to promote the 'Belt and Road Initiative (BRI) in the early 2010s and began to expand its own economic sphere of influence. In May 2017, China gathered the leaders of some 30 countries in Beijing and held a BRI summit. After that, China developed BRI projects internationally and expanded the China-led economic sphere by massively investing in key infrastructures in the Indo-Pacific.

Through the BRI initiative, China even became a major investor in developing countries, escalating lending activities to the level of World Bank expenditure. At the end of 2018, China's loans for 68 developing countries reached \$101.7 billion. Lending surged 1.9 times over four years, nearing that of the World Bank (\$103.7 billion)<sup>7</sup>.

Of the 68 countries that receive huge loans from China, 14 borrowed more than 10% of their gross domestic product (GDP) from China. China is using loans to gain political influence. Twenty six countries whose borrowings from Beijing reach over 5% of total GDP supported China at the UN Human Rights Council<sup>8</sup>.

To counter China's BRI initiative, the former Trump administration adopted the 'Free and Open Indo-Pacific' strategy, originally advocated by Japan's Abe administration. Based on this strategy, the Trump administration set out to support the development of major infrastructure projects in the Indo-Pacific, in collaboration with Japan, Australia and India.

## Competition over high-tech hegemony

In addition to the geostrategic competition over the Indo-Pacific, a race to claim high-tech hegemony is

intensifying the conflict between the two powers. At its core is China's firm determination to catch up and overtake the United States in the high-tech domain. China has already risen to the number one position globally in fields such as computer technology, digital communication and quantum technology.

According to the World Intellectual Property Organization (WIPO), China filed the largest number of international patent applications in the world in both 2019 and 2020. The number of applications in China increased by 16% in 2020 from the previous year, to a total of 68,720<sup>9</sup>.

Computer technology and digital communications make up the largest number of patent applications filed by China. In addition, China's applications for technologies such as virtual reality (VR) and augmented reality (AR) also increased by 30% in 2020 compared to the year before<sup>10</sup>.

In contrast, the number of applications in the United States increased by only 3% in 2020 from 2019 to 59,230. Japan came in third with 50,520 cases, down 4% from the previous year<sup>11</sup>. The United States is wary of unfair policies and practices in the context of the rapid rise of China's tech industry. Specifically, the US alleges that China's high-tech policy may contain serious problems, which include technology fraud by cyber theft, compulsory high-tech transfer from foreign firms to China and huge state subsidies.

Based on this sense of urgency, the United States has intensified countermeasures against China's high-tech policy in recent years. Specifically, three main policies have been implemented. The first policy is to regulate investment by Chinese companies in crucial US industries such as high-tech and energy transportation. The second is to exclude Chinese companies from critical US infrastructure such as the 5G digital network. Third is the move to strictly regulate the transfer of US high-tech, such as semiconductors, to China.

Of these, the first policy (tightening control on China's investment to the United States) has been particularly strengthened since the mid-2010s. Under the CFIUS (Committee on Foreign Investment in the United States), the former Obama administration tightened restrictions on China's investment in

7 “中国对外融資が膨張 途上国へ強まる支配力” China's foreign lending expands. Strengthening control over developing countries "Nihon Keizai Shimbun (digital edition), August 6 2020

8 Ibid.

9 “China beats US in patent filings for second straight year”, Nikkei Asia, March 3 2020

10 Ibid,

11 Ibid,

the United States, in areas where it could threaten national security.

The Trump administration further increased control by utilising the CFIUS framework. During the first three years of the former Trump administration (2017-2019), the US government examined 140 investment projects by Chinese companies, due to national security concerns<sup>12</sup>. This number is about seven times that of the Obama administration's examination of projects in the first three years of that administration.

The second policy (excluding Chinese companies from critical infrastructure projects) was accelerated in earnest under the Trump administration. One of the most prominent measures was the decision to exclude Huawei and other Chinese companies from the 5G domestic network. The Trump administration has also called on allies and friends to keep Chinese companies out of their 5G networks. In 2018, Japan and Australia decided to exclude Huawei. Some major countries such as the United Kingdom are in tune with the United States, too.

Regarding the third policy (restriction on high-tech transfer to China), the United States moved quickly to tighten regulations during the Trump era. By the end of 2020, the US government had put more than 300 Chinese companies on an export control blacklist, the so called 'Entity List'<sup>13</sup>. Under this policy US companies are effectively banned from exporting high-tech and high-tech parts to any Chinese companies on the list. The Entity List regulation is also applied to foreign companies that sell products with 25% of US tech components. Targeted Chinese companies include Huawei and its affiliates, as well as Semiconductor Manufacturing International Co. and DJI, the latter two among China's top tech companies.

### 3. The US-China confrontation after the pandemic

After the outbreak of the pandemic in early 2020, the United States and China experienced a more serious confrontation than that of competition over the geostrategic or high-tech hegemony. The COVID-19 infection spread from China to the United

States and caused catastrophic illness and death in American society. That adversely affected the relationship between the two powers. The feud between Washington and Beijing has grown to a level of hostility regarding one another's political systems and long-term strategic intention.

As a result, the essence of the US-China competition has changed. If we compare the relationship between the two countries to a relationship between two people, it has reached a point where things have become so hostile so that there is no trust<sup>14</sup>. If the United States and China battle only over strategic interests, there may be room for compromises. But if the two powers harbour deep distrust, reconciliation is almost impossible. The current bilateral relations of these two powers could be defined as an ideological competition or a regime competition.

#### Rising hostility against the Communist regime

Since its inauguration, the Biden administration has launched a series of tough policies and measures against China that are comparable to the policies of the former Trump administration. In particular, Biden's hardline stance is clear with respect to human rights and Taiwan, issues to which China is the most sensitive.

On 20 January President Biden invited a *de facto* Taiwan representative to his inauguration ceremony in Washington. This marked the first time for such an action since the United States cut diplomatic relations with Taiwan in 1979. Three days later, the US State Department issued a statement that pledged to continue supporting Taiwan in self-defense<sup>15</sup>. In order to send a signal to Beijing, the Biden administration dispatched navy warships to the Taiwan Strait and has repeated this operation four times as of 7 April<sup>16</sup>.

On human rights issues, Secretary of State Antony Blinken expressed America's definition of China's crackdown on the Uighurs as 'genocide' on 27 January, his first day in office. He has also severely condemned China's infringement of Hong Kong's autonomy<sup>17</sup>.

Why is the Biden administration taking such a strong stance toward China? One of the biggest factors

12 "Barriers to China-U.S. investments could outlast Trump", Reuters, November 3 2020

13 "U.S. bans technology exports to Chinese semiconductor and drone companies, calling them security threats", The Washington Post, December 19 2020

14 "US digs in for long war against China's communist regime", Nikkei Asia, July 24 2020

15 "PRC Military Pressure Against Taiwan Threatens Regional Peace and Stability", US Department of State, January 23 2021

16 "US destroyer transits through Taiwan Strait for 4th time under Biden", Taiwan News, April 8 2021

17 "Secretary Antony J. Blinken at a Press Availability", US Department of State, January 27 2021



is that US public opinion of China has deteriorated since the pandemic started spreading in 2020.

In the United States, the death toll from the corona virus has surpassed 500,000. The number of deaths due to this virus has exceeded that of Americans who died in World War I, World War II and the Vietnam War combined. It must be noted that one alleged reason for the large number of deaths is the missteps of former President Trump, who underestimated its threat. According to various polls, many US Democratic supporters criticised Trump's reaction.

Despite this, more than half the US population believes that China is, in large part, responsible for the US death toll. According to a survey conducted by the US polling agency Rasmussen in November, 2020, about 60% of respondents think that China should compensate for at least part of the economic loss that the pandemic caused<sup>18</sup>. The ratio of those who would want to seek recompense from China has continued to rise, from 42% in March and 53% in July of that same year.

When the infection broke out in Wuhan, Hubei province in November-December 2020, Chinese authorities reportedly concealed the fact, causing a serious delay in the initial response by Chinese leadership. The Chinese doctor who was the first to disclose the outbreak of Covid19, was not allowed to speak freely and died from the virus.

For these reasons, severe skepticism and resentment are gaining momentum in the United States against the Chinese Communist Party (CCP), which reportedly censors freedom of speech and the press. Dissatisfaction with China's political system is also reflected in polls. According to a poll conducted by the Pew Research Center in February 2021, 89% of people in the United States regard China as a competitor or an enemy<sup>19</sup>. On top of that, 70% said that the US government should exert more pressure on China to resolve human rights issues, even if it causes economic loss in the United States.

There has long been a view within the US government and Congress that the Communist Party is the real cause of the human rights problem, but it was not necessarily a mainstream view before the pandemic. However, after the pandemic amplified

cases and deaths, the atmosphere in Washington's policy circle began to change rapidly and there was a popular depiction of the Communist Party as 'an evil', which caused China's problematic behavior<sup>20</sup>. If the actions of China's regime are seen to be the main cause of the two powers' confrontation, tensions between the United States and China will rise further and hope for future reconciliation will be destined to diminish.

This negative trend was shown in a series of speeches by the Trump administration's cabinet members and White House senior advisers in the latter half of 2020. Mr. Robert O'Brien, then National Security Adviser to Mr. Trump, delivered a speech in June 2020, labeling President Xi Jinping as 'a successor' of Stalin.

In July 2020, Federal Bureau of Investigation (FBI) Director, Christopher Wray, Attorney General William Barr, and Secretary of State Mike Pompeo also made speeches, defining the Communist Party as a threat to the United States. Mr. Pompeo emphasised that the world must force the CCP to change its behavior before it overthrows the liberal global order. When Mike Pompeo visited Tokyo in October 2020, he made similar accusations in an interview with the author<sup>21</sup>. He then advocated the idea of building a multilateral security framework in the Indo-Pacific to counter China. Mr. Pompeo was known to be hawkish against China even before he joined the former Trump administration. However, initially as Secretary of State, he did not necessarily focus his pressure on the Communist Party itself. The pandemic that took the lives of hundreds of thousands of Americans seems to have been a major factor that aroused his anger and opposition against China's regime.

### Biden's Tough Stance on China

The Biden administration harbours more or less the same distrust and anger against the Communist Party as did Donald Trump, and the pandemic further intensifies such sentiment. Though President Biden has not used language as harsh as Trump's accusations, his attitude towards the CCP appears to be commensurate<sup>22</sup>. A statement by President National Security Adviser, Jake Sullivan on 13 February 2021 reflected the Biden administration's dis-

18 "New High of 60% Say China Should Pay Some of World's Coronavirus Costs", Rasmussen Reports, November 17 2020

19 "Most Americans Support Tough Stance Toward China on Human Rights, Economic Issues", Pew Research Center, March 4 2021

20 Interviews to US government official by an author, October 2020

21 "Pompeo aims to 'institutionalize' Quad ties to counter China", Nikkei Asia, October 6 2020

22 "Interim National Security Strategic Guidance", The White House, March 3 2021

trust of the Communist Party<sup>23</sup>. On the same day, the World Health Organization (WHO) team, which visited Wuhan (Hubei Province, China) to examine the source of Covid19, completed an initial investigation.

'We have deep concerns about the way in which the early findings of the COVID-19 investigation were communicated and questions about the process used to reach them', Sullivan said in a statement, urging China to make early data available. He is a National Security adviser and it is unusual for a person in his position to make such a statement on the issue of infectious diseases.

The Biden administration is expected to follow the tough China policy practiced by Trump. Biden places greater importance on human rights: on issues such as China's crackdown on Uighurs and the violation of Hong Kong's autonomy, the US government is likely to become tougher. On 3 March Biden unveiled interim national security strategic guidance. China is 'the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system,' the document stated. 'We will position ourselves, diplomatically and militarily, to defend our allies,' pledging to enhance US alliances to push back against China. From China's perspective, Biden's approach is likely to appear tougher than that of Mr. Trump. Essentially, the US president intends to encircle China by strengthening the US alliance network, it is claimed.

The US administration has started by enhancing the Quad cooperation with Japan, Australia and India. At the behest of Secretary of State Blinken, the foreign ministers of the four countries conducted an online meeting on 18 February for the first time since the inauguration of the Biden administration. Initiated by President Biden, the Quad leaders had a first summit meeting on 12 March, online. They discussed a broad range of topics including climate change, the coronavirus pandemic, the maritime security and future tech standards. Though their joint statement did not directly mention China, it is considered an obvious proactive response to the rise of China.

Furthermore, Blinken and Secretary of Defense Lloyd J. Austin III visited Japan on 16 March as their first foreign trip. They held a 'two-plus-two' meeting

with Japan's counterparts, and the two countries released a joint statement that explicitly expresses concern over China's assertive behavior in the Asian maritime domain<sup>24</sup>. Furthermore, on 16 April President Biden and Prime Minister Suga held a first face-to-face meeting at the White House, as a sign of strong solidarity.

According to Japanese government sources, the US is poised to work closely with Japan and Australia to review its China strategy. Based on the agreement at the two-plus-two meeting and the joint statement after the 16 April summit, the United States and Japan are likely to discuss a series of agendas that include the redeployment and restructuring of US troops in Asia and measures to further deepen the US-Japan alliance in order to counter China's military buildup.

In addition, the Biden administration plans to build a US military missile network against China along the first island chain connecting Okinawa to the Philippines in order to strengthen deterrence against China's military. To build such a missile network, the US government is considering a plan to invest \$27.3 billion (about 2.9 trillion yen) in the six years, starting from fiscal year 2022 (October 2009 to September 2010). Obviously, Japan is a promising location for missile deployment. Japan and the United States are likely to start informal discussions about possible deployment options.

#### **4. Japan's Dilemma in the Context of the US-China Hostile Competition**

How is Japan trying to deal with intensified confrontation between the United States and China? Japan has a deep alignment of interests with the United States on the geostrategy of the Indo-Pacific. As a significant new step, Prime Minister Suga and President Biden underscored 'the importance of peace and stability across the Taiwan Strait' and encouraged 'the peaceful resolution of cross-Strait issues' in a joint statement on 16 April. It is first time that Japan has mentioned Taiwan in a U.S.-Japan leaders' statement since 1969.

Japan also intends to strengthen cooperation with the United States over the high-tech competition against China. The Japanese are working closely with Washington to tighten restrictions on high-tech transfers to China, as well as China's investment in Japan's high-tech sector.

23 "Statement by National Security Advisor Jake Sullivan", The White House, February 13 2021

24 "Joint Statement of the U.S.-Japan Security Consultative Committee (2+2) in Japanese", Japan's Ministry of Defense, March 16 2021

However, in comparison to the US and European companies, Japanese companies perhaps rely more heavily on the Chinese market. For this reason, it is difficult for Japan to drastically cut back its economic cooperation with China. Japan plans to coordinate concrete measures with the United States over how far it will be able to proceed with an economic decoupling with China, without badly damaging Japanese businesses interests there.

If the United States does adopt an extremely hostile approach to China, to the extent it attempts to weaken the Communist Party, Japan will be placed in a difficult position. While Japan is deeply concerned about the security threat posed by China, there is no aim to undermine or overthrow the Communist Party regime.

### The Quad-based approach by Japan

Japan's former Prime Minister Shinzo Abe proposed the 'Free and Open Indo-Pacific' concept in 2016. The idea is to protect the peace and stability of the Indo-Pacific and expand the 'value of democracy' based on the rule of law. Prime Minister Yoshihide Suga inherited this policy. For Japan, diplomatic and economic cooperation with the United States, Australia, and India is the basis of the 'Indo-Pacific' initiative.

Since he took office in September 2020, Suga has worked actively to maintain the momentum of the Indo-Pacific cooperation. The following October, Japan invited foreign ministers of the US, Australia, India to Tokyo and hosted the Quad meeting. This is the second time that the four foreign ministers have met since September 2019. At the meeting, the four countries agreed to regularise foreign ministerial dialogue<sup>25</sup>.

Japan has been strengthening bilateral security cooperation with Australia and India, as well as with the United States. As the Chinese accelerate military build-up, there is growing concern in Tokyo about whether the US-Japan alliance alone will be enough to deter China in the future<sup>26</sup>. Japan's policy planners now argue that 'even if the forces of the US Indo-Pacific Command and the Self-Defense Forces are combined, future military balance

in north east Asia will be more favorable to the Chinese side.'<sup>27</sup>

Echoing Japan's pessimistic assessment, Admiral Philip Davidson, head of the US Indo-Pacific command, told the Senate Committee on Armed Services hearing on 9 March that the military balance in the region had 'become more unfavorable'. He also pointed out that the risk for China to take military action was increasing<sup>28</sup>.

For this reason, Japan aims to build a loose security cooperation network in the Indo-Pacific, based on the US bilateral alliance with Japan and Australia. As part of this effort, Japan Maritime Self-Defense Force has been increasing joint training with the US, Australian, and Indian navies in recent years. Training by Japan-Australia and the US-Japan-Australia increased from five times a year in 2013-2015 to eight times in 2016. Joint training by Japan-India and the US-Japan-India also reached six times annually in 2018 and seven times in 2019<sup>29</sup>.

Japan is also strengthening its diplomatic cooperation with the Quad members. For one year after November 2019, in all combinations of US-Japan, Japan-Australia, Japan-India, Japan held meetings of top leaders and the foreign minister and defense ministers. Unsurprisingly, the main topic of these meetings was how to best deal with China. Based on the first Quad summit meeting on 12 March, Japan is poised to increase security and high-tech cooperation within the Quad framework.

### US-China Economic Decoupling and Japan's Dilemma

Japan has shown a willingness to closely cooperate with the US government in further tightening control on high-tech transfer to China. In early 2019, the Japanese government introduced new guideline that effectively prohibits private companies to procure IT equipment that could cause leaks of sensitive information<sup>30</sup>. These regulations applied to 14 crucial infrastructures, including finance, telecommunications, and railways. Japan did not name China, but it effectively excludes Chinese companies such as Huawei. This was in line with the US government's policy to exclude China's companies

25 "Quad ministers agree to meet once a year", Nikkei Asia, October 6 2020

26 Interviews to Japan's government officials by an author, February 2020-March 2021

27 Interview to Japan's government official by an author, August 2020

28 "Admiral warns US military losing its edge in Indo-Pacific", Financial Times, March 10 2021

29 "'Quad' nations flaunt stronger ties with first drill in 13 years", Nikkei Asia, November 7 2020

30 "Japan moves to keep Huawei out of power grids and railways", Nikkei Asia, December 13 2018



from key infrastructures such as 5G networks.

Japan is also tightening regulations to limit high-tech outflows to China. In May 2020, the Japanese government introduced strict regulation on foreign capital investments in Japanese companies crucial to Japan's security<sup>31</sup>. Previously, only when foreign companies acquired '10% or more' of such a Japanese company's shares was it subject to pre-screening, but the rule has changed to pre-screen ownership of '1% or more'.

In addition to that, Japan's government is moving to reinforce surveillance of university laboratories to prevent outflows of advanced technologies<sup>32</sup>. Specifically, when those laboratories receive R & D funding from the government, disclosure of whether or not they receive financial assistances from foreign companies or institutions is required.

These economic security policies were promoted during the Abe administration. In April 2020, it established the first 'economic unit' in the National Security Bureau (NSS) within the Cabinet Office and introduced a series of measures to protect high-tech and crucial national intelligence<sup>33</sup>.

However, it is unclear how far Japan might cooperate with the United States, in regard to the decoupling of economic and business ties with China. Like US companies, Japanese companies are heavily dependent on the Chinese market, perhaps more so, as mentioned above.

According to a survey conducted by Japan External Trade Organization (JETRO) in August-September 2019, only 6.2% of Japanese companies operating in China considered reducing their business in China or withdrawing from China in the next 1-2 years<sup>34</sup>. Conversely, 43.2% of Japanese companies plan to expand their business there.

The reason why Japanese companies are so reluctant to withdraw from China is that China's share of their total sales is considerably high. Japanese companies in China sell 67.6% of their products and parts locally, and their exports outside China account for only 32.5%<sup>35</sup>.

In other words, a majority of Japanese companies plan to remain in China to continue their penetration of the Chinese market. Withdrawing or relocating

from China would mean losing access to a huge market. It could be true not only for Japanese companies, but also American and European companies, to some degree.

On 24 February, President Biden issued an executive order to take steps toward reducing the country's dependence on foreign materials. It requires the US government to review critical supply chains with an aim to find and cultivate sources for chips and other strategically significant products that are less reliant on China.

In order to achieve its goal, Washington is expected to pursue close collaboration with Taiwan, Japan, South Korea, Australia, and other close partners. As for trade policies, Japan treats China as an important partner, not as an adversary. In November 2020 Japan signed the Regional Comprehensive Economic Partnership (RCEP), which consists of 15 countries including China. These 15 countries alone account for 30% of the world GDP and trade value. For Japan, China is the number one trading partner, accounting for 23% of total trade. On the other hand, China remains the third largest trading partner for the United States.

### Does Japan Support a Policy to Shake the Communist Party Regime ?

There are two main reasons for Japan's disinclination to change its policy toward China. The first is the geographical condition of Japan. If Japan aims to shake up and weaken the Communist Party regime in alliance with the United States, it is very likely that China would push back fiercely. Then, there would be a risk of military tensions rising to an uncontrollable level between Beijing and Tokyo. Tensions are already increasing over the Senkaku Islands. As mentioned above, military balance in north east Asia is already tipping toward China. Under these circumstances, Japan needs to keep military tensions within a 'controllable' range while deterring China's assertive behavior.

Second, if major countries suddenly move to shake up the Communist Party regime, there will be risk of destabilising China in an unintended way. Unlike the conditions leading up to the collapse of the Soviet Union in 1991, China boasts the world's second largest economy and has established a strong

31 "Japan moves to limit foreign investment in half of listed firms", The Japan Times, May 11 2020

32 "Japan considers tougher rules on research interference amid US-China tensions", Nature, August 4 2020

33 "Japan looks to boost 'economic security' amid global trade tension", The Mainichi, September 18, 2019

34 "Survey on Business Conditions of Japanese-Affiliated Companies FY2020", Japan External Trade Organization, December 2020

35 Ibid.



digital surveillance network. It is unlikely the country will collapse like the Soviet Union did. Yet, it is difficult to accurately predict what kind of changes would spread in China if the Communist Party system were weakened. It may be possible that China would adopt more unpredictable and assertive behaviour in the process of a regime collapse, due to diminishing control by its leadership over external policies. There would be a risk that leaders would amplify nationalism domestically, to ensure that the population remains united.

Partly because of these considerations, Japan is cautious about imposing severe sanctions on China's human rights issues the way the United States does<sup>36</sup>. For example, though Japan has expressed serious concern over Beijing's infringement of Hong Kong's autonomy, the country has not imposed economic sanctions on China as the United States has.

In sum, Japan is determined to make a strong effort to prevent a China-led order replacing the current liberal order in the Indo-Pacific but remains unwilling to engage in a 'zero-sum Cold War' against China.

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36 "The U.S.-Japan Alliance Should Pivot to China's Human Rights Issues", Foreign Policy, February 22 2021.

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*The Global Governance Programme (GGP) is research turned into action. It provides a European setting to conduct research at the highest level and promote synergies between the worlds of research and policy-making, to generate ideas and identify creative and innovative solutions to global challenges. The Programme is part of the Robert Schuman Centre for Advanced Studies of the European University Institute, a world-reknowned academic institution. It receives financial support from the European Commission through the European Union budget. Complete information on our activities can be found online at: [globalgovernanceprogramme.eui.eu](http://globalgovernanceprogramme.eui.eu)*

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