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During the final decade of the Cold War, China, Japan, and the United States formed a pseudo alliance against the Soviet Union. Completing the rapprochement following the dramatic visit to Beijing by U.S. President Richard Nixon in 1972, China's internal domestic economic reform to introduce capitalistic incentives since the end of the 1970s was welcomed by Japan and the United States, which gave a boost to China's effort through infrastructure development aid, direct investment, and market access. During the first decade of the post-Cold War period, China mostly continued to enjoy economic engagement under amicable relations with its neighbors. But the seeds of growing disputes over various security issues were already visible by the mid-1990s; owing]

spying in the United States; and the Chinese declaration of the Territorial Disputes in the East China Sea. In Japan, rapid cooling of political ties with China since the mid-2000s disrupted the peace that the growing economic interdependence will moderate the security rivalry. In 2005, Japanese protestors unleashed massive Chinese protests, and riot activities against

symbolized the dashed hope of the liberal peace. In this analysis, two trends of regional economic integration and enhancement of the U.S.-Japan military alliance and their increasing synergy will be discussed. Upon such analysis, two scenarios about the Sino-Japanese relations will be presented.

Regional Economic Integration

The first major trend is regional economic integration in East Asia, in which the growth of Sino-Japanese ties via investments and trade are the leading force. China's rapid economic growth has in significant part been fuelled by Japanese investments, and in turn

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Japan's willingness to shift away from China and reduce its proportional (if not absolute) economic dependence on China has been visible in recent years. The anti-Japanese riots of 2012 in major Chinese cities in response to the Japanese government decision to nationalize three of the Senkaku Islands led to revision of the previously held optimism that politics and economics could be separated.

However, the cooling of the economic relations is a cumulative result of multiple constraints between the two countries, not only entangled in a security rivalry, but also engaged in differing modes of domestic political economy and external economic strategy.

Japan had invested in China's infrastructure development through concessionary long-term loans, but this type of official development assistance to China was terminated in 2008, due both to China's entry into the middle-income category of countries and to the worsening bilateral political relations over the maritime disputes in the East China Sea since the mid-2000s. Even with development assistance support, major Japanese manufacturers largely remained on the cautious side. The large overall volume of Japanese

investments in China has consisted of a large number of relatively smaller individual investment entities instead.¹ Therefore, potential of China as an investment destination for Japanese firms has not been fully met.

China's nationalist economic policy is also an obstacle to foreign investments. In its effort to improve investment environment in China, Japan together with South Korea have negotiated a trilateral investment agreement with China. Japan's preference to extend national treatment to all Japanese investments in all sectors met China's opposition,² and the compromised agreement in 2013 only extend such equality between the indigenous and foreign firms in limited sectors, in which foreign entries are approved in the first place.

Japan has shifted concessionary overseas development assistance (ODA) loans to India, Vietnam, and Indonesia. Japan signed an economic partnership agreement (which includes a free trade agreement) with India in 2011, while trilateral free trade negotiation among Japan, China, and South Korea has stagnated to this day. Although Japan's trade with India is still much smaller than with China, Japan-India trade has been growing fast in absolute volume.

Japan's decision not to join the founding members of the Chinese-led Asia Infrastructure Investment Bank (AIIB) is also indicative of their growing geopolitical tension and differing economic philosophies. The momentum of East Asian financial cooperation since the Asian economic crisis of the 1997-8 period has clearly lost steam, as Japan may opt to defending its dominant position in the Asian Development Bank instead through a capital increase.³ The shared concern between the United States and Japan about lack of transparency and clear guidelines in decision making in the AIIB is another reason of Japan's decision. While China will likely use its predominant influence in AIIB to strategically finance regional infrastructure projects to suit the country's "One Belt One Road (OBOR)" or the "Silk Road" project, Japan's bilateral and multilateral aid policy has broadened its previously economic focus into a more comprehensive strategic one.

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external policy by China. The need to divert challenges against its legitimacy in an event of domestic instability, the Communist government will likely resort to creating an enemy and prop up nationalism through increasing provocations in the East China Sea and the South China Sea. Such Chinese behavior will raise the risk of accidental war in East Asia and prompt the United States and Japan to broaden the scope of their security cooperation and make it more explicitly applicable to East Asia. The bilateral alliance will also invite closer cooperation with other regional partners including Australia, India, and

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