



INTERNATIONAL RISK ASSESSMENT

China-Japan Tensions

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Headquarters: 3206-10 Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

Tel: (852) 2501-5233 Fax: (852) 2501-5237

www.intl-risk.com

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Introduction

Political and strategic frictions between China and Japan have been growing over the past few years because of deep-seated historical distrust and an accelerating rivalry for regional power and influence between the two countries. But these tensions were previously contained and offset by close economic ties and the sharing of many issues of mutual interest, such as concerns over the rise of a nuclear North Korea.

In 2004, Japan-China trade was worth approximately US\$211 billion. This was up 17% on the previous year. Japan has invested some US\$280 billion in 20,000 Chinese companies. Since 1979 Japan has forked out US\$31.1 billion in various development assistance schemes, although these are shortly to come to an end. Japan and China are currently each other's main trading partner.

This calm in China-Japan relations has been damaged by a 'perfect storm' of controversies that has unleashed pent-up passions among Chinese city-dwellers across the country. The history text-book issue over Japan's war-time activity in China, Japan's bid for a permanent UN Security Council seat and Tokyo's decision to allocate drilling rights in disputed territorial waters are all highly charged emotional issues that strike at the very heart of Chinese popular nationalism.

While these controversies have propelled Chinese onto the streets in their thousands, the Chinese leadership's decision to allow these anti-Japanese protests to take place is driven by deeper structural issues that suggest China-Japan ties are likely to remain volatile in the longer term. Key issues include but are not limited to the following:

- | Japan's wariness of China's military modernization and buildup
- | Chinese suspicions of Japan's move toward a more assertive foreign policy and military posture in the region and beyond, partly driven by Tokyo's efforts to counter China's military modernisation. Beijing believes Japan will support the US to intervene militarily in the event of military conflict in the Taiwan Strait.
- | Various territorial disputes, including:
 - Long-standing competing claims over sovereignty of the Diaoyu/Senkaku Islands in the East China Sea
 - Japan's allocation of exploration rights to natural gas fields beneath the

- seabed in disputed areas of the East China Sea
- Incursion of Chinese naval vessels into Japanese waters, including a Chinese nuclear submarine last November.

Demonstrations in China

While there has been an increase in recent years, protests in China are still relatively rare, with many demonstrations being banned by the government. The latest demonstrations are widely regarded as being government-condoned as, while the government has urged protestors to 'remain calm and avoid extremist behaviour', police have made little pro-active effort to disperse the protesters.

What has Actually Happened?

Thousands of demonstrators took to the streets during the weekend of 9-10 April. The Japanese ambassador's residence, Japanese embassy and Japanese businesses were targeted, with rocks being thrown and windows broken; cars were also overturned. Several individuals were attacked in a Japanese restaurant, some of whom required medical attention. The protests came after smaller protests in other cities. Overall however damage and casualties were light.



16 April - Anti-Japanese demonstrations were held by over 100,000 people in Shanghai, Hangzhou, Tianjin, and other big cities.

17 April - Large demonstrations took place in Shenyang, Shenzhen, Chengdu, Nanning, Guangzhou, Dongguan, Zhuhai, and even in Hong Kong. Local Governments deployed large numbers of public security personnel to maintain order.

2,000 demonstrators in Shenyang marched to the Japanese consulate, pelted it with eggs and stones and burnt a Japanese flag.

In Shenzhen, on 17 April, more than 10,000 people took part in demonstrations. This was the third successive anti-Japanese demonstration in Shenzhen. The demonstrators marched to the Jusco supermarket and displayed anti-Japanese streamers and placards, and chanted slogans. They also hurled objects at Japanese restaurants and passing Japanese-manufactured cars.

In Hong Kong, the police estimated that some 5,000 people took part in a rally and at an anti-Japanese parade organized by the Action Committee for Defending the Diaoyu Islands.

Why Now & will the Demonstrations Continue?

Anti-Japanese sentiments flare up in China every few years because of unresolved issues in the two countries' bilateral relations. These include the history text-book issue, the visit of senior Japanese leaders to the Yakusuni Shrine, and the territorial dispute over the Diaoyu/Senkaku Islands. But the ferocity and widespread nature of these latest demonstrations are the most serious expressions of popular Jingoistic sentiments in China for a considerable time. Chinese sensitivity over Japan's apparent support for Taiwan cannot be under-estimated, especially in light of recent anti-secession legislation passed in China.

Reports suggest that since mid-2004, the Chinese government has closed down websites run by anti-Japanese groups and has clamped down on anti-Japanese movements centred on young people. However, in the current demonstrations, anti-Japanese groups were allowed to use the Internet and SMS messaging to mobilise demonstrators and rallies have been allowed to go ahead without interference.

However the Chinese government cannot afford to allow disorder to continue as this could tarnish its international image at a time when Beijing is looking to better position itself. Other countries have commented as to the regrettable nature of the demonstrations and have tacitly suggested that these could have been handled better.

China has defended the measures adopted and stated that 'various measures were taken in a timely manner, so the situation calmed down quickly'. The Chinese government is alive to the possibility that demonstrations, initially focussed on Japan, could quickly escalate to cover other issues such as corruption, social injustice and unemployment. For this reason the government will keep a tight control over any further protests; anti-Japanese civil groups are routinely under tight government surveillance. Demonstrators have also probably realised that their point was effectively

made over the weekends and demonstrations are likely to subside unless there are new provocative statements (in Chinese eyes) from Japan.

The level and extent of violence seen over the past weeks is unlikely to occur again in the short term; this as long as no other major diplomatic or political incident takes place. More limited demonstrations will continue to occur as described below.

China's Ability to Calm the Situation

While the Chinese government may not have the ability to fully contain all anti-Japanese emotion, it has an effective track record in containing demonstrations and any violence that may result from them. The Chinese internal security apparatus is powerful and can be mobilised swiftly. Resources include the Chinese Ministry of Public Security, the People's Armed Police and the Ministry of State Security.

The Chinese leadership is acutely aware of any threat to the country's social stability and should any sign appear that anti-Japanese demonstrations might evolve into popular local protest against the government then this would be dealt with swiftly and severely. It is International Risk's assessment that such protests will not lead to major unrest.

Anti-Japanese feeling has been present for many years, but public expressions have been limited and low-key. Emotions are likely to remain high in the near future but the government will likely move to extinguish these protests as it did in 1999 when violent anti-US protests following the United States bombing of the Chinese Embassy in Belgrade threatened to lead to a serious rupture in China-US relations.

Will this Rift be Settled in the Short Term?

The rift between the two countries has been around for many years and several complicated and substantial issues, intertwined with historic factors are involved. This is not something that can be settled in the near-term.

While the Chinese and Japanese governments need to demonstrate to their respective peoples that they are not giving way to the other side; both clearly have much more to

gain than lose in not resolving their public spat quickly. The more structural the downward spiral in their bilateral relations the more difficult it will be to tackle.

Further public protests are likely to flare up again before too long, especially given the emergence of a more vocal, confident, assertive and well-organised Chinese popular nationalism. Also the importance of the Taiwan factor and statements made by Tokyo in this respect should not be under-estimated.

Upcoming Demonstrations and Potential Flashpoints

2005 marks the 60th anniversary of the end of World War II. Anti-Japan protests will continue, aimed at forcing Tokyo to publicly atone for its occupation of China. Dozens of protests are believed to have been organised. Some demonstrations and potential flashpoints are as follows:

- | Nanjing - 1 May 2005
- | Shenyang, Guangzhou, Chengdu and Hong Kong - 17 May 2005

Marches and protests are also expected across the country on 4 May 2005. Demonstrations are reportedly being planned at:

- | Beijing (Tiananmen Square to the Japanese Embassy)
- | Shanghai
- | Chongqing
- | Wenzhou

Reports have suggested that veteran demonstrators have condemned the vandalism and violent threats toward individual Japanese people in Shanghai and Beijing and marchers have been urged by organizers not to vandalise Japanese property.

Corporate Preparations and Contingency Planning - What Should Corporations Do?

In the light of these circumstances International Risk recommends that it is important that corporations have, at the very minimum, the following in place:

- | Corporate headquarters Crisis Incident Management Plans
- | Local office Crisis & Emergency Plans
- | Updated Corporate Security Plans
- | Emergency Evacuation Plans
- | Simulated Incident Training Programmes
- | Travel & Security Plans

Practical Advice and Emergency Response

International Risk are in a position to provide threat assessments, political risk analysis and practical, on-the-ground assistance to companies who may require advice during this period. International Risk's view is that where possible companies should adopt a robust 'business as usual' stance whilst taking sensible measures to avoid confrontation.

For more detailed analysis of current political and business risks in Asia, please contact Steve Vickers, President and CEO of International Risk in Hong Kong at (852) 3120-8688 or any of our worldwide offices.

International Risk Ltd.

Corporate Headquarters - Hong Kong: (852) 3120-8688

Tokyo: (81-3) 3221-4221, Singapore: (65) 6324-2040

New York: (212) 572-9930, Beijing: (86-10) 8526-1111

24-Hour Crisis Hotline: (852) 9196-2350

Website: www.intl-risk.com