

**THE FUKUDA ADMINISTRATION:
MENDING FENCES WITH CHINA**

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Executive Summary

Sino-Japanese relations have improved remarkably since Fukuda Yasuo became Prime Minister in September 2007. Simply put, Fukuda's friendly disposition towards Beijing has been reciprocated by the top Chinese leadership.

However, at least three problems may dampen warmer bilateral relations: the likelihood that Fukuda's tenure as Prime Minister will be short, the inevitable competition between the two Asian giants, and the impact of US attitudes and actions towards China on its Japanese ally.

Fukuda's domestic popularity and credibility are plummeting given the political impasse over the appointment of a new Bank of Japan Governor and other important policy issues. Fukuda may dissolve the Lower House after the G-8 meeting at Lake Toya, Hokkaido in July 2008. If the ruling Liberal Democratic Party (LDP) performs poorly at the polls, Fukuda would probably resign as Prime Minister.

It is uncertain whether the next Japanese Prime Minister will be friendly towards China to the extent of Fukuda. Apparently, former Foreign Minister Aso Taro is the most likely politician from the LDP to succeed Fukuda. Although Aso is a rightwing politician, he earlier proposed a plan to remove the souls of Class A war criminals (分祀: *bunshi*) from the Yasukuni Shrine, the symbol of Japanese militarism to the Chinese and Koreans.

Regardless of the personal predilection of any Prime Minister after Fukuda, Tokyo is faced with at least two realities: the phenomenal rise of China and the surging Chinese economy as a critical engine of growth for Japan. In this regard, the diplomatic options and space towards Beijing for even a rightwing Prime Minister to maneuver is quite limited.

If the US were to sink into recession (triggered by the sub-prime housing problem), then the Chinese market would be even more critical to Japan; instead of

the typical American and Chinese twin engines of growth for Japan, China might well turn out to be the main engine of growth for Japanese exports in the next decade.

Fukuda shunned the Yasukuni Shrine. He also jettisoned his predecessor's notion of a quadrangular democratic alliance (the US, Japan, India and Australia) to contain China and also the "arc of freedom and democracy" concept which excluded China. Instead, Fukuda stressed on the common values and culture between Japan and China during his official trip to China in December 2007.

At the temple of Confucius, Fukuda wrote in *kanji* (Chinese characters): 温故創新 (cherishing the past; creating something new) which can be interpreted as appreciating the millennial ties between the two countries and looking to a creative partnership for the future.

Despite the thaw in Sino-Japanese relations, many problems remain outstanding. The most intractable is the territorial dispute over oil and gas in the East China Sea.