

Japan releases trawler captain after China threatens economic war

John Chan
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Japanese prosecutors on the island of Okinawa yesterday announced the release of Chinese fishing trawler captain Zhan Qixiong, who was at the centre of a worsening confrontation between the two countries. While Zhan's release has eased the immediate tensions, none of the underlying conflicts has been resolved.

Zhan was detained on September 7 after his ship allegedly collided with two Japanese patrol ships in waters off the disputed Diaoyu Islands (known as Senkaku in Japan). The Chinese government demanded his immediate and unconditional release, insisting that a Chinese citizen could not be arrested in what it claimed were Chinese waters.

After a Japanese court last Sunday extended Zhan's detention by 10 days, China warned of "strong countermeasures" and the dispute rapidly escalated. Beijing suspended high level government contacts with Tokyo and cancelled a visit by 1,000 Japanese students to the Shanghai World Expo this week as well as a Japanese pop concert in China.

Chinese Premier Wen Jiabao refused to meet Japanese Prime Minister Naoto Kan on the sidelines of the UN General Assembly this week. On Tuesday, Wen repeated China's demand for Zhan's release and bluntly warned: "If Japan acts wilfully despite advice to the contrary, China will take further actions, and Japan must accept full responsibility for all the severe consequences."

The following day, Chinese authorities arrested four Japanese nationals working for Fujita for allegedly videoing a restricted military zone in Hebei province. The Japanese company is investigating a construction site for a plant to process thousands of chemical weapons that Japan left behind in China during the World War II.

More significantly, however, Beijing apparently imposed what amounted to a ban on the export of rare earths to Japan.

While the Chinese commerce ministry denied the reports, the *New York Times* cited corporate executives and traders in Japan, China and the US who pointed out that Beijing had ordered trading companies to halt shipments to Japan for a few days.

Beijing's move threatened to ignite an economic war between the two countries. China has 36 percent of the world's known reserves of rare earths, but over the past decade has established a virtual global monopoly over production—more than 90 percent—due to low costs. Rare earths consist of 17 metallic elements that are critical in the manufacture of electronics and many high-tech metal parts, including those for jet engines and missile guidance systems.

The de facto ban sent the price of rare earths up globally and panicked Japanese manufacturers, which are dependent on China for 100 percent of their supplies. Last month, Tokyo urged Beijing to increase exports of rare earths to Japan following China's decision in July to scale back production and conserve its reserves of these strategic materials.

Japan began to retreat. In response to Wen's threat, Kan told the *Financial Times* that the dispute would be resolved with "calm handling" and that Sino-Japanese relations were "fundamentally extremely good". On Wednesday, chief cabinet secretary Yoshito Sengoku called for Japan and China to hold high-level talks "as soon as possible to ease the diplomatic row".

Tokyo's decision to back down highlights the dilemmas confronting the Japanese ruling elites. Japan has recently lost its position as the world's second largest economy to China and is itself increasingly dependent on its economic relations with China. At the same time, Japan has a longstanding military alliance with the US and neither Washington nor Tokyo is about to concede economic and strategic dominance in Asia to Beijing.

The Japanese government's initial tough stance was certainly encouraged by the Obama's administration's own aggressive moves in recent months to undermine Chinese influence in Asia. The seas surrounding the disputed Diaoyu Islands not only have significant fishing stocks and undersea energy reserves, but are strategically located off the Chinese mainland.

Earlier this week, US Deputy Secretary of State James Steinberg declared that the tensions between China and Japan were "unfortunate", adding: "Good relations between China and Japan are in our interest." However, the Obama administration has been intensifying pressure on China over a range of issues—from Washington's demand for Beijing to revalue its currency, to US challenges to China in the strategically sensitive waters of the Yellow Sea and the South China Sea.

Obama's meeting with Wen in New York was dominated by sharp disagreements over the currency issue. By contrast, in his meeting with Kan, Obama did not even raise the fact that Japan had just unilaterally intervened to devalue the yen against the US dollar. Instead, he hailed the US-Japan alliance as "one of the cornerstones of peace and security throughout the world".

Yesterday, Obama held a second US dialogue with leaders of the Association of South East Asian Nations (ASEAN) emphasising that the US had an "enormous stake" in the region and intended to play a leadership role in Asia. At an ASEAN strategic forum in July, US Secretary of State Hillary Clinton provoked an angry reaction in Beijing by declaring that the US had a "national interest" in ensuring "freedom of navigation" through the South China Sea in opposition to China's claims in the area.

Next Monday, despite Chinese protests, the US will start a five-day joint naval exercise with South Korea in the Yellow Sea between the Korean peninsula and the Chinese mainland. The two navies previously held a joint drill in the Sea of Japan in response to the sinking of a South Korean warship allegedly by North Korea in March. While nominally directed against North Korea, the US is using next week's exercise to assert its "right" to freedom of navigation in another strategically sensitive area.

Japan is integral to the Obama's administration's strategy to retain a dominant position in Asia. Earlier this week, US Vice President Joe Biden summed up the US approach, saying: "There is an emerging relationship that we have to

get right between the United States and China... frankly, I don't know how that relationship can be made right other than going through Tokyo."

China, however, has no intention of backing down. Wen told the UN General Assembly that China would not seek "hegemony" in Asia, but also insisted it would make no concessions on key issues of territorial integrity—a sharp message to Japan and the South East Asian countries over its maritime disputes.

The standoff between China and Japan rapidly produced belligerent responses in both countries. An editorial of the *Global Times* this week, entitled "Finding the Achilles' Heel of Japan", called for a study of Japan's economic vulnerabilities in order to inflict "piercing" pain on all Japanese citizens. "Provoking China comes with a heavy price tag. Finding Japan's soft spot will help end its hostile policies against China during its rise," it wrote.

While Japan's chief cabinet secretary Yoshito Sengoku cautioned against "narrow-minded, extreme nationalism", Tokyo mayor Shintaro Ishihara on Tuesday scrapped a visit to China next month and denounced Beijing for acting like Japan's notoriously violent yakuza gangsters. "I will never go to China, to such a country", he told reporters.

Ishihara also called on the Japanese government to take a far tougher stance against China. If a Japanese submarine intruded into the waters of South Korea, North Korea or China, he said, it would be attacked. "Why doesn't Japan do that?" he asked, referring to Chinese submarines entering Japanese waters. Even more provocatively, he called for joint military exercises with the US at the Diaoyu Islands.

The rapid escalation of a relatively minor incident into a major confrontation between the world's second and third largest economic powers has underlined the extreme tensions between the major powers amid the continuing global economic crisis. Stoked up by Washington's reckless interventions in Asia, this rivalry threatens to erupt in new and more dangerous forms.



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