

Oda Opdal Zachrisen

China's political use of economic ties in territorial disputes

A comparative case study of Japan's and the
Philippines' reactions

Master's thesis in political science

Trondheim, June 2015

ACKNOWLEDGEMENTS

Writing a master thesis is hard work. Fortunately, I have met helpful and interested people along the way.

First and foremost, I would like to extend my gratitude to my committed supervisor. I'm very grateful for Paul Midford's encouragement, intelligent advice, and not least for his interest in the topic. Without him, this thesis would not have become what it is today. Also importantly, Paul has been a bridge-builder. Thanks to him I have met many East Asia experts, both face-to-face and through email correspondence. For example, due to his knowledge of the East Asian community I spent two weeks as a Supra Nordic Student at The Nordic Institute of Asian Studies (NIAS) in Copenhagen in January 2015. My time there provided me with access to their extensive library. In addition, I had lots of interesting lunch talks with the NIAS staff, which provided me with helpful ideas and more contacts. At NIAS I got to know about the East Asia department at Lodz University in Poland. Consequently, I was accepted to present my work at the 11th Lodz East Asia Meeting, University of Lodz, Poland, June 2-3, 2015.

Oslo, 22.06.2015

Oda Opdal Zachrisen

TABLE OF CONTENTS

INTRODUCTION.....	1
CHAPTER 1: PREVIOUS EXAMPLES OF CHINA'S POLITICAL USE OF ECONOMIC TIES	3
1.1 THE EUROPEAN GOVERNMENTS' APPEASEMENT STRATEGIES	3
1.2 WHAT HAPPENED AFTER THE APPEASEMENT ATTEMPTS?	4
1.3 TRYING TO AVOID FUTURE TENSIONS AND SUBSEQUENT SANCTIONS?	5
1.4 SUCCESSFUL AND UNSUCCESSFUL SANCTIONS.....	5
CHAPTER 2: THE INFLUENCE EFFECT OF FOREIGN TRADE.....	7
2.1 ASYMMETRIC TRADE RELATIONSHIPS EQUAL DEPENDENCY RELATIONSHIPS	7
2.2 DEPENDENCY RELATIONSHIPS FOSTER POLITICAL INFLUENCE	7
2.3 CONDITIONS FOR A POLITICAL INFLUENCE EFFECT	8
2.4 INTERRUPTION OF TRADE RARELY OCCURS	11
2.5 TRYING TO AVOID FUTURE TENSIONS	11
2.6 DEVELOPMENT OF APPEASEMENT HYPOTHESIS.....	12
CHAPTER 3: DIFFERENT DISPUTES AND BALANCE OF THREAT THEORY	15
3.1 SOVEREIGNTY CLAIMS AND THE VALUE OF ISLAND TERRITORY	15
3.2 WHY WE CANNOT EXPECT AN APPEASEMENT STRATEGY.....	16
3.3 THE IMPORTANCE OF PROXIMITY, OFFENSIVE CAPABILITIES AND AGGRESSIVE INTENTIONS.....	17
3.4 WHEN DO STATES BALANCE AND WHEN DO STATES UNDERBALANCE AGAINST THREATS?	17
3.5 DEVELOPMENT OF COMPETING HYPOTHESIS	19
CHAPTER 4: METHODOLOGY & DATA MATERIAL	21
4.1 WAYS TO DEFINE A SUCCESSFUL SANCTION	21
4.2 THE HYPOTHESES	21
4.3 DATA MATERIAL.....	22
CHAPTER 5: THE SENKAKU/DIAOYU ISLANDS.....	27
5.1 OVERLAPPING TERRITORIAL CLAIMS BETWEEN CHINA AND JAPAN.....	27
CHAPTER 6: CASE 1, THE SENKAKU/DIAOYU TENSIONS IN 2010.....	31
6.1 THE EMBARGO.....	32
6.2 WHAT DO THE RARE EARTH STATISTICS INDICATE?	35
6.3 COMPARISONS OF JAPAN'S IMPORTS OF RARE EARTH MINERALS IN 2010 AND 2011	35
6.4 A SUCCESSFUL PERCEIVED SANCTION?	43
6.5 IN THE AFTERMATH OF THE RARE EARTH MINERAL SLOWDOWN.....	44
CHAPTER 7: JAPAN'S STRATEGY TOWARDS CHINA AFTER THE SENKAKU DIAOYU 2010 CONFRONTATION.....	47
7.1 JAPANESE PERCEPTIONS OF CHINA	48
7.2 INTERNAL BALANCING MOVES – SUBMARINE BUILD-UP AND CHANGED DEFENSE POSTURE.....	49
7.3 EXTERNAL BALANCING MOVES - MOVING CLOSER TO THE UNITED STATES	50
CHAPTER 8, CASE 2: THE SENKAKU/DIAOYU TENSIONS IN 2012.....	53
8.1 THE NATIONALIZATION.....	54
8.2 CONTRASTING THE ECONOMIC IMPACT OF SENKAKU/DIAOYU TENSIONS IN 2010 AND 2012.....	55
8.3 CONTRASTING THE OVERALL ECONOMIC EFFECT OF 2010/2012 TENSIONS.....	69
CHAPTER 9: JAPAN'S STRATEGY TOWARDS CHINA AFTER THE 2012 SENKAKU/DIAOYU TENSIONS	73
9.1 INCURSIONS AND INCREASED PERCEPTION OF A CHINA THREAT.....	75

9.2. INTERNAL BALANCING MOVES – JAPAN’S COAST GUARD (JCG) AND MARITIME DEFENSE	77
9.3 EXTERNAL BALANCING MOVES – ENHANCING TIES WITH THE U.S.	78
9.4 POLITICAL BALANCING MOVES – ABE’S PROPAGANDA TACTICS.....	79
9.5 RECONCILIATION? THE 2014 HANDSHAKE	80
9.6 JAPAN’S STRATEGY TOWARD CHINA AFTER THE 2012 TENSIONS	81
CHAPTER 10: CASE 3, THE SCARBOROUGH SHOAL TENSIONS IN 2012.....	83
10.1 OVERLAPPING TERRITORIAL CLAIMS BETWEEN CHINA AND THE PHILIPPINES	83
10.2 THE SCARBOROUGH SHOAL STANDOFF.....	85
10.3 SINO-PHILIPPINE OVERALL ECONOMIC LINKS.....	97
10.4 THE COUNTER FACTUAL DEVELOPMENT IN ECONOMIC LINKS	102
10.5 THE ECONOMIC IMPACT OF SCARBOROUGH SHOAL TENSIONS	102
10.6 ALTERNATIVE EXPLANATIONS FOR APPEASING CHINA.....	103
CHAPTER 11: THE PHILIPPINES’ STRATEGY TOWARDS CHINA AFTER THE 2012 SCARBOROUGH SHOAL STANDOFF	105
11.1 THREAT PERCEPTIONS OF CHINA SURGE AMONG PHILIPPINE PUBLIC AND ELITES	105
11.2 INTERNAL BALANCING - “THE BOARDER PROTECTION PROGRAM”	107
11.3 EXTERNAL BALANCING - ENHANCED MILITARY COOPERATION WITH THE US.....	107
11.4 EXTERNAL BALANCING - COAST GUARD COOPERATION WITH JAPAN.....	108
11.5 LEGAL CHALLENGE AND DEEPENING OF THE RIFT	109
11.6 RECONCILIATION? A MEETING OF MINDS	112
11.7 RECENT DEVELOPMENTS – CHINA’S “CONSTRUCTION SPREE”	113
CHAPTER 12: CONCLUSIONS.....	115
HAS CHINA’S POLITICAL USE OF ECONOMIC TIES IN TERRITORIAL DISPUTES BEEN SUCCESSFUL?.....	115
JAPAN AND THE PHILIPPINES’ LONG-TERM STRATEGIES.....	116
IMPLICATIONS FOR CHINA’S PEACEFUL RISE.....	117
IMPLICATIONS OF MY FINDINGS FOR FUTURE RESEARCH.....	118
APPENDIX	121
BIBLIOGRAPHY	123

TABLE OF FIGURES

FIGURE 1. MAP OF OVERLAPPING CLAIMS IN THE EAST CHINA SEA	27
FIGURE 2. TOTAL JAPANESE IMPORTS OF REE FROM CHINA IN 2010	34
FIGURE 3. JAPAN'S IMPORTS OF "CERIUM COMPOUNDS" FROM CHINA IN 2010 AND 2011	38
FIGURE 4. CHINA'S EXPORTS OF "CERIUM COMPOUNDS" TO JAPAN AND THE U.S. IN 2010	38
FIGURE 5. JAPAN'S IMPORTS OF "OTHER REE" FROM CHINA IN 2010 AND 2011	40
FIGURE 6. CHINA'S EXPORTS OF "OTHER REE" TO JAPAN & U.S. IN 2010	40
FIGURE 7. JAPAN'S IMPORTS OF "SCANDIUM AND YTTRIUM" FROM CHINA IN 2011 AND 2011	42
FIGURE 8. CHINA'S EXPORTS OF "SCANDIUM & YTTRIUM" TO JAPAN & U.S IN 2010.....	42
FIGURE 9. JAPAN'S LARGEST EXPORT MARKETS.....	56
FIGURE 10. JAPAN'S MONTHLY EXPORTS TO CHINA IN 2010 & 2011	56
FIGURE 11. JAPAN'S MONTHLY EXPORTS TO REPUBLIC OF KOREA IN 2011 AND 2012	58
FIGURE 12. JAPAN'S MONTHLY EXPORTS TO CHINA IN 2011 AND 2012	58
FIGURE 13. JAPAN'S MONTHLY EXPORTS TO CHINA IN 2012 AND 2013	59
FIGURE 14. MONTHLY YEN/YUAN APPRECIATION.....	59
FIGURE 15. CAR SALES OF JAPANESE BRANDED CARS	62
FIGURE 16. JAPAN'S LARGEST IMPORT SOURCES.....	63
FIGURE 17. JAPAN'S OUTWARD FDI TO CHINA AND ASEAN	64
FIGURE 18. CHINESE TOURISTS IN JAPAN AND JAPANESE TOURISTS IN CHINA	66
FIGURE 19. JAPANESE GENERAL IMPRESSION OF CHINA	73
FIGURE 20. JAPANESE THREAT PERCEPTIONS	74
FIGURE 21. CHINESE GOVERNMENT VESSELS IN TERRITORIAL WATERS AROUND THE ISLANDS AND CONTIGUOUS ZONE	76
FIGURE 22. MAP OF OVERLAPPING CLAIMS IN THE SOUTH CHINA SEA.....	84
FIGURE 23. CHINA'S BANANA IMPORTS FROM THE PHILIPPINES, OCTOBER 2010- SEPTEMBER 2012.....	89
FIGURE 24. ECUADOR'S BANANA EXPORTS TO CHINA IN 2012	89
FIGURE 25. NUMBER OF CHINESE TOURISTS TO THE PHILIPPINES JANUARY 2011 – JULY 2014	94
FIGURE 26. ANNUAL EXPORTS TO THE PHILIPPINE'S TOP EXPORT MARKETS	98
FIGURE 27. ASEAN 6 EXPORTS TO CHINA.....	98
FIGURE 28. MONTHLY PHILIPPINE EXPORTS TO CHINA IN 2011 AND 2012.....	99
FIGURE 29. MONTHLY PESO/YUAN APPRECIATION.....	99
FIGURE 30. THE PHILIPPINE'S TOP IMPORT SOURCES.....	101

LIST OF ABBREVIATIONS

AIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CEPH	Embassy of the People's Republic of China in the Republic of the Philippines
CNTA	China National Tourism Administration
CSD	Collective Self-Defense
DPJ	Democratic Party of Japan
EEZ	Exclusive Economic Zone
ECS	East China Sea
GDP	Gross Domestic Product
ITLOS	International Tribunal for the Law of the Sea
JCG	Japan Coast Guard
LDP	Liberal Democratic Party of Japan
MFA	Ministry of Foreign Affairs of the People's Republic in China
MOC	Ministry of Commerce People's Republic of China
MOFA	Ministry of Foreign Affairs of Japan
NDPG	National Defense Program Guidelines
NM	Nautical miles
NYT	New York Times
PBGEA	Philippine Banana Growers and Exporters Association
SCS	South China Sea
REE	Rare earth elements/minerals
ROK	Republic of Korea
UN Comtrade	United Nations Commodity Trade Statistics Database
UNCLOS	United Nations Convention on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

INTRODUCTION

With the world's largest capital surplus and its second largest economy, a highly coveted domestic market, and a currency with growing regional appeal, Chinese strategists are exploring new ways to deploy China's own economic might for strategic benefit – James Reilly (2012: 121).

Since China is neither a democracy nor a free market economy, its administration has a greater capacity to influence trading decisions than a government in a democratic free-market economy. Such significant scope for government intervention opens up the opportunity to utilize trade flows as a foreign policy tool – Andreas Fuchs & Nils-Hendrik Klann (2013: 164).

Governments have always tried to obtain foreign policy goals by economic tools. The largest economy in the world, the United States, is the world's leader in using economic sanctions (Reilly, 2012: 121-123). However, the U.S. has new company. Several researchers argue that China's economic rise has provided Beijing with increased and diverse opportunities to utilize economic ties for political purposes (see Reilly, 2012; Nagy, 2013; Fuchs & Klann, 2013; Wu & Wei, 2014; Chen & Garcia, 2015). Since Deng Xiaoping's opening up in 1978, China has gone from being an isolated economic outback to becoming the world's largest trading nation and a very attractive investment destination. In 2009, they passed Germany as the largest exporter of goods and in 2011 China's trade equaled 10 percent of global trade (Heilmann & Schmidt, 2014: 83). In 2012, China's outward foreign direct investments had reached US\$ 84 billion, the third-largest after the U.S. and Japan (Song, 05.03.2015).

With China's economic rise there has been growing media coverage and scholarly discourse about China's political use of economic ties. Previous research and media coverage (see Reilly, 2012; Fuchs & Klann, 2013; Fish 06.05.2014; Malacinski, 21.05.2014) demonstrate that political tensions with Beijing have had a damaging effect on economic ties and even high-income European countries have tried to appease China in order to improve political and economic relations. China has also flexed its economic muscles against its East Asian neighbors that are even more dependent on the Chinese economy. In 2010, Beijing allegedly imposed a rare earth mineral embargo against Japan in retaliation for Tokyo's handling of a territorial dispute in the East China Sea (hereafter ECS) around the Senkaku/Diaoyu Islands. In 2012, Beijing is said to have encouraged boycotts of Japanese products as a rebuff to Japan's nationalization of three Senkaku/Diaoyu islands. In 2012, Beijing reportedly curbed banana imports from the Philippines and issued a travel advisory in retaliation to Manila's handling of a territorial dispute in the South China Sea (hereafter SCS) around Scarborough Shoal. With this background, I ask:

Has China's political use of economic ties in territorial disputes been successful?

I analyze the success of sanctions by examining if Japan and the Philippines tried to appease China after they were targeted by sanctions. Chapter one examines examples of China's use of economic ties towards European countries, which sparked the authors interest in the topic. Chapter two outlines influence of trade theory and with the background of previous research and influence of trade theory I hypothesize that: *Japan and the Philippines will appease China in territorial disputes and act to avoid further tensions.*

However, the political context of which sanctions were imposed is clearly distinctive from the European cases. Economic sanctions towards the Philippines and Japan were imposed in relation to territorial disputes, and as the three cases will demonstrate, China's behavior in the confrontations can be perceived at least as conditionally and locally hostile. Thus, chapter three outlines balance of threat theory and with this background I put forward a competing hypothesis¹; *Japan and the Philippines will follow a localized balancing strategy against a perceived China threat to their territorial claims.*

Chapter two and three provides a framework for identifying and analyzing Japan and the Philippines' strategies towards China in the aftermath of territorial tensions that resulted in China employing sanctions². Chapter four outlines how the author has conducted the research. The remaining part of the study is divided in three cases; Sino-Japanese Senkaku/Diaoyu tensions in 2010, Sino-Japanese Senkaku/Dioayu tensions in 2012 and Sino-Philippine Scarborough Shoal tensions in 2010. Chapter five and six outlines the Senkaku/Diaoyu tensions in 2010 and the subsequent rare earth mineral embargo against Japan. Chapter seven analyzes Japan's strategy towards China after the 2010 confrontation. Chapter eight outlines the Senkaku/Diaoyu confrontation in 2012 and the subsequent boycotts of Japanese products. In addition, chapter eight contrasts the general economic impact of Senkaku/Diaoyu tensions on Japan in 2010 and 2012. Chapter nine analyzes Japan's strategy towards China after the 2012 confrontation. Chapter ten outlines the Scarborough Shoal standoff in 2012, and the economic impact of banana restrictions and tourist warning on the Philippines. Chapter eleven analyzes the Philippines' strategy towards China after the 2012 confrontation. The final chapter concludes that China's sanctions were successful in the short-term in two of the cases. However, Japan and the Philippines' long-term balancing strategies after the

¹ The hypotheses are competing, but not exclusive from each other.

² David Baldwin (1985) distinguishes between positive sanctions (economic carrots) and negative sanctions (economic sticks). When I refer to sanctions in this study I refer to negative sanctions.

confrontations question the success of China's sanctions in combination with complementary foreign policy tools.

CHAPTER 1: PREVIOUS EXAMPLES OF CHINA'S POLITICAL USE OF ECONOMIC TIES

Previous research on Chinese economic statecraft has demonstrated that even high-income economies that do not seem in desperate need of Chinese investments or trade have complied with Beijing's political interests after political tensions have harmed economic links. A well-known study by Andreas Fuchs and Nils-Hendrik Klann (2013) analyzed 159 countries and found that exports to China decreased with an average of 8,5 - 16,9 percent when the Spiritual leader of Tibet, the Dalai Lama, was received at a high political level during the first half of Hu Jintao's presidential period (2003 – 2008). The Chinese government (hereafter Beijing), regard Tibet as an integral part of Chinese territory and oppose meetings between the Dalai Lama and top political leaders in other countries (Fuchs & Klann, 2013b: 4).

For example, after the French President Nicolas Sarkozy met with the Dalai Lama in 2009, an agreement between China and Airbus for 150 planes was delayed and two Chinese trade delegations omitted France from their travel plans (Fuchs & Klann 2013b: 14). Premier, Wen Jiabao, who originally planned to travel to France, stated that; "I looked at a map of Europe on the plane. My trip goes around France (...). We all know why" (China Daily, 02.03.2009). The same year, China suspended all high-level political contact with Denmark when Prime Minister, Lars Løkke Rasmussen, received the Dalai Lama. The effect of the Dalai Lama reception was no minister visits between the countries and no large commercial agreements (Malacinski, 16.01.2015). Moreover, in 2010 Sino-Norwegian political and economic links soured when the Norwegian Nobel Committee granted the Nobel Peace Prize to Lui Xiaobo, a Chinese dissident. In China, Lui is considered a symbol for opposition against the Chinese government, which regard him as a criminal (NRK, 25.12.2009). The commodity most seriously affected was Norwegian salmon. According to Statistics Norway, there was a significant drop in salmon exports to China from 2010 to 2011 (Skivenes, 2012).

1.1 The European governments' appeasement strategies

Sino-French relations improved however, when the Sarkozy government reaffirmed their recognition of Tibet as an integral part of Chinese territory. A Sino-French communiqué stated that;

France fully recognizes the importance and sensitivity of the Tibet issue and reaffirms its adherence to the one-China policy and the position that Tibet is an integral part of the Chinese territory (...). Based

on this spirit and the principle of non-interference in each other's internal affairs, France refuses to support any form of Tibet independence (People's Daily, 02.04.2009, La Feanerie & Cowell, 01.04.2009).

Very similar with France's communiqué, the Danish government adopted a "verbalnote" which was conveyed to the Chinese;

Denmark takes very seriously the Chinese opposition to meetings between members of the Danish Government and the Dalai Lama, and has duly noted Chinese views that such meetings are against the core interest of China, and will handle such issues prudently. In this regard, Denmark reaffirms its One-China Policy and its unchanged position that Tibet is an integral part of China (Det Udenrigspolitiske Nævn, 2009).

Moreover, one year after the peace prize, the Norwegian Foreign Minister, Jonas Gahr Støre, tried to convince China that the Nobel Committee did not represent Norwegian foreign policy and that Norway was impressed by China's development;

We emphasize that the Peace Prize was not the decision of the Norwegian government. Experiences of Chinese reactions the last year make it necessary to remind that the award of the Nobel Committee was not Norwegian foreign policy. Statements from members and employees of the Committee were not on behalf of the Norwegian Government (...) The Norwegian Government recognizes the historic improvement on the level of living the Chinese population has experienced the last decades. China's population and government deserve recognition for progress without parallel (author's translation).”– Jonas Gahr Støre (11.10.2011).

1.2 What happened after the appeasement attempts?

The statements on Tibet seemed almost costless for France and Denmark as their positions on Tibet did not change. Indeed, they only reaffirmed their positions. Despite of this, Beijing accepted the statements as satisfactory “apologies”. Contact between Copenhagen and Beijing was re-established (Malacinski, 16.01.2015), and France was soon to receive a Chinese trade delegation (Fuchs & Klann, 2013a: 14). The Chinese English-language newspaper, the China Daily, stressed a causal link between France's diplomatic concession and the re-establishment of bilateral relations (China Daily, 27.10.2009).

In the case of Norway, Beijing demanded an apology for the peace prize for improved relations. Although one could argue that Støre's statement had an apologetic connotation, it was not accepted as a satisfactory apology. Two years after the peace prize Norway was excluded from a visa-free travel program, and there were still no official high-level political contact between the countries. In 2014, discussions on a free trade agreement that started in 2008 were still shelved (Håkonsen & Sandvik, 23.04.2014).

1.3 Trying to avoid future tensions and subsequent sanctions?

Moreover, there are implications that top leaders are acting to avoid further Dalai Lama-tensions with Beijing. Only two top leaders met with him in 2013, compared to 11 in 2001. The trend of not meeting with the Dalai Lama has been especially prominent in Northern-Europe, despite the fact that the Dalai Lama is considered a human rights defender. In May 2014, after a change in government, Norway also turned to this mean. In the midst of Beijing's continued exercise of economic sanctions after the 2010 Peace Prize, Norway tried like their European counterparts to diplomatically appease Beijing by not receiving the Dalai Lama (Fish, 06.05.2014). However, the overture to Beijing proved not successful. According to the Norwegian Seafood Council, Norwegian salmon in 2015 was still facing difficulties due to import restrictions. The latest numbers demonstrates that Norway's market share in the Chinese import market in 2014 was down at 26 percent. Before the Peace Prize Norway's market share was about 90 percent (Laugen, 23.01.2015).

1.4 Successful and unsuccessful sanctions

Previous research and newspaper coverage have demonstrated that a slowdown in political and economic relations between China and its European trading partners have led countries to make diplomatic concessions in order to fix ties. Chinese sanctions were successful in that countries acted to appease Beijing. Sanctions against Norway was however unsuccessful in that Norway did not give in to China's original demand – an apology for the Peace Prize. However, Norway did attempt substitutes.

The cases outlined sparked my interest in Chinas political use of economic ties. The European countries appeasement attempts raise an intriguing question; when even high-income European countries comply with Beijing's political interests after tensions have harmed political and economic ties, how do states that are more dependent on healthy political and economic links with China react when they are targeted by sanctions?

In 2008, the year before Dalai Lama tensions, China was France's 9th largest export market, 4th largest import source and exports and imports to/from China amounted for 2,23 percent and 6,5 percent of Frances total trade with the world. In 2009, the year before Peace Prize tensions, China was Norway's 12th largest export market, 3rd largest import source, and import and exports from/to China accounted for 2,11 percent and 7,7 percent of Norway's total trade with the world. In contrast, in 2009, the year before the alleged rare earth embargo against Japan, China was Japan's number one export market and number one import source. Exports to China accounted for 19 percent of Japan's total exports, and imports accounted for

22,2 percent of Japan's total imports. Moreover, in 2011, the year before sanctions against the Philippines, China was the Philippines third largest export market and third largest import source. Exports from the Philippines to China accounted for 12,7 percent of the Philippines total exports, and imports from China accounted for 10,2 percent of the Philippines total imports (International Trade Center, 2015). Hence, in terms of share of trade, Japan and the Philippines were more dependent on the Chinese economy when they were targeted by sanctions than the European countries. By this dimension, Japan and the Philippines should be promising targets for China's successful exercise of what Albert Otto Hirschman (1945) described as; the influence effect of foreign trade.

CHAPTER 2: THE INFLUENCE EFFECT OF FOREIGN TRADE

In international relation theory, there exists a strong tie between liberalism and the hypothesis that trade encourages peace. Some strands of liberalism stress the pacifying effects of trade. The most extreme strands claim that peace is the unavoidable result of universal free trade, while strands that are more moderate maintain that war is less likely between trading nations (Baldwin, 1985: 77 & 78). John Stuart Mill also adhered to the idea that mutual dependence on trade promoted peaceful collaboration between countries, but at the same time he was one of the first to recognize that the benefits from trade are not necessarily equally divided between trading partners (Hirschman, 1945: 10).

2.1 Asymmetric trade relationships equal dependency relationships

In *National Power and the Structure of Foreign Trade*, Hirschman further develops Mill's idea and emphasize the asymmetry in trading relationships as the explanation for why some nations have political influence over others.

In theory, any government can make use of trade ties as a foreign policy tool to try to influence the political decisions of its trading partners. Indeed, this is one of the attributes of being a sovereign state. In theory a state can, at any time, interrupt own exports or imports, which is the imports or exports of another state. Hirschman agrees with Montesquieu that when country B gain from trading with A, this also involves that A gains from trading with B. Thus, if initiator A interrupt trade with target B, the interruption will, to some extent, also harm the economy of the initiator. However, in a bilateral trading relationship one of the trading partners often gain more from trade than the other partner. Trading relationships are often asymmetric. Consequently, since the total gain from trade with another country also is the total impoverishment that can be imposed by a stoppage of trade, one of the countries will be more dependent on trade than the other. The economic expression "gain from trade", and the power concept "dependence on trade", thus becomes two sides of the same coin (Hirschman, 1945: 15-18).

2.2 Dependency relationships foster political influence

"The power to interrupt commercial or financial relations with any country (...) is the root cause of the influence or power position which a country acquires in other countries, just as it is the root cause of the dependence on trade (Hirschman, 1945: 16)".

According to Hirschman's trade dependency theory, country A has an influence effect over countries when trade conducted between country A and country B is worth more to country B than to country A. Furthermore, he defines an influence effect as; when trade is worth so much to B that they would "grant A certain advantages – military, political, economic – in order to retain the possibility of trading with A" (Hirschman, 1945: 17)". The influence effect will be greater when it is difficult for countries to dispense, or replace A, as an export market and/or import source. It is important to note that it is not necessarily intended by A to create dependency relationships (and I will not try to find out if it is intended by China³), no matter how they can arise (Hirschman 1945: 40)⁴⁵.

2.3 Conditions for a political influence effect

According to Hirschman's theory, country A will have an influence effect over country B when it is *costlier for country B to replace A* as a market and source of supply than opposite. Moreover, if A has the possibility to continue to trade with whatever country they want, although they interrupt trade with B, they are well positioned to bear the cost (Hirschman 1945: 18). The difficulty for countries to replace trade conducted with country A depends on three main factors:

- I. *The total net gain to countries of their trade with A.*
- II. *The length and painfulness of the adjustment process which A may impose on countries by interrupting trade.*
- III. *The strength of the vested interests which A has created by its trade within the economies (Hirschman 1945: 17).*

2.3.1 The total net gain to countries of their trade with A.

"The total gain from trade for any country is (...) another expression for the total impoverishment which could be inflicted upon it by a stoppage of trade (Hirschman, 1945: 18)". Thus, the larger the net gain of trade with A, the greater incentives a country should have to grant A certain advantages.

Hirschman finds that the total share of trade is determinant in a country's power position vis-a-vis other countries. This means that country A's influence over another country increases as its share of that nation's trade increases (Hirschman, 1945: xvii). "An increase of trade on the

³ See Erling Hoem (2006), for an example of a study that does find that China has deliberately tried to make another country, Taiwan, economically dependent in order to exercise an influence effect.

⁴ Hirschman does look at cases where dependence is intentionally created. More specifically, he examined Nazi Germany's creation of dependency relationships toward Eastern European states in the 1930s.

part of A's trading partners is an indicative of an increase of their gains from trade, hence, their dependence on A (Hirschman, 1945: 19)".

The total share of trade is not the only aspect that is determinant in a country's power position. The total net gain from trade will vary between countries independent of their share of trade. First, country A's influence effect will be much greater over countries that have an urgent demand for the goods A produces. This is typically goods that country B have no possibility of producing at home (Hirschman, 1945: 24). It is relevant to add to Hirschman's reflections that when using specific sanctions (and not stoppage of all trade between two countries) the initiator can sanction strategically and thus make the sanction much graver for the targeted country. As Hirschman argues, the initiator can choose to embargo a type of commodity of which the target has an urgent demand. In addition, if the initiator choose to halt imports, it can choose a commodity that is easily replaceable (Brigulio et al; 2009: 232 & 233). Consequently, one can imagine that the *cost of a singular sanction* can be quite asymmetric, although overall economic relations are not.

In addition, "a stoppage of trade would generally cause much more real loss to the poor than two the rich nation" (Hirschman, 1945: 24). Thus, country A's influence effect will be larger when trading with poorer countries versus rich industrial countries because the marginal utility of income in poorer countries is higher (Hirschman, 1945: 25).

2.3.2 The length and painfulness of the adjustment process that A impose by interrupting trade

When country A interrupt trade, it impoverishes country B and inflicts an adjustment process. Country A's influence is determined on the length and painfulness of the adjustment process it manages to inflict (Hirschman, 1945: 17, 26). For target B, both imports and exports make for the same concern. The "danger of losing a market" if tensions rise makes "for as much concern as the danger of losing supplies", because exports enhance employment and economic growth (Hirschman, 1945: 27).

When A interrupts trade, the adjustment process can work in different ways. This depends on what kind of sanctions that are imposed. If country A cuts its own exports, imports will no longer be forthcoming and the target will need to produce the product at home or find substitutes for those products normally imported from A. If on the other hand, the target is cut off from own exports, they need to redirect exports towards other countries or find new employment for the workers that were employed in the sanctioned export industry (Hirschman, 1945: 27).

It is important to note now, that when country A has interrupted trade with B, B has the possibility of turning trade flows towards third countries. In the case studies, I will refer to this as “economic balancing”. If B successfully direct trade towards a third country, “it evades more or less completely the damaging consequences of the stoppage of its trade with one particular country (Hirschman, 1945: 29)”. This is indeed one of the reasons many argue economic sanctions seldom are successful foreign policy tools (Pape, 1997: 107; Fermann, 2013: 81).

2.3.3 The vested interests in country B

The length and adjustment process is likely to be harder for some groups/sectors in country B, especially if country A uses sanctions strategically. Consequently, some groups in country B will gain more from avoiding tensions with A and will favor an appeasing approach⁶. If these groups are powerful political players, they can exercise pressure on the government in favor of a “friendly” attitude towards the market of which they owe their existence. The strength of the vested interests which A has created by its trade within country B is thus an important part of A’s influence effect. The vested interests are for example the producers of export and the industries dependent on imported raw materials. If exports are concentrated in some region or industry, the difficulty of their adjustment process will weigh upon the decisions of the government (Hirschman, 1945: 29).

2.3.4 Anticipated future benefits of warm political relations

I choose to add to Hirschman’s three dimensions a fourth dimension; the anticipated future benefits of healthy relations. Indeed, Hirschman argues that country A’s influence over B gets stronger the greater the potential of inflicting a long and painful adjustment process. However, the threat of negative sanctions is not the only factor that can prompt an appeasing approach. In addition to emphasize the influence of negative sanctions, David Baldwin (1985) emphasizes the role of positive sanctions/rewards as a mean to exercise influence. According to Baldwin, a perception of the future benefits or rewards that comes with having healthy relations with A is undervalued, and an important part of a country A’s influence over country B (Baldwin, 1985: 20).

Moreover, as David Kang argues specifically about China – the expected future benefits to both states and companies that have good relations with China is obvious; “as both a consumer and producer country, the Chinese economy is increasingly seen as shaping the

⁶ James Reilly claims that it is a part of Beijing’s sanction strategy to threaten market loss so as to force influential companies “to lobby their home governments in a pro-China fashion” (Reilly, 2012: 124).

future for many companies worldwide (Kang, 2007: 51)". Thus, trying to secure healthy bilateral relations with China today it is also very much about the potential benefits of having healthy economic relations with the superpower China by many, is expected to become.

2.4 Interruption of trade rarely occurs

In this thesis, I analyze cases where I knew trade to some extent was interrupted. However, Hirschman argues that "interruptions of trade rarely occurs" and that "the awareness of their possibility is sufficient to test the influence of the stronger country and to shape the policy of the weaker (Hirschman, 1945: 16)". This should imply that if A manages to successfully impose an asymmetric economic effect (and although B appeases A and economic relations are restored to "normal⁷"), the awareness of the possibility that A can interrupt trade if tensions rise again should be ever more present. As Hirschman says; "the power to interrupt trade is the root cause of the influence or power position which a country acquires in other countries (Hirschman, 1945: 16)". Thus, if China does show that they have the ability to interrupt trade at an acceptable cost to themselves, and inflict a high cost at the targets (the sanctions have an asymmetric economic impact), Japan and the Philippines should be more inclined toward avoiding future tensions with China and subsequent sanctions. The concept of "anticipated reactions" highlights this argument.

2.5 Trying to avoid future tensions

David Baldwin argues that even the most primitive use of social power analyses makes a significant contribution to understand economics as a foreign policy tools (Baldwin, 1985: 19). He draws on social power theory in his *Economic Statecraft* (1985). He argues that Jack Nagel's concept of "anticipated reactions" is especially useful when understanding economic dependency relationships – why country B would try to avoid future tensions by shaping "his behavior to conform to what he believes is the desires of A". Baldwin exemplifies the concept of "anticipated reaction" by the example that "if Japan was dependent on Saudi Arabia with respect to oil it might modify its position on the Arab-Israeli dispute without any explicit request or demand by Saudi Arabia". Consequently, influence can "go without making" (Baldwin, 1980: 500). An example of countries conforming to what they think (know) are the desires of China is the decreasing receptions of Dalai Lama. In the case studies I therefore

⁷ Although Hirschman and Baldwin (1985: 100) argue that there is no such thing as "normal economic relations". According to Hirschman it is not possible to avoid the "the intimate connection between international trade and 'power politics' and to restore trade to its 'normal and beneficial function' (Hirschman, 1945: 78).

examine if the Philippines and Japan modify their territorial claims or at the very least try to avoid putting territorial disagreements with China on the agenda after territorial tensions have harmed economic links.

This means that not only the threat of sanctions is a part of A's influence position. The actual economic effect inflicted, and the economic rewards that comes with having stable relations with A (both in the short and long term) can also prompt B to appease A, and be an incentive for avoiding future tensions. Thus, the benefits of avoiding tensions with China is twofold: the potential for future sanctions, but also the potential rewards that comes with having healthy relations. Moreover, since sanctions reportedly were imposed against Japan and the Philippines, the economic effect can to some extent be examined. In chapter six, eight and ten the economic effect of sanctions will be examined. Sanctions are not vocalized from the Chinese side as sanctions, but are reportedly imposed. Moreover, if sanctions actually create a painful adjustment process we can expect Japan and the Philippines to be more inclined to appease China in the short-term and avoid further confrontations and subsequent sanctions.

2.6 Development of appeasement hypothesis

With the background of the European governments appeasement attempts and influence of trade theory, I have formulated one hypothesis. I expect that in the wake of territorial tensions that resulted in sanctions, Japan and the Philippines will try to improve bilateral relations with China and avoid new confrontations over territorial disputes:

H1: The Philippines and Japan will appease⁸China in territorial disputes and act to avoid further tensions.

Empirical implications of an appeasement strategy and acting to avoid a new confrontation are:

⁸ I could have chosen to use the concept of a bandwagoning strategy instead of an appeasement strategy. Especially since my competing hypothesis is that the Philippines and Japan will follow a balancing strategy, and a bandwagoning strategy is often used as the opposite of balancing strategy. However, originally bandwagoning is used as military alignment with the potential aggressor in hope of profiting from its success in overturning the established system (Larson, 1991: 85; Schweller, 2010: 10). Considering the theory and previous research I used to develop my hypothesis, I have no reason to believe that the Philippines and Japan will align militarily with China, in hope of profiting from its success. Thus, in relation to the discussion in this paper, I use the concept of appeasement when describing the Philippines' and Japan's policy towards China in contrast to balancing. *Oxford Dictionary of Politics* defines appeasement as "a policy of acceding to hostile demands in order to gain peace" (McLean & McMillan, 2009: 21). Hence, the concept of appeasement is more accurate in relation to my argument; that the Philippines and Japan will comply with China's demands and act to avoid further conflicts.

- **Comply with China’s original demands**
 - Japan in 2010:
 - Release the boat captain, apologize for the detention and agree to compensation.
 - Statements with apologetic connotation.
 - Japan in 2012:
 - Agree that there is a territorial dispute.
 - The Philippines in 2012:
 - Withdraw vessels from Scarborough Shoal.
 - Not returning vessels to Scarborough Shoal.

- **Act to avoid further confrontations**
 - Tone down territorial claims in the ECS and SCS.
 - Attempts to direct focus away from territorial disputes with China.
 - Political leaders using positive rhetoric about China and China relations.
 - Decreased activity in the SCS and ECS.
 - Decreased patrolling around disputed islands in the SCS and ECS.

This signify that I define a successful sanction as Japan and the Philippines trying to appease China in territorial disputes. This implies that I define a successful sanction in much the same way as Hirschman defines as an influence effect (when trade is worth so much to B that they will “grant A certain advantages - military, political, economic - in order to retain the possibility of trading with A” (Hirschman, 1945: 17). However, I also examine if China’s sanctions had an asymmetric economic effect, which indeed could be classified as a success in itself. The concept of a successful sanction is discussed in greater detail in the method chapter.

CHAPTER 3: DIFFERENT DISPUTES AND BALANCE OF THREAT THEORY

Sanctions proved successful toward France and Denmark in that they worked to appease China. The benefits of appeasement were high (they successfully improved political and economic relations), while the cost must be characterized as low - both countries had already recognized Tibet as an integral part of Chinese territory. Indeed, one could classify the restatement of their positions as appeasement-on-the-cheap.

Daniel Drezner, author of the *Sanctions Paradox* predicts that countries will care about their future bargaining position in face of an adversary – meaning that they are less likely appease sanctioning state A, if they think it will strengthen A's future bargaining position vis-à-vis them (Drezner, 1998: 67). Also Baldwin's theory on economic statecraft emphasize the fact that the more that is at stake by complying with the sanctioning states interests, the less likely it is that the targets will do so (Baldwin, 1985: 133). Thus, in addition to looking at the economic impact sanctions had (as Hirschman argues) it is relevant to analyze the political context of which sanctions were imposed. I have already argued that the economic benefits to Japan and the Philippines of appeasing China are potentially high. However, so is the potential cost.

3.1 Sovereignty claims and the value of island territory

Tensions leading to China employing sanctions against the Philippines and Japan are related to overlapping sovereignty claims in the SCS and ECS. Since, "sovereignty is the claim by the state to full self-government (McLean & McMillan, 2009: 498)," the cost of an appeasement strategy is related to value of territorial integrity and to the control of disputed islands and maritime space.

Island territory is important to states for both intangible (impalpable, indefinable) and tangible (real, touchable) reasons. The public feels strongly for national territory because it is within here the nation resides. Consequently, since islands are land we can expect strong national attachment. As Manicom says: "On issues of territorial integrity the impact of national identity on foreign policy is similar to that of public opinion on foreign policy (Manicom, 2014: 6)". In addition, sovereignty over islands provide the right to exploit maritime resources in the space around islands. Still, scholars normally accept that disputed maritime space is of lesser value than disputed land territory. States have sovereignty over land, but just limited jurisdiction over the sea, except for territorial seas within 12 nautical miles (hereafter nm) of sovereign land territory (UNCLOS, 1982; Manicom, 2014: 6). However, Manicom argues that

maritime space (like exclusive economic zones) that sovereignty over islands provide, are an undervalued factor when understanding the value of controlling islands (Manicom, 2014: 6 & 7). In short, the sea has potentially rich hydrocarbon reserves, and the exploitation of reserves could provide countries with greater energy security. Furthermore, people rely on sea protein in their diets, and employment in the fishing industries can boost an economy (Manicom, 2014: 28).

3.2 Why we cannot expect an appeasement strategy

“Sovereignty is the other side of the coin of international anarchy, for if states claim sovereignty, then the structure of the international system is by definition anarchic (McLean & McMillan, 2009: 498).”

Economic sanctions were imposed in combination with other policy tools, like harsh or belligerent rhetoric. In short, China’s behavior in all three conflicts can be perceived at least as conditionally and locally hostile – as a threat to what Japan and the Philippines perceive as their territorial integrity. Moreover, when states face a potential threatening power to a core value like territorial integrity, they are unlikely to follow an appeasement strategy. At the heart of structural realist theory is the prediction that threatened states will balance against threatening powers. In this thesis I adhere to Stephen Walt’s definition of a balancing strategy. He distinguishes between two broad types of balancing strategies, balancing conducted by military means and balancing conducted by diplomatic means. State B can balance by military means by increasing its own internal military capabilities and/or its external military capabilities⁹. In addition can state B balance by diplomatic means, “directed at an opponent’s image and legitimacy” (Walt, 1987: 149).

In the realist school, there are two main theoretical explanations for why states choose to balance. Kenneth Waltz’s argues that in an anarchical self-help world, when state A grow powerful, state B has a strong tendency to balance against A, because A’s unbalanced power is *potentially* dangerous to B (Waltz, 2001: 28). In line with balance of power theory, Walt’s balance of threat theory also emphasize state A’s aggregate capabilities when explaining B’s balancing strategy. However, balance of threat theory favor more explanation variables for why, and against what powers, states tend to balance. Overall, Walt argues that states balance against the greatest threat, not power in itself. Power in itself can either threaten or support

⁹ According to Walt, the most typical form is adding the power of another state to its own power (Walt, 1987: 149).

other states, because states with great power has the capacity to punish enemies, but also to reward friends (Walt, 1987: 21-23). Thus, aggregate power in itself does not provide states with a motive to choose a balancing strategy. However, if state A starts “to exploit its superior position” it has to expect increasing resistance. Thus in line with balance of power reasoning Walt argues; “given the overwhelming tendency for states to balance, a state whose power and ambition are growing can expect to face ever-increasing resistance” while balance of threat theory adds, “should it attempt to exploit it’s superior position (Walt, 1987: 179)”.

3.3 The importance of proximity, offensive capabilities and aggressive intentions

Walt defines proximity, offensive capabilities and aggressive intentions as sources of threat. If state B perceives A as trying to exploit its superior position it will face growing opposition from B, especially if state B is close in geographical proximity. This is due to the fact that A’s ability to project power grow when countries are nearby. Moreover, if state B perceive A as possessing great offensive capabilities A is more likely to trigger a balancing response. Walt defines offensive capabilities as “the ability to threaten the sovereignty or territorial integrity of another state at an acceptable cost (Walt, 1987: 24)”. Intentions of other powers are generally hard to determine and are changeable. However, if state B perceive state A as acting hostile, A is likely to trigger a balancing response from B. Thus, it does not matter if country A is implacable hostile or not, as long as state B *perceive* A’s intentions as hostile. If B perceives A’s proximity, offensive capabilities or aggressive intentions, as the most significant source of threat in a given situation is impossible to predict, but they are all likely to be influential (Walt, 1987: 23 - 26).

3.4 When do states balance and when do states underbalance against threats?

An outline of when threatened states choose to balance versus underbalance is useful when contrasting an appeasement strategy with a balancing strategy, since appeasement is a sort of underbalancing behavior. So, what characterizes a weak state inclined to bandwagon? B is more likely to balance if B is a strong regional state, in contrast to a small and weak regional state with low economic and military capabilities, argues Walt (Walt, 1987: 29). Moreover, if allies are not available, weak states will be enticed to bandwagon. However, if B is certain that allied help is available B will be inclined towards balancing (Walt, 1987: 178).

Walt touches upon the domestic sources of balancing behavior. Indeed a state cannot perceive another state as acting hostile – elites and the public do. However, Deborah Larson and

Randall Schweller have developed the domestic sources of balancing behavior versus underbalancing behavior. Larson argues that balance of power/threat theory fails to explain why small states sometimes balance, despite the absence of credible alliance partners. Her analysis of why states bandwagoned in Europe during the interwar period also shed lights on when states, independent of size, are likely to balance versus underbalance in face of a threatening state. Larson emphasizes the domestic sources of *political instability* and *illegitimate authority* as domestic explanation variables for why states sometimes choose to underbalance (Larson, 1991: 88).

3.4.1 The domestic sources of underbalancing and balancing behavior

Randall Schweller, is detailed in his analysis of the internal sources of balancing versus what he defines as underbalancing behavior. Most importantly according to Schweller, the choice of a balancing strategy necessitates *elite consensus* that state A pose a serious threat that must be checked by internal and/or external methods. *Elite consensus* in state B, is the most essential source, and a necessary condition for balancing behavior (Schweller, 2010: 49).

Moreover, “the less ambiguous the strategic environment is, the more likely it is that elite consensus will emerge around” a balancing strategy. However, if A possess an ambiguous threat and political elites disagree about the threat A pose, it will be hard to form a consensus behind a balancing strategy. This is due to the fact that a balancing strategy is costly behavior. First, human and material resources, which could have been directed towards other areas, must be used on national defense. In addition, forming an alliance (or moving closer to alliance partner) often posits that B must sacrifice some right to self-determination in its foreign policy (Schwheller, 2010: 48).

Consequently, appeasement and other forms of underbalancing will tend to triumph in the absence of a determined and broad political consensus to balance simply because these policies represent the path of least domestic resistance and can appeal to a broad range of interests along the political spectrum -
Randall Schweller (2010: 48).

In addition to the necessity of elite willingness towards a balancing response, “the relationship between the rulers and ruled” is important when it comes to state B’s ability to balance. What Schweller describes as *government vulnerability* and Larson describes as *legitimate/illegitimate authority* (Larson, 1991: 88), plays a role in the ability of government B to counter a threatening A (Schweller, 2010: 49). Political leaders must choose policies due to their ability to counter the threat *and* their ability to arrange domestic support. As Larson argues, policy makers are also driven by maintaining office (Larson, 1991: 86). Without

domestic support, political leaders will lose capacity to counter a threat because “elite-mass linkages plays a major role in determining the range and viability of policy choices available to decision makers”. While unpopular leaders will be restrained in their policy options, and might chose to underbalance, popular leaders will be more effective in marshaling resources from society and thus be more susceptible towards balancing (Schweller, 2010: 50).

The government’s legitimacy and thus ability to balance, is closely linked to the concept of social unity or social cohesion in state B. *Social cohesion* is in “its widest sense about a psychological feeling of solidarity within society”. There is a widespread argument in international relation theory that *social cohesion* will rise in state B, when faced with an external threat. The logic behind this is that divided citizens will overlook internal disputes in order to defeat an outside threat to “their core values or other national interests”. This has in turn led to the description that wartime leaders often enjoy a “rally-around-the-flag” effect. Schweller and Lewis Coser agree that a state with high level of social cohesion prior to states A threatening behavior, likely will experience an increase in the public’s support. However, if B is internally divided and A is not perceived as a threat by large segments in society, political leaders are more likely to choose an underbalancing strategy because they view the cost of an arms buildup as to high (Schweller, 2010: 51-54).

3.5 Development of competing hypothesis

According to the domestic sources of a balancing versus underbalancing behavior, Japan and the Philippines are unlikely to follow an appeasement strategy if elites and public perceive China as an unambiguous threat to their control of disputed islands. Thus, regardless of the potential economic benefits that comes with appeasing China, a China threat towards Japan’s and the Philippines’ control of disputed islands can trigger some sort of balancing strategy. It is important to note that decision makers in Manila and Tokyo will distinguish between a China threat to their control of disputed islands, versus a China-threat to their larger national security and survival. With this background, I present my competing hypothesis:

H2: Japan and the Philippines will follow a localized balancing strategy against a perceived China threat to their territorial claims.

Like Walt, I distinguish between diplomatic and military balancing. Empirical implications of a localized balancing strategy are:

Diplomatic balancing

- Not complying with China’s demands.

- Try to consolidate/strengthen territorial claims.
 - PR tactics designed to discredit China's territorial claims with allies, neutrals and the international public opinion.
 - Acting to strengthen international support for claims.
- Putting maritime disputes on the agenda, rather than downplaying/avoiding the topic.

Military localized balancing

- Increased military and coast guard activities in the SCS and ECS.
 - Sending more coast guard and naval vessels into disputed areas.
- External balancing
 - Boosting military alliances with allies.
 - Boosting military and coast guard cooperation with regional states.
- Internal balancing
 - Increased coast guard/military budget.

I have argued that an appeasement strategy is the same as the Philippines and Japan complying with China's demands in the short term and acting to avoid further confrontations over territorial claims in the long term. I have argued that is likely due to the potential economic benefits (avoiding sanctions and potential rewards) that come with improved bilateral relations. However, I have also argued that China's behavior in the confrontations can trigger some sort of military and diplomatic balancing response. Consequently, the competing argument is that balancing against a perceived China threat will be first priority, not healthy economic links.

The hypotheses are competing, but not exclusive from each other. One can imagine that the Philippines and Japan will work to improve economic relations with China, while at the same time acting to strengthen their territorial claims.

CHAPTER 4: METHOD & DATA MATERIAL

In this method chapter, I first outline how I define a successful sanction. After that I discuss the hypotheses and main independent variables identified in the theoretical framework, before I turn to the data material I have used to investigate the hypothesized relationships.

4.1 Ways to define a successful sanction

Since my interest lies in if *China's political use of economic ties in territorial disputes has been successful*, I had to ask – how can I define a successful sanction? Indeed, there are several ways one can define a successful sanction (see Baldwin, 1985 & 2006). Sanctions can for example be evaluated as successful if they effectively send signals to third countries (Baldwin, 2006: 98). For example, one could argue that sanctions against Norway is successful because other countries (like Denmark) look to Norway as an example of what might happen if one defies Beijing's interests (Malacinski, 16.01.2015). As such, one could argue that Norway has become a useful example for Beijing to demonstrate that countries which defy Chinese interests are punished.

However, in order to limit the investigation I analyze the success of sanctions by examining if Japan and the Philippines acted to appease China after sanctions were imposed. However, I also examine the economic impact of sanctions since Hirschman argues that the pain of the adjustment process likely will influence Japan's and the Philippines' reactions (Hirschman, 1945)¹⁰. However, to be able to impose an asymmetric economic impact at all – meaning that the sanctions have low economic impact on China and high economic impact on Japan and the Philippines – can also be seen as an implication of a successful sanction (Baldwin, 1985: 133, Baldwin, 2006: 90-91).

4.2 The hypotheses

I have deduced two hypotheses based on the theoretical framework outlined, influence of trade theory and balance of threat theory. Furthermore, I have operationalized my hypotheses by outlining the empirical implications supporting each hypotheses. In 1934, Karl Popper reasoned that science should be determined with reference to the falsification principle, because there is no surety that what we have seen in the past will happen in the future (Moses & Knudsen, 2012: 40). “A well-chosen case can provide strong support for, or falsify, a given

¹⁰ It is important to note that it is not necessarily the economic effect of sanctions that prompt compliance. The economic impact of a sanction can be nil, but still compliance can be forthcoming because sanctions send a signal to state B about the intentions of A. An embargo can for example be interpreted in country B as a veiled threat of A to use military force. As such it is not necessarily the economic effect of the embargo which prompt compliance, but the fear of military force (Baldwin, 1985: 24).

theory. The point is to choose a case which is, in theory, falsifiable and tests a central theoretical claim (Moses & Knudsen, 2012: 139)". By identifying the empirical implications of my competing arguments, I have developed testable hypotheses and exposed them to the chance of falsification.

4.2.1 Identifying how the independent variables affect the dependent variable

Moreover, the theoretical framework provides a framework for explaining *why* the Philippines and Japan chose the strategies they did. As Stephen Van Evera argues, while "overall large N-studies tell us more about whether hypotheses hold than why they hold. Case studies say more about *why* they hold (Van Evera, 1997: 55)". Case studies can thus discover the intermediate steps that constitute the link between the independent variables and the dependent variable, especially when contrasted with other cases in a good way (Hanké, 2009: 61 & 66).

Based on influence of trade theory I have identified one main independent variable; *the economic effect of sanctions*. The logic behind this independent variable is that the economic cost China inflicts (an outside-in explanation) will lead domestic groups and elites (an inside-out explanation) to favor an appeasing approach. Consequently, an essential, and maybe flawed assumption I make, is that territorial tensions with China are correlated with cold economic relations. Of course, I have reasons to expect that they are; I chose my cases because China reportedly imposed sanctions. However, sanctions will differ in economic severity and the economic effect tensions had is investigated thoroughly in the case studies. If the economic cost imposed was nil, Japan and the Philippines should have fewer incentives to appease China.

Economic effect mild/severe → less incentives to appease/more incentives to appease

Based on balance of threat theory I have identified one main independent variable; *perceptions of China*. The logic behind this independent variable is that China's threatening behavior (an outside in explanation) will lead to a perception of a China threat among the public and elites (an inside-out explanation) that more likely will lead to a localized balancing strategy than an appeasement strategy.

Perceptions of a China threat agreement/disagreement → balancing/underbalancing

4.3 Data material

At the same time as the framework has identified why the hypotheses might hold or not, it has identified the relevant empirical material for which I now turn. Since we can expect that the Philippines' and Japan's strategies will be affected by the economic impact of tensions, I

analyze trade, investments and tourism flows between the countries during and after periods of tensions.

4.3.1 The Statistics

The statistics are gathered from various sources, but mainly from United Nations Commodity Trade Statistics Database (hereafter UN Comtrade) and Trade Map, provided by International Trade Center. Monthly statistics on exports and imports are derived from UN Comtrade, while annual trade data are compiled from Trade Map. Trade Map gather their yearly trade data mainly from UN Comtrade and the site is used due to its user-friendliness (International Trade Center, 2014: 3 & 4).

UN Comtrade, maintained by United Nations Statistics Division, is reckoned as the most comprehensive trade database in the world. The database contains trade statistics reported by national statistics authorities. In the case of Japan, statistics are reported by the Ministry of Finance, Japan. In the case of the Philippines, statistics are reported by the National Statistics Office, and in the case of China statistics are reported by the General Administration of Customs of China. I deem the statistics reliable, but with limitations. Countries do not always report trade statistics for each commodity, every year, and UN Comtrade does not estimate missing data. In addition, the reader will notice that exports reported by one country not always match imports reported by its trading partner. These variances are due to several factors; differences in classifications, timing, differences in valuation, variances in inclusions/exclusion of commodities etc. (UN Comtrade, 2010; UN Comtrade, 2015a).

4.3.2 Some reflections on statistics

"Figures often beguile me, particularly when I have the arranging of them myself; in which case the remark attributed to Disraeli would often apply with justice and force: There are three kinds of lies: lies, damned lies, and statistics." – Mark Twain (1907: 471).

Statistics can be misleading. There can be several explanations for why there is a drop in trade or tourism between two countries and one cannot simply contribute a drop to heightened political tensions. Consequently, I use comparisons as a way of understanding the statistics and I support statistics with qualitative data. This help explain if territorial tensions is in fact affecting economic relations.

4.3.3 The written material

When analyzing the international media coverage of the disputes, I refer to internationally recognized media such as the *New York Times*, *BBC* and *Reuters*. However, since the aim of the thesis is to identify and analyze Philippine and Japanese strategies toward China, I have

mostly used their national English-language newspapers. In the case of the Philippines' I have used *The Manila Times*, the oldest English-language newspaper in the Philippines and *The Daily Inquirer* the most widely read paper. In the case of Japan, I have mostly used *The Japan Times* and *Nikkei Asian Review*, Japan's leading financial newspaper. The reader will also note that I often refer to *Kyodo* – the Japanese news agency.

When presenting Chinese perspectives and arguments I have mostly used the English edition of the *People's Daily*, the Chinese government's official newspaper and the English-language newspaper the *China Daily*. The reader will notice that I often refer to *Xinhua* – the Chinese official news agency. In short, I am well aware that the Chinese media coverage often reflects government propaganda. Moreover, although media in Japan and the Philippines is not state-controlled, newspaper coverage in these countries is also biased in favor of their territorial claims. As Linus Hagström emphasizes - data presented about territorial disputes “tend to get entwined with interpretations right from the outset (Hagström, 2012: 270)”. However, since I use the newspapers coverage as presenting perceptions and arguments of each sides, the use of newspaper sources is valid in this case.

In terms of secondary sources, such as journal articles and books, I have used influential scholars such as Alistair Ian Johnson, James Manicom, Jessica Chen Weiss, Linus Hagström, Paul Midford etc.

4.3.4 In-depth interviews and public opinion polls

The written material is supplemented with three in-depth interviews with diplomats, two from Japan and one from the Philippines¹¹. I have also had some e-mail communication with foreign policy analysts. Since my aim is to identify and explain the Philippines' and Japan's perceptions and strategies, the interviews provided valid data. However, none of the informants were comfortable with being recorded, referring to the sensitivity of the issues. Therefore, I took notes and have paraphrased the interviews.

The first interview was conducted with a high-ranking diplomat at the Philippine Embassy in Oslo, and is referenced as “Philippine diplomat, January 2015”. The second interview was conducted at the Japanese Embassy in Oslo, and is referenced as “Japanese diplomat, February 2015”. The third interview was “off-record”, meaning that the anonymous high-ranking Japanese diplomat started the interview by saying his views did not represent Japan's official stand. I refer to the interview as “Japanese diplomat, March 2015”. It is important to

¹¹ My attempts of getting interviews with Chinese diplomats were unfortunately unsuccessful.

clarify that this is the personal opinions of *one* anonymous Japanese diplomat, but might reflect the off-the-record view of the Japanese government. The informants' perceptions of China are also supplemented with public opinion polls, demonstrating public perceptions of China in Japan and the Philippines.

4.3.5. The remainder of the study

The remainder of the study is divided in three case studies. The first case outlines the impact of the alleged rare earth mineral embargo against Japan in 2010 and analyzes Japan's strategy toward China in the aftermath of the 2010 tensions. The second case contrasts the economic effect of sanctions against Japan in 2010 and 2012, and analyzes Japan's strategy toward China after the 2012 tensions. The third case demonstrates the economic impact of sanctions against the Philippines after the Scarborough Shoal standoff in 2012 and analyzes the Philippines' military and diplomatic strategies towards China after the tensions. The last concluding chapter discusses if China's sanctions in relation to territorial disputes can be deemed successful.

More generally, these cases present how regional states react towards the region's rising superpower after political tensions have harmed economic links. The thesis is thus a contribution to the China rise discourse, but can also be relevant in understanding how regional powers react to rising powers in general.

CHAPTER 5: THE SENKAKU/DIAOYU ISLANDS

5.1 Overlapping territorial claims between China and Japan

The Senkaku/Diaoyu Islands are eight uninhabited islands situated in the ECS, between Taiwan and the southern part of the Ryukyu Islands of Japan (see map). During the Sino-Japanese War, Japan annexed the islands and in 1895 they incorporated the islands in the Okinawa prefecture. During and after WWII the islands were occupied by the U.S. and administrative control of the islands were returned to Japan in 1971-1972. At the time of the reversion, the Nixon administration took a neutral posture on the question of sovereignty likely because China had started to claim the islands and the Nixon administration prioritized Sino-American normalization (Hagström, 2005: 117-120; CSIS, 2015).

China and Taiwan protested the transfer to Japan in 1972 and claimed the island were historically a part of Chinese territory (named and used by the Ming Dynasty), which Japan had illegally annexed. Japan on the other hand claims the islands were *terra nullius* at the time of seizure in 1895 and that the reversion treaty in 1971 is validation of its sovereignty (CSIS, 2015). This means that both China and Japan claim the Senkaku/Diaoyu Islands on irredentist grounds. As of today Japan exercises administrative control of the islands (Manicom, 2014: 7).

Figure 1. Map of overlapping claims in the East China Sea



Source: (BBC, 28.11.2013).

5.1.1 The tangible value of maritime space surrounding the Senkaku/Diaoyu Islands
Both China and Japan are signatories of the United Nations Convention on the Law of the Sea (hereafter UNCLOS). UNCLOS does not determine sovereignty over land features, like islands and insular formations (Reichler, 2013). UNCLOS is important in this context because it defines territorial waters 12 nautical miles (hereafter nm) out from the coast, and entitles countries to exclusive economic zones (hereafter EEZ), which begins beyond the 12 nm territorial waters. An EEZ entitles countries to the right of exploiting both living resources; like fish, and non-living resources situated underneath the seabed; like oil, gas and minerals, within 200 nm of the coast. This means that sovereignty over islands can generate a 12 nm of territorial waters and 200 nm of EEZ (UNCLOS, 1982: 43-44).

Both Taiwan and China first officially challenged Japan's control by claiming sovereignty over the islands in 1971. This was after a 1969 UN-report (Hagström, 2005: 120; Manicom, 2014: 43) stated; "A high probability exists that the continental shelf between Taiwan and Japan may be one of the most prolific oil reservoirs in the world" (Emery et al., 1969: 41). An EEZ from the islands could *potentially* mean the right to explore large hydrocarbon reservoirs. However, China does not claim an EEZ from the islands, but from the 1990s China's historical claim to the islands has been supplemented with a geological argument stressing the "natural prolongation" of their continental shelf. Under UNCLOS, they argue that the Senakaku/Diaoyu Islands "rest on the East China Sea continental shelf, and that the Okinawa Trough [a seabed feature] separates them from the Japanese continental shelf and the Ruykyu archipelago". Consequently, they claim that the islands naturally belong to them (Hagström, 2005: 120). Furthermore, Japan states that China's assertiveness after the 1969 report is evidence that China is only interested in the resources around the islands (Japanese diplomat, February 2015), although China denies this. Japan however, claims an EEZ for the islands, but so far they have calculated their mid-line claim from the Ruykyu Island chain (see map)¹². Moreover, they stress that the continental shelf between China and Japan also should be divided in line with the mid-line principle. China however, does not recognize Japan's mid-line claims in the ECS (Hagström, 2005: 120; Manicom, 2014: 7). This means that in addition to overlapping territorial sovereignty claims to the Senkaku/Diaoyu islands, China and Japan have overlapping claims to maritime space in the ECS.

¹² When maritime claims overlap, a median line can be drawn half-way between the coasts of the claimants (UNCLOS, 1982: 30).

5.2.1 The intangible value of the Senkaku/Diaoyu Islands

Both countries are greatly affected by domestic political reflections when handling the territorial dispute (Manicom, 2014: 2). Nationalist sentiments is a paramount explanation variable when it comes to Sino – Japanese relations in general, and the Senkaku/Diaoyu dispute specifically (Manicom, 2014: 60). In China, anti-Japan aversion is a historic legacy. Beijing keeps on persisting that Tokyo has not recognized or apologized satisfactorily for its imperial past and that they are playing down atrocities such as the Nanjing massacre during WWII. Furthermore, nationalism is a strong legitimizer to the Communist Party and resisting Japanese imperialism is at the heart of national history. From elementary school, Chinese children are fed a patriotic, anti-Japanese diet and anti-Japanese movies and programs are widespread. This is an important explanation for why the strength in anti-Japanese sentiments, also among young Chinese, has not decreased dramatically in spite of the WWII becoming a remote memory (Christensen, 2003: 27 & 28).

Anti-China sentiments in relation to the Senkaku/Diaoyu Islands are also widespread in Japan. Tokyo has been pressured by domestic nationalist groups to take a tough stand in the island dispute. However, in recent years anti-China sentiments has also become a widespread sentiment among Japanese elites and public (Manicom, 2014: 60). To sum up, the Senkaku/Diaoyu Islands are a significant nationalist symbol in Sino-Japanese relations, and Manicom argues that even disputed maritime space have started generating the same heat as the islands themselves (Manicom, 2014: 53).

CHAPTER 6: CASE 1, THE SENKAKU/DIAOYU TENSIONS IN 2010

The tensions that resulted in sanctions against Japan, started on 7th of September when a patrol vessel from the Japanese coastguard (hereafter JCG) discovered a Chinese trawler working about 6,4 nm from Senkaku/Diaoyu Islands. The JCG requested the trawler to leave. Instead of leaving, the fishing trawler collided with the patrol vessel and the trawler's skipper refused to stop for inspection when the JCG ordered it to. During the following chase, the trawler collided with a second patrol vessel before it was boarded. Japan claims the fishing boat deliberately rammed the two coastguard vessels¹³. Captain and crew were escorted to Ishigaki Island, and regional prosecutors on Ishigaki began preparing to press charges against captain Zhan for obstructing official duty and willful damage of public property (Hagström, 2012: 272; Weiss, 2014: 165). Tokyo claimed that they handled the episode according to domestic law, adhering to their well-known official stand regarding the Senkaku Islands; "the islands are the inherent territory of our country", "Japan exercises valid control" and "there exists no issue of territorial sovereignty that needs to be resolved" (as quoted in Hagström, 2012: 272).

When Chinese activists had landed on the islands in 2004, they were released quickly and without publicity and during the first period of tensions Beijing thought this precedence would apply to captain and crew (Weiss, 2014: 168). On September 13th, the trawler and crew were released. However, the captain was kept in detention. During the first period of the captain's prolonged, but initial detention (13th - 19th of September) Beijing took pains to stop grassroots attempts to marshal anti-Japanese demonstrations, especially on September 18th, the date of Japan's invasion of Manchuria in 1931. Moreover, local authorities stopped Chinese activists who tried to set sail for the islands. However, tensions escalated on 19th of September, when Japan extended the captain's initial detention for ten more days and kept on insisting that they handled the episode according to domestic law (and as such substantiating their administrative control over the islands). During the second period of detention, Beijing increased their show of resolve: they stopped bilateral exchanges, arrested for Japanese businessmen reportedly filming a military site and reportedly imposed an embargo on rare earth elements (Weiss, 2014: 165). "China demands that Japan immediately release the captain without any preconditions", a press release from the China's MFA said (Daozu,

¹³ Several videos of the collision is leaked on youtube, see for example: "Japan, China ship collision fuel tensions [video]". Retrieved 01.06.2015, from <https://www.youtube.com/watch?v=DbboWSHfHR8>

20.09.2010). Premier Wen Jiabao, threatened “further actions against Japan unless it released the trawler captain” (China Daily, 24.09.2010).

6.1 The embargo

“The Middle East has oil and China has rare earths” - Deng Xiaoping, 1992 (as quoted in Brennan, 10.01.2013).

In the wake of the extended detention of Captain Zhan, international and national media coverage emphasized Beijing’s way of putting pressure on Tokyo by imposing an embargo on a Japanese vital economic interest – rare earth minerals/elements (hereafter REE)¹⁴.

According to the U.S. Geological Survey, China accounted for 97 percent of the world’s production of these elements from 2005 to 2010 (UNCTAD, 2014: 11). In 2010, Japan was the largest importer of Chinese REE, importing more than 33 percent (King & Armstrong, 18.08.2013). According to one scholar, the REE embargo aggravated tensions (Smith, 2012: 370). The New York Times (hereafter NYT) described the embargo as a punitive measure against Japan for not releasing Captain Zhan. Furthermore, the NYT emphasized a causal link between the embargo and the release of Captain Zhan; “Japan quickly released the captain after China engaged in what Japanese officials described as economic warfare”. According to the NYT, the embargo lasted for two months, from 21st of September to 19th of November (despite the release of Captain Zhan on 24th of September) (Bradsher, 19.11.2010). Also Japan’s national English-language newspaper, the Japan Times, reported that shipments of REE to Japan was halted from September until late November, held up in Chinese ports by paperwork and inspections. First on 24th of November, did Minister of Economy, Trade and Industry, Akihiro Ohata, announce that China finally had released two shipments of REE (Kyodo, 25.11.2010).

The China Daily in contrast, reported a Chinese Ministry of Commerce spokesperson of saying that China had “not issued any measures intended to restrict rare earth exports to Japan”. Furthermore, the spokesperson did not know how the NYT came up with this.

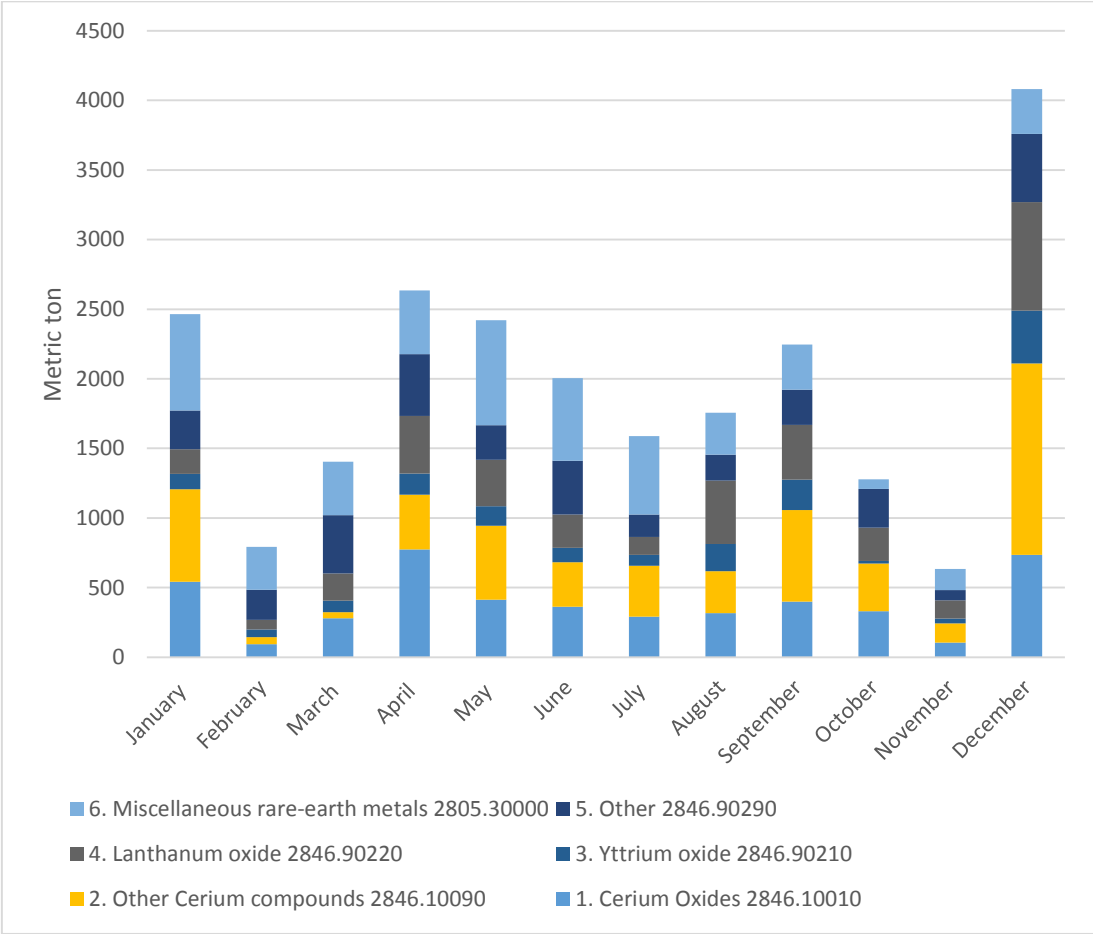
Moreover, a rare earths expert at Asian Metal’s was quoted saying that “rare earths export quotas were cut pretty sharply and have been basically used up” and that China also was

¹⁴ There are 17 REE, which can be grouped into 15 lanthanides (a series of chemical elements), and Scandium and Yttrium (chemically similar to lanthanides). REE are crucial in people’s everyday life because of their large range of uses. Several countries define them as critical raw materials because of their essential significance in the making of high-tech products, military products and sustainable energy technologies (UNCTAD, 2014: 5).

unable to export REE to Europe and the U.S.; “People think it's about Japan, but it isn't” (China Daily, 24.09.2010).

Both the NYT and Japan Times, linked the export ban to the detention of Captain Zhan. However, there has been controversy if there in fact was an embargo and if it was; if it was meant as pressure to release the captain (King & Armstrong 18.08.2013; Hagström, 2012: 282; Johnston, 2013). Alastair Ian Johnston has analyzed import statistics to the four ports that handle the majority of rare earth imports in Japan. He argues that if Chinese leaders “ordered an embargo, it was a ragged one affecting rare earths and different Japanese ports differently (Johnston, 2013: 25)”. Furthermore he concludes that, “at the very least the data suggest that the conclusion about an embargo requires considerably more evidence than much of the media and pundit coverage has heretofore provided (Johnston, 2013: 26). In the figure on the next page, I present total Japanese imports of Chinese REE, according to Ministry of Finance Japan. Although Hagström and Johnston have questioned the embargo and the perceived linkage to the captain’s detention, Johnston has said that; “the rare earth embargo, if true, would constitute a new assertiveness because it threatened to impose much higher costs on a key Japanese economic interest (Johnston, 2013: 23)”.

Figure 2. Total Japanese imports of REE from China in 2010



Source: (Ministry of Finance Japan, 2015b)¹⁵.

The alleged embargo was reported to have lasted from 21st of September to 19th of November (Bradsher, 19.11.2010). Thus, we can first expect to see drop in imports in October. Although there is a slowdown in October and a greater slowdown in November, REE imports made its way from China to Japan. The word “embargo” would however indicate that all REE were blocked. It is thus misleading to call the general slowdown in October and November “an embargo”. February also see low imports, but this is probably due to Chinese New Year¹⁶. Japanese statistics do not give obvious indications of an embargo, but there is a significant slowdown in imports in October, and especially in November. Was the slowdown in October/November a punitive measure?

¹⁵ The Ministry of Finance Japan divides rare earth elements into 6 categories. The harmonized tariff codes is included in figure 1, which makes the data comparable with REE data from other countries (Ministry of Finance Japan, 2015a).

¹⁶ The reader will sometimes notice the same pattern in other trade statistics.

6.2 What do the rare earth statistics indicate?

Hagström cites various newspaper articles in Japanese, Chinese and international media which demonstrates that Beijing had announced, several weeks before the boat collision, that it would lower its exports of REE in late 2010 (Hagström, 2012: 282). Moreover, on August 21st, 17 days before trawler tensions and one month before the alleged embargo, Japan Times published an article entitled “China rare-earth export curbs hit”. The article reported that China had announced it would cut its export ceiling to Japan to 8,000 metric tons in the second half of 2010, approximately 70 percent down from the same period in 2009 (Japan Times, 21.08.2010). According to Chinese export data (UN Comtrade, 2015b), China exported 8403 tons to Japan the last 6 months of 2010 - 403 metric tons more than Japan Times announced. More interesting, Ministry of Finance Japan reported REE imports of 11 585 tons the last 6 months in 2010 - 3585 tons more than China announced 17 days before tension. This implies that according to both Japanese and Chinese statistics, there is no overall impact on volume the last six months of 2010. Nevertheless, even a slowdown can have an economic impact if it disrupts Japanese industry.

6.3 Comparisons of Japan’s imports of rare earth minerals in 2010 and 2011

Comparing Japan’s imports of REE in 2010 with 2009 and 2011 imports would provide a better basis for saying whether trade during October and November 2010 was abnormal. UN Comtrade monthly statistics have been utilized¹⁷. UN Comtrade classify REE in three categories: “cerium compounds”, “other REE” and “scandium and yttrium”. They report monthly statistics from 2010 and onwards, thus comparisons are between 2010 and 2011. Since China reported they would restrict REE exports in general in 2011 (Wall Street Journal, 29.12.2010), and Japan started to diversify its imports due to the slowdown, we can expect overall imports to be *lower* in 2011 compared to 2010. Thus, if imports of REE were abnormally low in October and November 2010, imports should be even lower compared to these same months in 2011.

Moreover, if the trend in China’s REE exports to other export destinations resembled the trend in exports to Japan in 2010 there is less reason to conclude that the REE slowdown in

¹⁷ Since the author lost access to Ministry of Finance Japan’s REE imports statistics, UN Comtrade statistics have been utilized. UN Comtrade statistics classify rare earths in three categories – “cerium compounds (2846.10)”, “other REE (2846.90)”, “scandium and yttrium (2805.30)”. These categories have six digit harmonized trade tariff codes. The author has checked that the categories include the same REE data as the Ministry of Finance Japan. They are just less detailed, which makes sense since Ministry of Finance Japan reports Japanese trade statistics to UN Comtrade (UN Comtrade, 2015a). However, UN Comtrade statistics are less detailed since the Ministry of Finance Japan uses nine digit harmonized trade tariff codes.

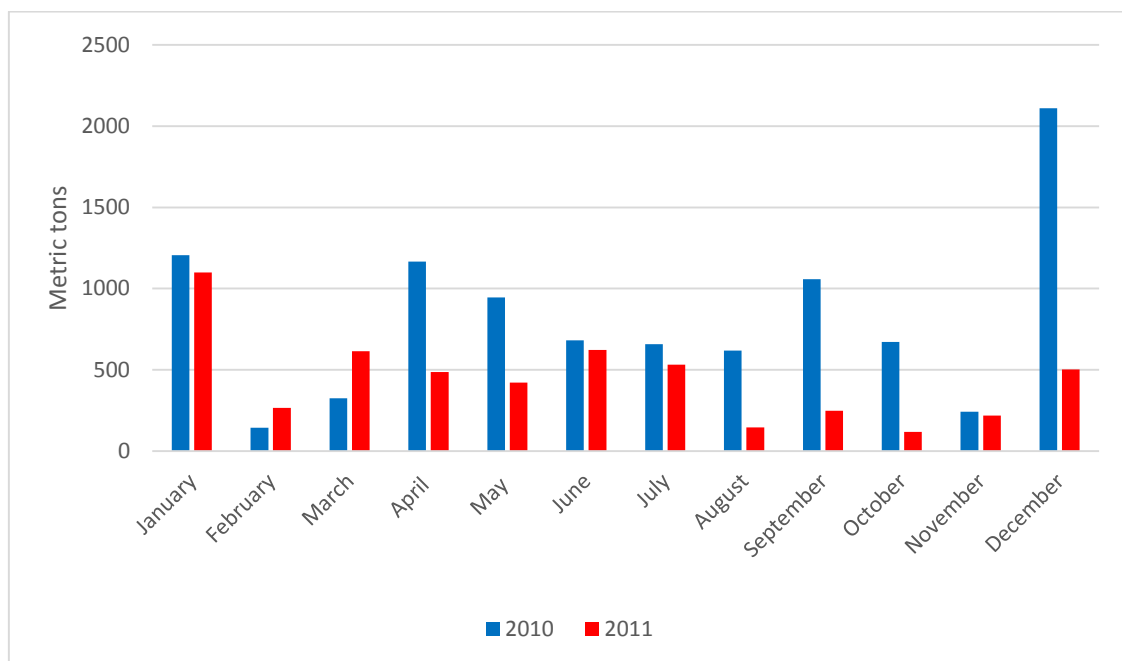
October and November was a punitive measure. In 2010, Japan and the U.S were China's largest importers of REE in quantities and as such the U.S is the most viable country to compare with. If the slowdown was not due to heightened tensions in the ECS, we should spot a similar slowdown in exports to the U.S¹⁸ in October¹⁹ and November 2010.

¹⁸ U.S. has not reported their imports of REE in quantities, and since rare earth prices skyrocketed in the late 2010 (UNCTAD, 2014: 28), it makes little sense to show the trend in value. However, the General Administration of Customs of China's Statistics Department, reported monthly REE exports for 2010 in quantities to UN Comtrade (UN Comtrade, 2015a).

¹⁹ It is worth noting that NYT reported that REE exports to Europe and U.S., were briefly suspended in the end of October (Bradsher, 19.11.2010).

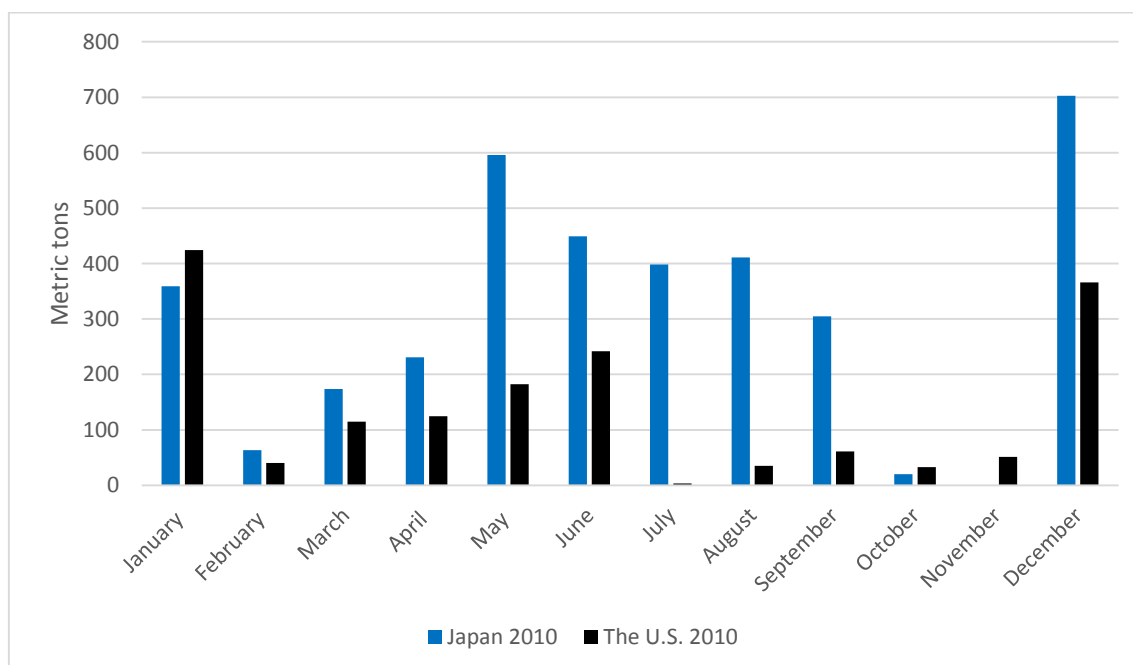
6.3.1 Japan's imports of category one, "cerium compounds"

Figure 3. Japan's imports of "cerium compounds" from China in 2010 and 2011



Source: (UN Comtrade, 2015b).

Figure 4. China's exports of "cerium compounds" to Japan and the U.S. in 2010



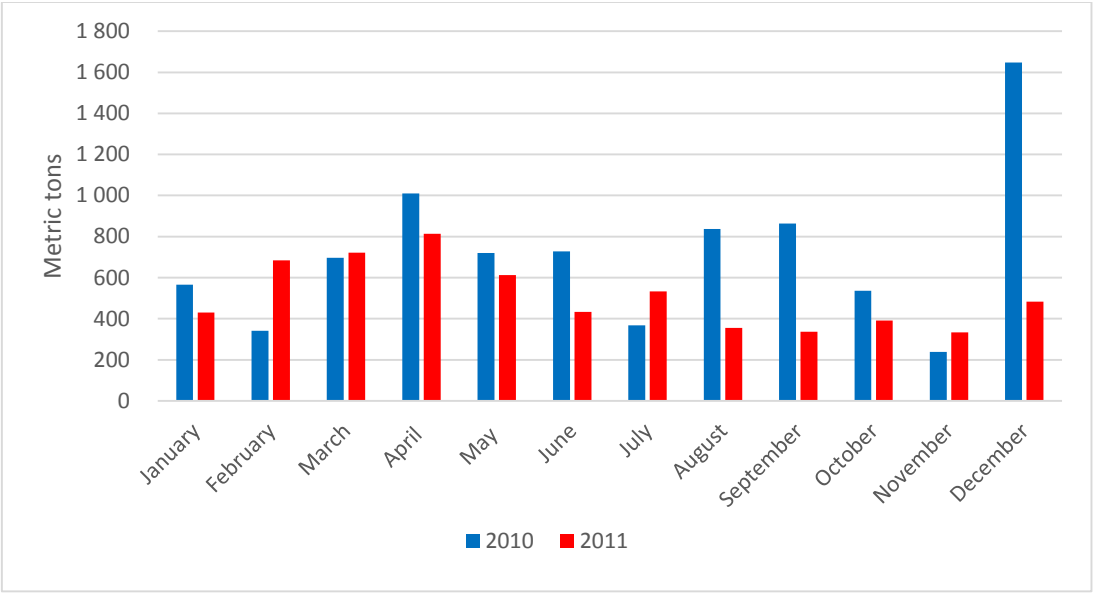
Source: (UN Comtrade, 2015b).

As expected, imports of “cerium compounds” were lower in 2011 compared to 2010. Japan imported about 4500 tons less in 2011 compared to 2010. Imports in October 2010 were not abnormally low compared to imports in October 2011 which were lower. Moreover, imports in November 2010 were similar with imports in November 2011. However, very high imports in December 2010 compared to December 2011 could indicate that “cerium compounds” were piling up at Chinese ports in October and November 2010 and shipped to Japan in the end of November and in December 2010 in line with the reported length of the embargo.

The trend is quite similar in China’s exports of “cerium compounds” to the U.S and Japan in 2010, although Japan by far was the largest export destination. Although Japan was the largest export destination, China reported lower exports to Japan in October 2010 than to the U.S. Moreover, export data is missing for Japan in November 2010. This could have indicated that China was trying to conceal an embargo of “cerium compounds” (Figure 4). However, missing data does not necessarily equal no exports, and Japan reported imports of 242 tons of “cerium compounds” from China in November 2010 (Figure 3). Moreover, both exports to Japan and the U.S increased significantly in December 2010, and as such there is less basis to conclude that “cerium compounds” to Japan specifically, were piling up at Chinese ports.

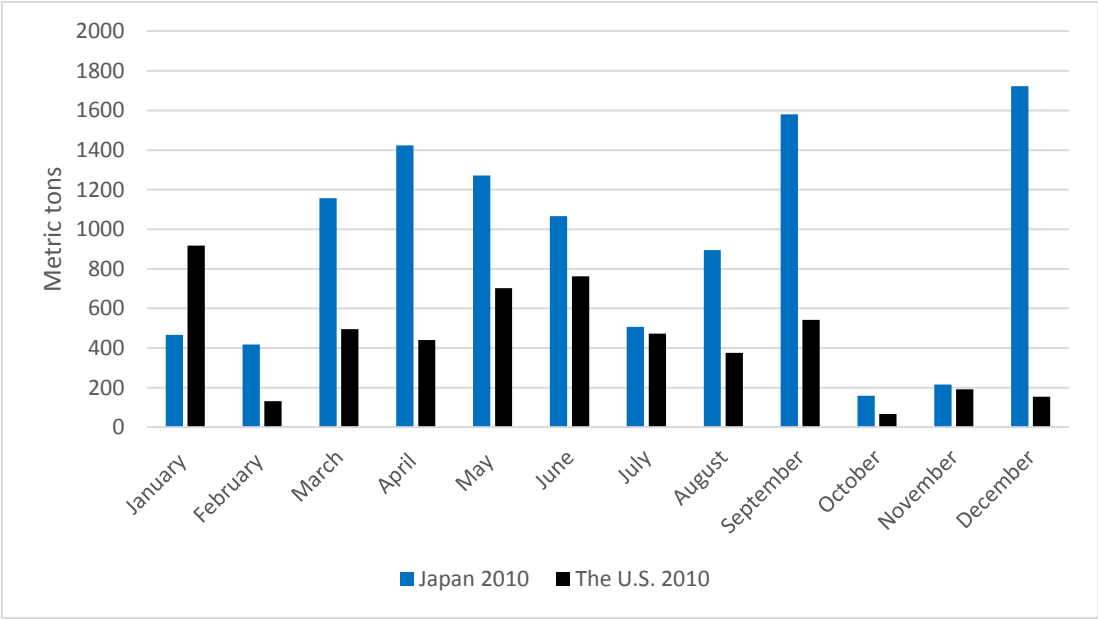
6.3.2 Japan’s imports of category two, “other REE”

Figure 5. Japan’s imports of “other REE” from China in 2010 and 2011



Source: (UN Comtrade, 2015b).

Figure 6. China’s exports of “other REE” to Japan & U.S. in 2010



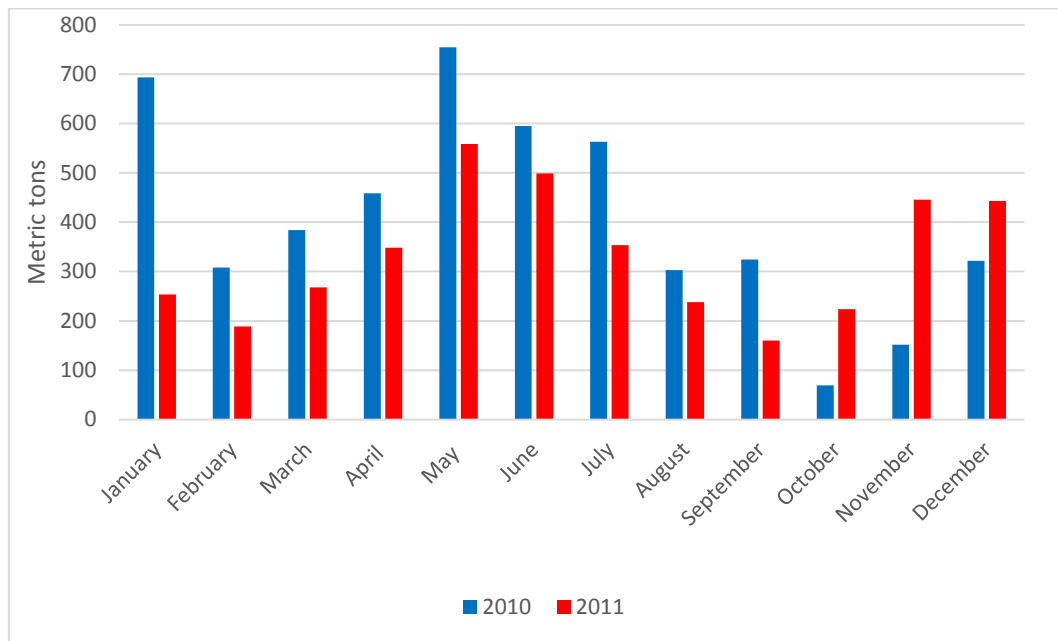
Source: (UN Comtrade, 2015b).

Japan's imported 2400 tons less of "other REE" in 2011 compared to 2010. Imports in October 2010 were higher than imports in October 2011, while imports in November 2010 were a bit lower than imports in November 2011. Compared to the other months in 2010/2011 this was not abnormal. However, similar with imports of "cerium compounds" there was a significant increase in imports of "other REE" in December 2010 compared to December 2011, which again could indicate that REE were piling up at Chinese ports.

Similar with exports of "cerium compounds" Japan was by far China's largest export destination of "other REE", compared to the U.S. Moreover, although exports to Japan in October 2010 were low, they were still three times higher than to the U.S. However, exports in November 2010 were only slightly higher to Japan, compared to the U.S., which does stand in contrast to the other months in 2010. Moreover, the increase in exports to Japan in December 2010 was very high compared to exports to the U.S., which could imply that "other REE" meant for Japan were in fact piling up at Chinese ports in October and November 2010 (Figure 6). Moreover, this is in line with Japan reporting high imports in December 2010 compared to December 2011 (Figure 5).

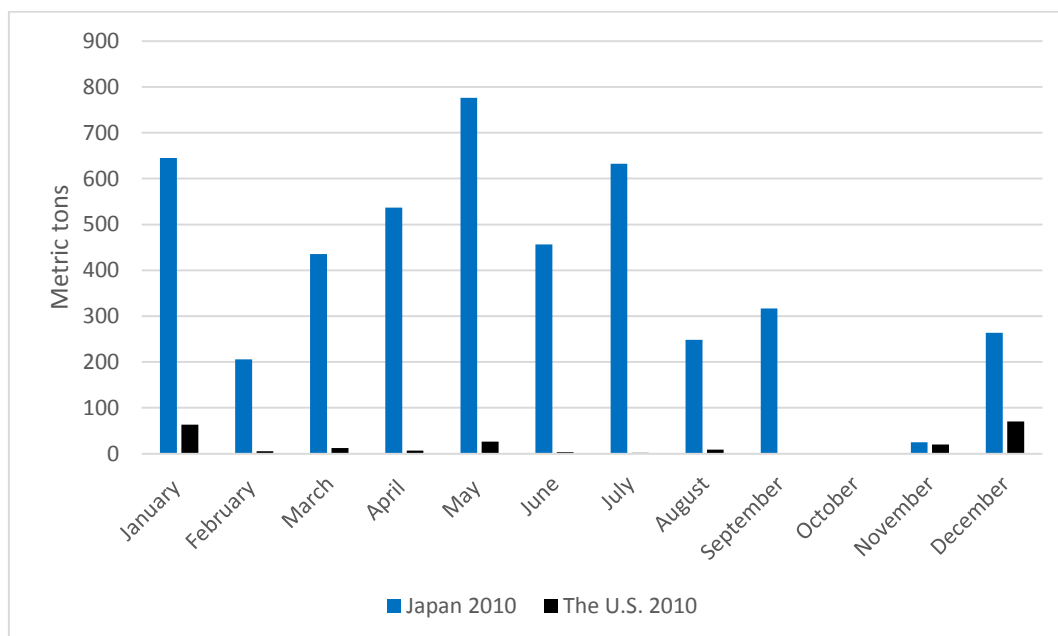
6.3.3 Japan's imports of category three, "scandium and yttrium"

Figure 7. Japan's imports of "scandium and yttrium" from China in 2010 and 2011



Source: (UN Comtrade, 2015b).

Figure 8. China's exports of "scandium & yttrium" to Japan & U.S in 2010



Source: (UN Comtrade, 2015b).

Japan imported about 1000 metric tons less of “scandium and yttrium” in 2011 compared to 2010. Imports were lower from January until September 2011 compared to these same months in 2010. “Scandium and yttrium”, stands out from the other two categories, in that imports in October and November 2010 seem abnormally low, compared to imports in October and November 2011. Japan imported only 69 metric tons of “scandium and yttrium in October 2010, what Ministry of Finance classify as “miscellaneous rare earth”, compared to 224 metric tons in October 2011. Johnston also found that “what the Japanese call a miscellaneous category of rare earths” see an “across-the-board” decline in October 2010 (Johnston, 2013: 25). Although imports increased from 69 tons in October to 151 tons in November 2010, imports in November 2010 were still three times lower compared to imports in November 2011 (Figure 7).

Overall exports of “scandium and yttrium” to the U.S in 2010 was almost non-existent²⁰. The drop in exports to Japan in October and November 2010 thus becomes obvious. China did not report export data for Japan in October. This coincides with Japan reporting that they imported 69 metric tons of “scandium and yttrium” in October 2010, which perhaps could be a shipment from September entering Japanese customs in October? This provides a better basis for saying that for one category – “scandium and yttrium” – imports were abnormally low, in October 2010. In line with NYT, the statistics could actually indicate an embargo of “scandium and yttrium” from late September, ending in November.

6.4 A successful perceived sanction?

Overall, the statistics do not give an obvious indication of an embargo. However, there was a slowdown in October and November, and various categories of REE were affected differently. The statistics on “scandium and yttrium” indicated that there perhaps was an embargo on this particular category of REE from late September to November. Moreover, when comparing Japanese imports in 2010 and 2011, and Chinese exports to Japan and the U.S in 2010, Japanese imports in December 2010 was abnormally high, which could indicate that REE were piling up in Chinese ports in October and November 2010. Hence, although there was no impact on overall volume, the pattern of Japanese imports would perhaps have more evenly distributed - between October, November and December - if it was not for tensions.

²⁰ Data is missing for the U.S. in September and October. June and July look like missing months, but the export numbers were just very low.

Importantly, although there was a slowdown, and the slowdown correlated with tensions, this does not provide a causal linkage to the slowdown being as a punitive measure against Japan for not releasing captain Zhan. Moreover, if the overall slowdown was directly linked to the detention, the effect came after Japan had complied with China's original demand and released Zhan (24th of September). The drop in October and November might have been a delayed reaction to an "embargo" in September, or perhaps there really was not any connection. In my conversations with a Japanese diplomat, he stated that the REE "embargo" was "a minor incident", and his perception was that it was not a sanction from the Chinese side, but industrial policy (Japanese diplomat, February 2015).

However, captain Zhan was released after national and international media reported the embargo, and if Japanese officials perceived the "embargo" as pressure - Zhan's release can have been a consequence of this pressure. Sino-Japanese analyst Stephen Nagy, said that Japanese Embassy officials in Beijing did provide evidence that there was an embargo, although it was not vocalized on the Chinese side as such (personal communication, Stephen Nagy). Hence, a perceived embargo can have contributed to the release of Zhan, and as such it can be described as a successful sanction. Importantly, China also subjected Japan to other forms of pressure. Most notably, the arrest of the four Japanese businessmen were widely perceived in Japanese and international media as retaliation for the captains detention²¹ (Hagström, 2012: 281). Moreover, on the morning of the day Zhan was released two Chinese law enforcement vessels appeared close to the Senkaku/Diaoyu islands (Weiss, 2014: 176). Especially the fate of the arrested Japanese employees (which got extensive media coverage in Japan) might have contributed to the release.

6.5 In the aftermath of the rare earth mineral slowdown

Lower exports of REE from China did create an adjustment process for Japan. Although my informant did not view the "embargo" as a punitive measure, he acknowledged that a direct consequence was that Japan started to diversify its imports (Japanese diplomat, February 2015). Different alternatives were extensively discussed in the Japanese media after the perceived embargo. Japan started to consider recycling REE and establishing partnerships, to develop mines, in several countries. For example the Japanese government and Mitsubishi Corp started to explore REE alternatives in Mongolia, Myanmar and the ECS (personal communication, Stephen Nagy; Kyodo, 25.11.2010).

²¹ Although Hagström question if it was retaliation as the four Japanese businessmen did enter and videotape a restricted military zone (Hagström, 2012: 281).

6.5.1 World Trade Organization complaint

A sign of Japan trying to avoid further tensions is the fact that they did not lodge a complaint to the WTO in the wake of the REE slowdown. However, my informant described this as evidence that there was no embargo and that Japan would have gone to the WTO if the export ban was a sanction (Japanese diplomat, February 2015). However, it is easier to join a complaint when other leading industrialized economies take the initiative. In March 2012, Japan joined the EU and the U.S. in a joint complaint over Chinese restrictions on REE exports. This was the first time Japan filed a trade dispute with China to the WTO. Japan Times announced that Japan had abstained from complaining earlier because they feared it would create “friction in bilateral business and diplomatic relations with China”. Moreover, they described the suspension of REE following the September 2010 collision as one of the main reasons Japan joined the complaint in March 2012 (Japan Times, 27.03.2012). The complaint did not mention China using restrictions in order to put political pressure on Japan. It stated that Chinese restrictions on REE was against WTO rules because the intention was to boost domestic Chinese industries by providing them preferential access to the materials. China on the other hand argued that restrictions were linked to preservation of exhaustible REE and were essential to reduce pollution due to mining. Consequently, China claimed the restrictions were in agreement with WTO rules (WTO, 2014).

6.5.2 A successful asymmetric “sanction”?

In the short-term, the economic effect of the slowdown was asymmetric. It created an adjustment process for Japanese industry while China could enjoy that REE prices skyrocketed, in part because of export restrictions, from late 2010 to mid-2011 (UNCTAD, 2014: 28). However, in 2014, the WTO panel concluded “that China's export quotas were designed to achieve industrial policy goals rather than conservation” (as quoted in Nikkei, 27.03.2014). Moreover, since the immediate effect of the perceived embargo (and restrictions in general) was that Japan (and other countries) started a long-term “balancing” strategy against their reliance on Chinese REE by diversifying imports, China’s monopoly of the materials declined. Thus, while China wanted to promote their domestic manufacturing, Japan and other countries instead sought alternative REE sources. Moreover, after the WTO ruling, China dropped their restriction/quota-policy (Yap, 05.01.2015). Thus, the long-term effect of restrictions was seemingly not as successful as China probably wished.

CHAPTER 7: JAPAN'S STRATEGY TOWARDS CHINA AFTER THE SENKAKU DIAOYU 2010 CONFRONTATION

Scholars and Beijing have interpreted the detention of Zhan as a measure stronger than what one would have expected before (Hagström, 2012: 283, Weiss, 2014: 168). Still, three days after the alleged embargo was reported and soon after the Japanese businessmen were arrested, politicians were accused of intervening in the process and contributing to the release of the captain. The prosecutor's office in Ishigaki, who was preparing to press charges, stated that: "considering the impact on the people of our country and the future of Japan-China relations we judged that it would not be appropriate to continue the investigation any further while keeping the person in custody (as quoted in Hagström, 2012: 273)". The release of Zhan, while referring to the importance of Sino-Japanese relations, is definitively an implication of an appeasing approach.

One day after the release, Beijing demanded an apology and compensation for the detention. However, Tokyo rejected the request as "totally unacceptable" and counter-demanded an apology and compensation for damage done to its patrol vessels (Rosenbluth, 2011: 51; Hagström, 2012: 273)". Beijing did not press the demand for an apology and compensation after Tokyo's response (Weiss, 2014: 176), and on September 30th they released three of four Japanese businessmen. However, despite of these developments, the territorial issue remained bitter, and the real turn around in relations came later. Anti-Japanese protests, which Beijing had prevented in September, broke out in October. However, Beijing tried and managed to reduce the protests (Weiss, 2014: 165, 187). Tensions were starting to ease when Premier Wen and Prime Minister, Naoto Kan, met informally in Brussel on October 4th, and both abstained from pressing the issue of an apology or compensation. The fourth businessman was released on 9th of October (Weiss, 2014: 176)²².

Moreover, statistics on general economic links after the September 2010 tensions and after the 2012 tensions (which are contrasted in the next case study) demonstrates that it was business as usual despite heightened tensions. Before the analysis of overall trade and tourism statistics, the following chapter outlines Japan's strategy towards China after the September collision.

²² That tensions started to ease in October, partly questions if the prolonged REE slowdown (especially in November) was a punitive measure.

7.1 Japanese perceptions of China

“For many Japanese, the idea of compromising with China seems less attractive as concerns about Chinese behavior have grown (Smith, 2012: 374).”

“Japanese public opinion supports resisting China’s threatening actions around the Senkaku/Diaoyutai Islands (Inoguchi, 2014: 104).”

Japan’s policy toward China in the aftermath of tensions can be explained by public and elite perceptions of China in the wake of the collision. In a “Yomiuri Shimbun” poll, conducted between 1-3rd of October 2010²³, 72 percent answered that it was “not appropriate”, to release Zhan and not press charges, “taking into consideration the future of Japan-China relations. Of those who answered “not appropriate”, 41 percent thought it was not appropriate because “it provides the impression that Japan will back down if pressure is applied” and 14 percent said it would “strengthen China’s sovereignty claims to the islands”. Furthermore, 94 percent said they did “not accept” the request from China of an apology and compensation following the release of the boat captain and 90 percent thought the Japanese government should “lay precise claim to the international community that the Senkaku Islands are Japanese territory”. Moreover, 84 percent distrusted China (as translated in The Mansfield Foundation, 2010)

Clearly, public opinion did not favor an appeasing approach towards China over the territorial dispute after tensions in September 2010. Despite the fact that they were asked to take “into consideration the future of Japan-China relations”, most of the respondents disagreed with the Kan Cabinet’s decision to release Zhan, and there was almost a consensus to strengthen Japan’s territorial claims to the islands. Policy makers’ perception of China were also influenced by the incident. They expressed their wariness of China’s capabilities and intentions in the December 2010 National Defense Program Guidelines (hereafter NDPG 2010), the most authoritative document of Japanese defense policy:

(...) China is widely and rapidly modernizing its military force, mainly its nuclear and missile force as well as navy and air force, and is strengthening its capability for extended-range power projection. In addition, China has been expanding and intensifying its maritime activities in the surrounding waters. These trends, together with insufficient transparency over China’s military forces and its security policy, are of concern for the regional and global community – National Defense Program Guidelines for FY 2011 and beyond (2010: 4)

²³ In contrast, 19 percent thought it was “appropriate” to release Zhan.

7.2 Internal balancing moves – submarine build-up and changed defense posture

In line with the Japanese public and policy makers growing wariness of China, the DPJ administration began internal military balancing moves directed toward maritime disputes with China after September 2010 tensions. One month after the collision the Ministry of Defense stated that Japan needed a bigger submarine force in order to “reinforce its vigilance in nearby waters, especially the ECS”. Consequently, the fleet would expand from 16 to 22 submarines. The plan reflected, “Japan’s growing wariness of China” following the boat-captain incident, and was the first time Japan decided to expand its fleet since 1976 (Kyodo, 21.10.2010). The submarine increase was clearly aimed at China, and a key weakness of the Chinese navy - a lack of anti-submarine warfare assets (Midford, 2015: 14).

The December 2010 NDPG, was the first time a Japanese NDPG focused on a China threat (Midford, 2015: 13). Most importantly in dealing with China in general and the disputed islands specifically, Japan changed its defense doctrine by “abandoning the Basic Defense Force (BDF) concept in favor of a Dynamic Defense Force (DDF) concept” as a way to counter China’s expansion on the EEZ borderline and territorial issues in the ECS (Grønning, 2014: 4). The DDF would be characterized by “readiness, mobility, flexibility, sustainability, and versatility (Ministry of Defense, 2010: 7)”. Moreover, the DDF breaks with Japan’s traditional defense posture distinguished by “heavy counter invasion land forces” north in Japan (Grønning, 2014: 4). The new defense posture would prioritize strengthening “ISR [Intelligence, Surveillance, and Reconnaissance], maritime patrol, air defense, response to ballistic missile attacks, transportation, and command communications, including in the southwestern region (Ministry of Defense, 2010: 13)”. According to one scholar; “an obvious attempt to counterbalance Chinese military power” in the southwestern maritime area (Grønning, 2014: 4).

The Kan administration also moved to increase Japan’s military presence in the ECS by deploying Ground Self-Defense Forces (GSDF) on the Yonaguni, the island nearest the Senkaku/Diaoyu Islands (Midford, 2013: 186). The base on Yonaguni will be completed by the end of 2015, and about 150 troops of GSDFs will be stationed at a radar station for “coastal observation purposes” (Shisui, 23.02.2015). All these moves have lead Japan’s SDF to change its deployment and posture towards avoiding being surprised by Chinese troops. As Paul Midford argues:

Undoubtedly the scenario that was keeping Japanese defense planners and DPJ ministers awake at night was awaking the next morning to discover that Chinese troops had landed undetected on the Senkaku Islands, thus presenting Japan with the unpalatable choice of accepting this *fait accompli*, or undertaking major combat with the risk of escalation into war to retake the islands – Paul Midford (2015: 14)

7.3 External balancing moves - moving closer to the United States

“We are very close to the U.S. At this moment the U.S. is protecting us (Japanese diplomat, February 2015)”.

Japan’s internal balancing moves were accompanied with external balancing moves directed towards countering, what the NDPG described as a more “active” China in the maritime domain. The 2010 tensions lead Kan, and later prime ministers to develop a China strategy characterized by pro U.S. policies (Inoguchi, 2013: 191). The 2010 NDPG emphasized the strengthening of the U.S. – Japan security alliance, in order to adapt to the “evolving security environment” (Ministry of Defense, 2010: 8). About two weeks after the collision, the Kan cabinet got the strongest U.S. promise to date to defend the Senkakus/Diaoyus. American secretary of state, Hillary Clinton, said: “the disputed Senkaku Islands in the East China Sea are covered by the Japan-U.S. security pact (Japan Times, 25.10.2010)”.

The Japanese public supported policy makers’ decision to move closer to the U.S. In a Yomiuru poll in October 2010, 71 percent answered that Japan “should deepen its alliance with the U.S. to address issues surrounding the Senkaku Islands in the future²⁴ (as translated in The Mansfield Foundation, 2010)”. At the same time as perceptions of China had hit a new low, trust in the U.S. soared to new heights among the Japanese public, after the U.S. military carried out successful rescue operations, “Operation Tomodachi (Friends)” after the triple disaster (earthquake, tsunami and nuclear emergency) in March 2011 (Inoguchi, 2013: 191). However, relations with China also improved in this period and China did send a search and rescue team to Japan. The group was not large in number, but it was the first team to Japan to aid in disaster relief (Bergman, 14.03.2011).

Following these developments in U.S. – Japan relations was a joint statement by the Japan-US Security Consultative Committee²⁵ (SCC) issued in June 2011, entitled “Toward a Deeper and Broader U.S.-Japan Alliance: Building on 50 Years of Partnership”. Similarly with the 2010

²⁴ In contrast, 19 percent answered it was “not necessary” do deepen the U.S. – Japan alliance.

²⁵ The SCC is also called the two-plus-two and is composed of secretaries of state and defense in the U.S. and their Japanese equivalents.

NDPG, the SCC recognized the challenges posed by the “increasingly uncertain security environment” which included “the expanding military capabilities and activities” in the East Asian region (Clinton et al., 2011: 2). The updated “strategic objectives” explicitly mentioned that China should take “a responsible and constructive role in the region”, “adhere to international norms” and “improve transparency” in relation to its “military modernization and activities” (Clinton et al., 2011: 4). This was the first time the SCC used specific language on China (Grønning, 2014: 7). An example of more definite policy measure Japan took to deepen the alliance was the selection of the American F-35 as their next fighter aircraft over alternatives (Inoguchi, 2013: 191).

CHAPTER 8, CASE 2: THE SENKAKU/DIAOYU TENSIONS IN 2012

Tensions over the islands were largely quiet after September 2010 tensions and until April 2012, when Tokyo Governor, Shintaro Ishihara, openly criticized the DPJ government for not ensuring successful control over the islands. Ishihara threatened to buy three Senkaku/Diaoyu islands from their private Japanese owner and thus “overturn the status-quo of Japanese non-occupation”, which the DPJ knew would arouse China (Midford, 2013: 188). In July 2012, the Noda administration announced that they considered to buy the islands under the conflict managing pretext that it was to prevent the controversial and nationalistic Ishihara from purchasing and developing them (Heberer, 2013: 122). Reportedly, Beijing told the Noda administration that if the government purchased the islands it would be an intolerable change in the status-quo (Katz, 2013). After the government announced purchase China’s Ministry of Foreign Affairs (hereafter MFA) spokesperson, Liu stated at a press briefing: “We cannot allow anyone to buy or sell China’s sacred territory”(People’s Daily, 10.07.2012).

The official tabloid Global Times warned that if Japan continued to seek to change the status-quo, China would take “strong countermeasures”. Beijing did not let popular forces unite for now, due to considerations of the relationship, however “if the government let them off the leash, popular sentiment defending the islands would be even stronger”. Furthermore, the article reminded of the “unprecedented countermeasures” China took after the September 2010 collision, which forced Japan to release the captain Zhan (Zhou, 10.07.2012). On 11th of July, three Chinese fishing patrol vessels entered the territorial waters around the islands (Penh, 11.07.2012).

On 15th of August, the landing of Chinese nationals on the Senkaku/Diaoyu demonstrated China’s claim to the islands and further increased tensions. They were arrested by the JCG. China’s Vice Foreign Minister, Fu Ying, called Japan’s ambassador in Beijing, Uichiro Niwa, and urged Japan to “immediately and unconditionally” release the activists (Li, 17.08.2012). Probably with the Zhan-blunder fresh in memory, the nationals were quickly deported. Four days later Japanese nationals counter-landed on the islands. Fu called Niwa again, this time to lodge a strong protest against the landing (Asahi Shimbun, 20.08.2012). The Japanese landing prompted the first wave of major protests in China. Demonstrators turned violent and burned Japanese flags and destroyed Japanese restaurants and Japanese branded cars (Kyodo, 20.08.2012). Angry anti – Japanese demonstrations spread across China’s major cities. BBC’s correspondent described the demonstrations as “almost certainly sanctioned from Chinese

authorities". The streets were well policed, still no one was arrested (BBC, 19.08.2012). Japan Times cited a Chinese newspaper poll saying that 63 percent of the respondents favored boycotting Japanese goods in opposition to Tokyo's territorial claims, and 55 percent would take direct actions to do so (Kyodo, 29.08.2012).

8.1 The nationalization

In late August, Japan sent their Vice Foreign Minister, Tsuyoshi Yamaguchi, to inform Beijing that the forthcoming purchase was a good way of safeguarding the "peaceful and stable maintenance" of the islands (Yamaguchi, 2013: 11). U.S. Secretary of State, Kurt Campbell, warned Japan that they had not engaged well with China on this sensitive issue, and told them not to go ahead with the purchase (Kyodo, 10.04.2013). Despite American warnings and above-mentioned threats that a nationalization would lead to "strong countermeasures" and affect economic links (indeed there had already been some boycotts), Japan did not avoid a new confrontation over the islands.

The announcement of the nationalization came on 10th of September, two days after President, Hu Jintao, had met with Prime Minister, Yoshihiko Noda, and told him that a nationalization was crossing a red line. Seemingly, Hu was enraged. The planned celebration of Sino-Japanese 40 years of normalization was cancelled and demonstrators assaulted Japanese factories and shops (Inoguchi, 2013: 191-192). Three days after the nationalization, China's Vice Minister of Commerce (hereafter MOC), Jiang Zengwei, stated: "the Japanese government's move to purchase the Diaoyu Islands will inevitably have a negative impact on Sino-Japan economic and trade ties". He saw it as within Chinese consumers' rights to express their opposition against Japan's "violation of China's territorial sovereignty (Xinhua, 13.09.2012)". This can be interpreted as encouraging Chinese consumers to boycott Japanese products and a warning of a lengthened boycott. The Asahi Shimbun interpreted Jiang and a Chinese MOC spokesperson, Shen Danyang, as saying that the Chinese government encouraged boycotts of Japanese products (Asahi Shimbun, 20.09.2012). Richard Katz' interpretation was that "Chinese boycotts of Japanese goods and anti-Japan demonstrations are at times encouraged by the Chinese government". Which in turn has led Tokyo to fear that Beijing is trying to "exploit Japan's reliance on China as an export market to squeeze Tokyo into making territorial concessions" (Katz, 2013).

On 14th of September, six Chinese surveillance ships were observed in Senkaku/Diaoyu waters. Beijing reported that the ships were conducting "law enforcement", reflecting China's jurisdiction over the Diaoyu islands. The incident further increased tensions (BBC,

14.09.2012). MOC spokesperson, Shen, announced that the ‘purchase’ would have severe impact on the discussions of a free trade agreement (Li, 20.09.2012), which conditions of, in July 2012 were described as right (Ding & Li, 05.07.2012). On 21st of September China National Tourism Administration (hereafter CNTA) issued a statement where they warned travelers planning to go to Japan and currently situated in Japan of “safety risks” (Xinhua, 22.09.2012). However, top Chinese travel agencies had already stopped arranging and advertising tours to Japan and gave travelers with booked tours full refund (Wang & Cang & Song & Li, 15.09.2012).

In order to improve ties with China, Japan was told to acknowledge that a territorial dispute exists and agree to a 12 nm no entry zone around the islands. However, Tokyo’s official position is that a territorial dispute does not exist, that the Senkakus are historically a part of Japan (Kyodo, 22.06.2013). Moreover, Japan was promised improved economic relations if they complied with China’s demands. MOC spokesperson, Shen, was quoted saying that “as long as Japan correct for its wrongdoing, there is actually great room for the long-term development of Sino-Japanese economic and trade relations (Li, 20.10.2012)”. How did tensions in 2010 and 2012 affect general Sino-Japanese economic links?

8.2 Contrasting the economic impact of Senkaku/Diaoyu tensions in 2010 and 2012

8.2.1 Japan’s exports to China²⁶

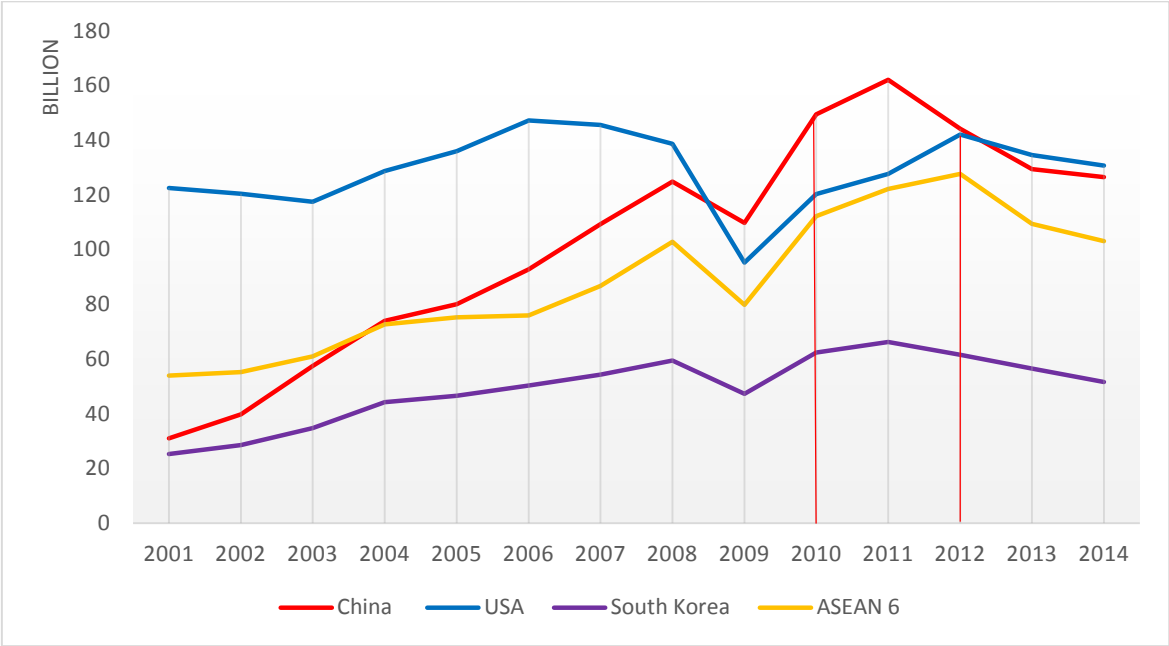
“The changes in the structure of Sino-Japanese economic interdependence are represented by Japan’s increasing reliance on China vis-a-vis its economic growth (Koo, 2009: 227)”.

Japan is dependent on the Chinese consumer, and will become even more so in the years to come (Japanese diplomat, March 2015). China passed the U.S. as Japan’s largest export market in 2009. Exports from Japan to China accounted for US\$ 109 billion, which equaled 18,9 percent of Japan’s total exports and 2,3 percent of Japan’s GDP²⁷. However, this also meant that Japan was China’s largest import source. In 2009, exports from Japan to China equaled 13 percent of China’s imports.

²⁶ All data on exports and imports have been retrieved from International Trade Center and UN Comtrade. Calculations are made by the author.

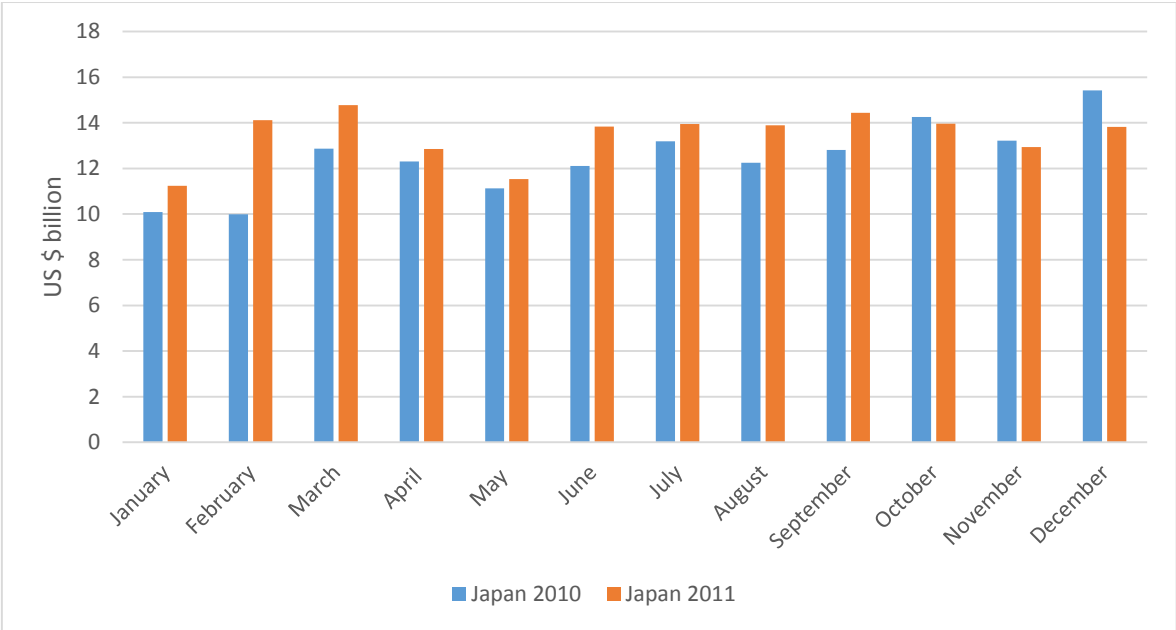
²⁷ World Bank (2015). “GDP (current US\$)” retrieved 01.06.2015, from <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

Figure 9. Japan's largest export markets



Source: (International Trade Centre, 2015)

Figure 10. Japan's monthly exports to China in 2010 & 2011

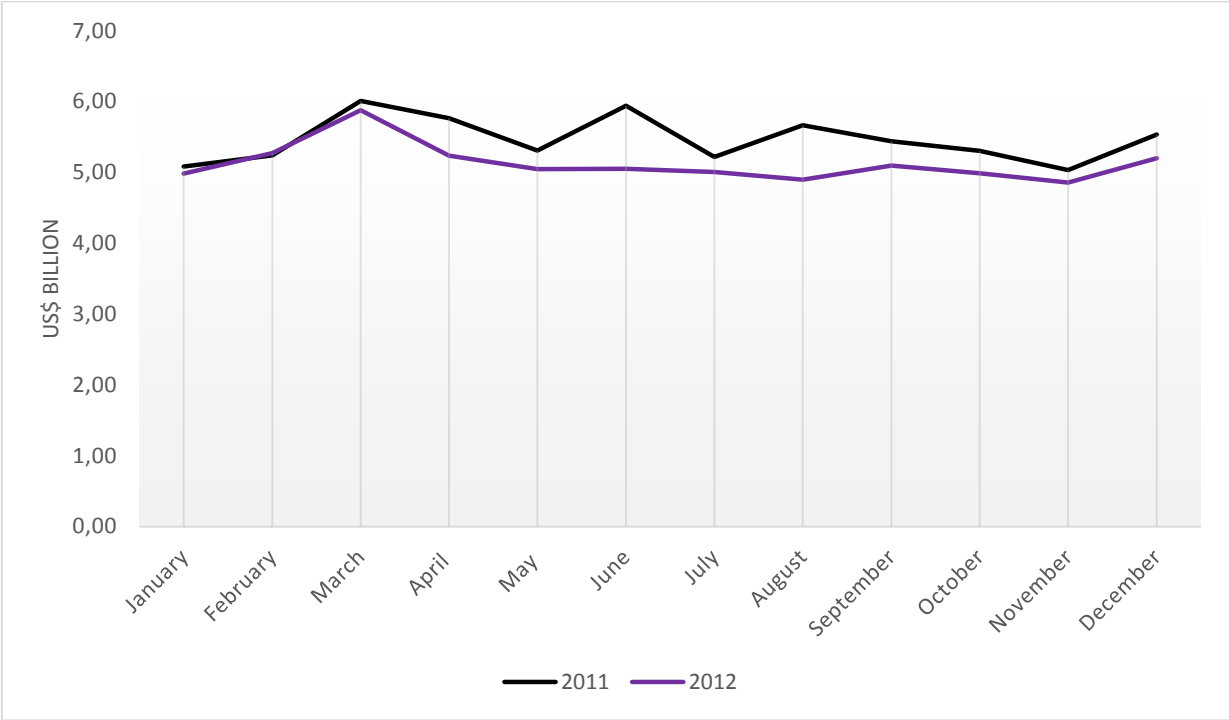


Source: (UN Comtrade, 2015b).

The annual trade figure demonstrates that the trend since 2001, with growth in overall exports to China continued in 2010 and 2011²⁸. Thus, although Weiss noted that that some called for boycotts of Japanese goods after Zhan's detention (Weiss, 2014: 175), the statistics demonstrate that there were no significant consumer boycotts or other types of sanctions of Japanese goods in 2010. If tensions in September 2010 affected Japanese exports, we could have expected a decrease in September, October, November and December. However, the last three months see high numbers of Japanese exports. Export numbers in October, November, December 2010 are even higher than exports numbers in October, November and December 2011, despite no confrontations in 2011. To sum up, Japan's exports to China grew in 2010 and in 2011. In this respect, there is no "September 2010 collision" - effect to spot in overall exports to China in 2010 and 2011.

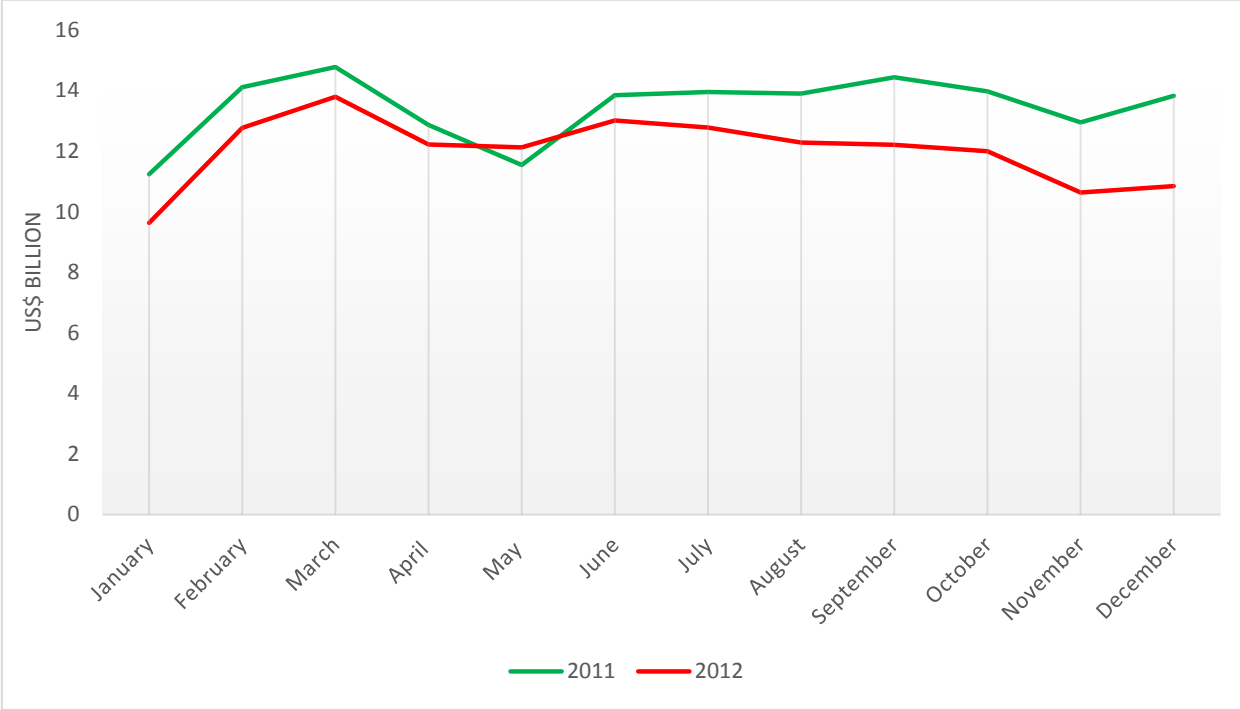
²⁸ The drop in Japanese export to China in 2009 coexists with a drop in export to all other major trading destinations. The drop can be attributed to the financial crisis of 2008.

Figure 11. Japan's monthly exports to Republic of Korea in 2011 and 2012



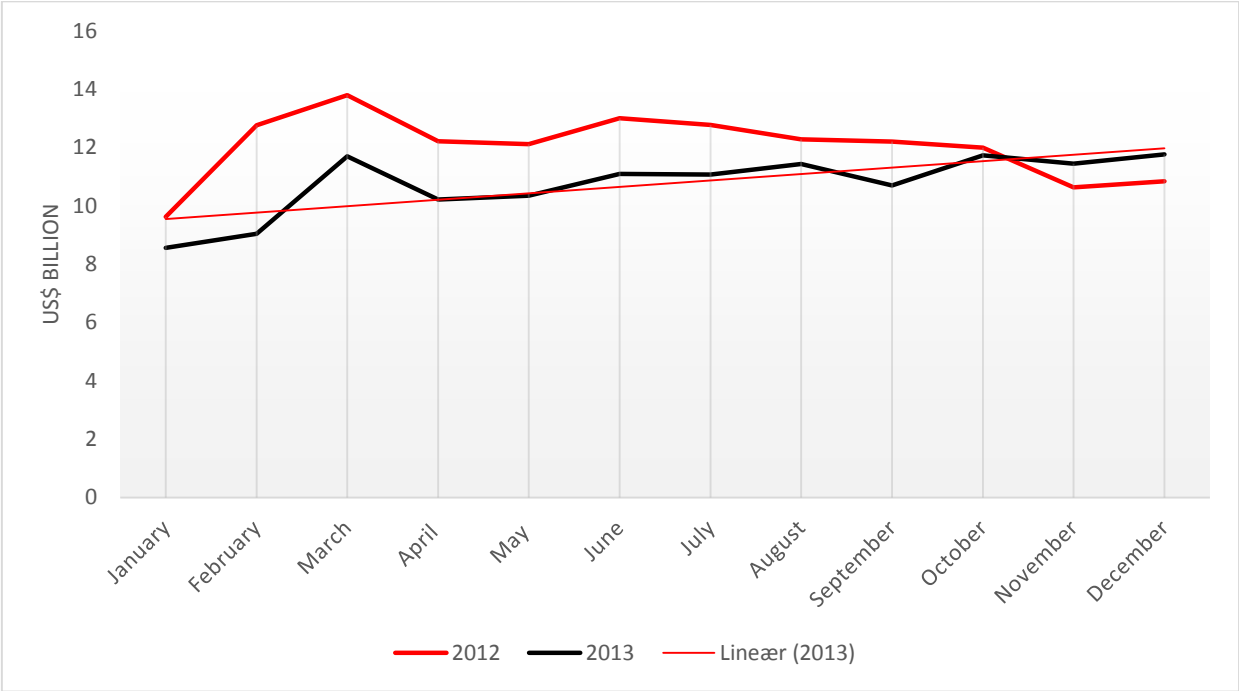
Source: (UN Comtrade, 2015b).

Figure 12. Japan's monthly exports to China in 2011 and 2012



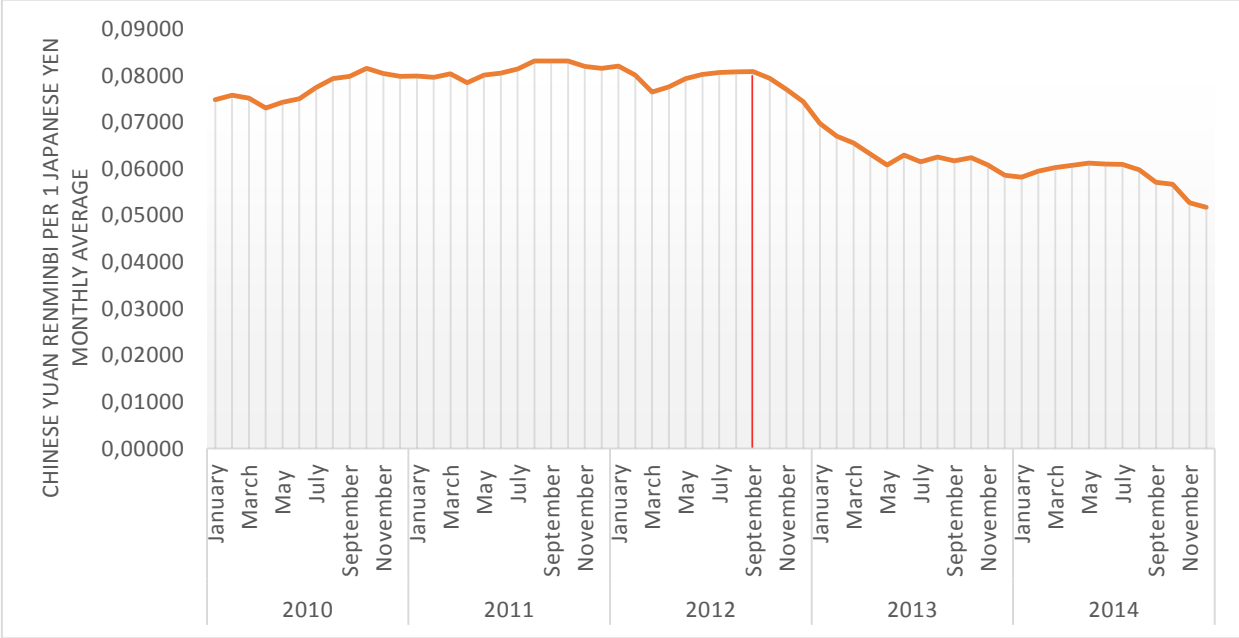
Source: (UN Comtrade, 2015b).

Figure 13. Japan's monthly exports to China in 2012 and 2013



Source: (UN Comtrade, 2015b).

Figure 14. Monthly yen/yuan appreciation



Source: (X-rates, 2015).

In 2012, Japan's exports to the U.S and ASEAN 6²⁹ was rising, while Japan's exports to China and South Korea was slowing down. China's growth rate in 2012 was 7,7 percent³⁰, while the U.S.' growth rate was 2,3 percent. Despite lower growth in the U.S., Japan's exports increased with 14,3 billion to the U.S., and dropped with US\$ 17 billion to China 2012 (Figure 9). With this background, one can partially argue that it was set for an increase in exports from Japan to China, not a decrease.

Japan's export to the world dropped with US\$ 24 billion in 2012 over 2011 numbers (Figure 9), which signify that the drop in exports to China amounted for more than 70 percent of the total drop in Japan's exports in 2012. Exports to Japan's third largest trading country, Republic of Korea (hereafter ROK), also dropped, but this amounted for 19 percent of the total drop in Japan's exports. Moreover, the drop to ROK accounted for a 7 percent drop out of total Japanese exports to ROK. The drop to China was sharper: it amounted for 11 percent of Japanese total exports to China.

The drop in exports to China and ROK can partly be attributed to the high value of the yen. However, as figures 11 and 12 demonstrate, the pattern in the slowdown were different. While the slowdown in exports to ROK was quite evenly distributed throughout 2012, the slowdown in exports to China coincided with rising tensions. From August to December there was a 11,1 billion drop, compared to these months in 2011. As figure 14 demonstrates this was despite the fact that the Chinese Yuan started to gain ground against the Japanese Yen after September 2012. As such, when we would expect the boycott of Japanese products to have the largest impact - after the nationalization - it did.

The drop in exports coincided with reports that Chinese consumers were shunning Japanese goods (Asahi Shimbun, 20.09.2012). Moreover, the World Bank's twice-annually Global Prospects report from January 2013 stated explicitly that political tensions over the Senkaku/Diaoyu Islands had damaged Japan's economic growth in 2012. "In Japan, the economy appears to be contracting – in part because of political tension with China over the sovereignty of islands in the region (...) (World Bank, 2013: 1)". One estimate was that boycotts had lowered Japanese growth with about 0,6 percent in 2012 (Kyodo, 08.12.2012).

²⁹ The six largest economies in ASEAN.

³⁰ World Bank (2015). "GDP growth (annual %)". Retrieved 01.06.2015, from <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

8.2.2 China's imports from Japan

When analyzing China's large import partners in 2012, the statistics supports the conclusions from the last paragraphs (see appendix, Figure 1). From 2009 to 2011 there was a great increase in imports from Japan. However, in 2012, Japan was the only large import partner of China, which experienced a drop, which support the conclusion that it was set for an increase in exports, not a decrease. The drop in imports from Japan is significant both in 2012 and 2013. Chinese import statistics demonstrate that China imported US\$ 16,7 billion less in 2012 over 2011 numbers, and US \$15,6 billion less in 2013 over 2012 numbers.

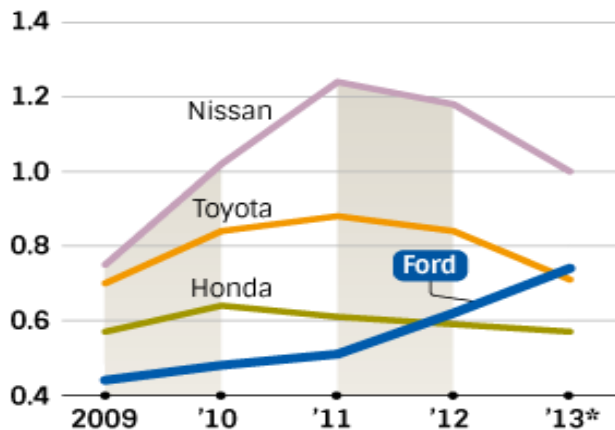
Moreover, Japan was China's only large import country with a downward trend in 2013, almost back at 2008 level. However, figure 9 demonstrates that in 2013 and 2014, Japan's exports to all large export partners decreased. In 2013, the drop in exports to China "only" amounted for 17,7 percent of the total drop in exports from Japan to the world. In comparison, the drop in exports to Japan's "good friend" and ally, the U.S., amounted for 9 percent of the total drop in Japan's exports in 2013. However, as figure 13 demonstrates, Japanese exports seem to be affected by the boycott in the beginning of 2013. However, while 2012 had a downward trend, the trend line added in figure 13 demonstrates an upward tendency for 2013. With this background, it is harder to argue that the total drop in 2013 had something to do with a prolonged consumer boycott of Japanese goods. The same can be said of exports in 2014. The drop in exports to China "only" amounted for 12 percent of the total drop in Japan's exports.

Still, in November 2014, Japan's leading financial newspaper reported that "sluggish" Japanese exports to China was due to tense political relations. (As will be demonstrated shortly this can also be the result of lower Japanese investments in China). Moreover, the largest business delegation to China ever, worked to improve economic relations. Leader of the delegation and head of the Japanese business lobby Keidanren, Sakakibara, said that; "bilateral political relations are having a major impact on economic relations". China's Vice Premier, Wang, responded that before high-level economic talks between key cabinet ministers could resume, Japan should "demonstrate good faith in its handling of the territorial dispute and in its recognition of history (Yamada, 25.09.2014)".

8.2.3 The boycott of Japanese branded cars

Figure 15. Car sales of Japanese branded cars

Ford, Nissan, Toyota, Honda sales in China; in millions of units



Based on carmakers' own data *As of end of October
Source: The Nikkei Business Daily

(as presented in Kuwahara & Sugawara, 22.11.2013).

One commodity directly affected by consumer boycotts after tensions in 2010 and 2012 were Japanese made cars (Kuwahara & Sugawara, 2013). General car sales in China, has been rapidly increasing the last years and automakers are rivaling for high sale figures (Kuwahara & Sugawara, 2013). However, many Japanese cars that are sold in China are made in China and fewer cars to build and sell means less profit for the Chinese (Davies, 12.10.2012). However, fewer Chinese made Japanese branded cars also means fewer vehicle parts imported from Japan, which is one of Japan's largest export categories to China (International Trade Center, 2015). Still, the boycott of Japanese cars in 2012 is in one way descriptive of one of the disadvantages a consumer boycott can have. The Chinese consumer did not necessarily boycott the products that would have inflicted the most asymmetric cost. The boycott of cars is thus an example of the Chinese consumer boycotting those products they associate with Japan. However, in order to inflict an asymmetric economic cost, the consumer must boycott rationally.

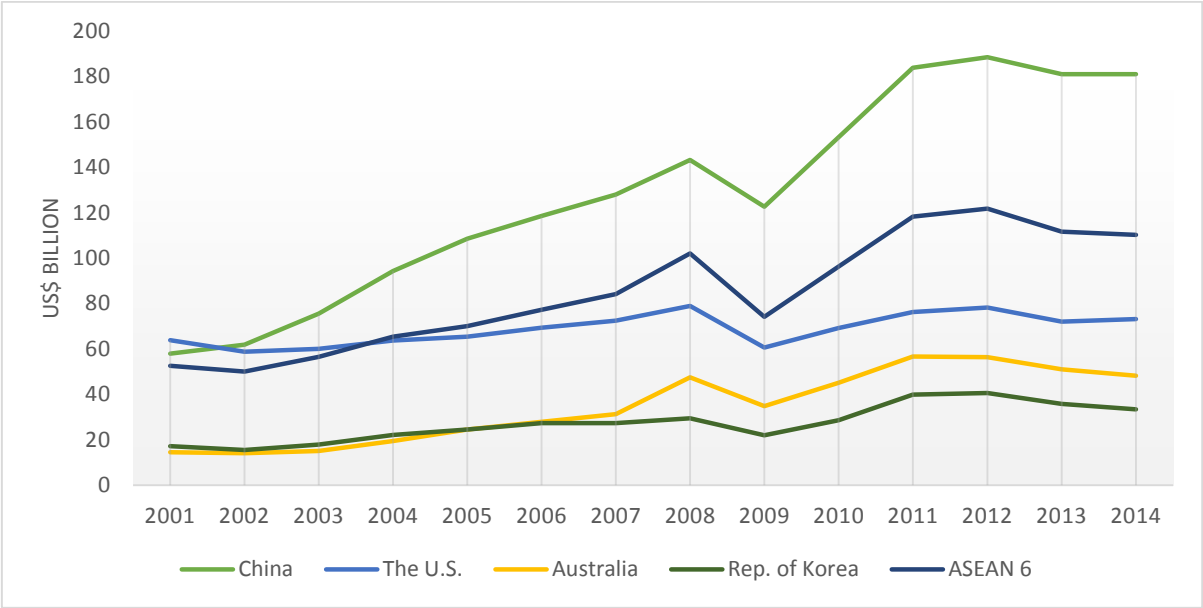
The boycott of Japanese brands is also descriptive of one of the advantages a consumer sanction can have compared to a government inflicted sanction. Consumers could substitute Japanese made cars with another high-quality product of their choice - American made cars

(Ford). Consequently, they inflicted an adjustment process on the Japanese car business (and Chinese businesspersons), but they were not negatively affected themselves. Although one can argue that some consumers perhaps preferred Japanese cars and had to sacrifice a small amount utility to switch. Still, when Philippine bananas (next case study) and Norwegian salmon was held back in Chinese ports, Chinese consumers did not take part in the decision to boycott their perhaps preferred salmon or banana source. Thus, when the consumer takes part in sanctioning there is possible to avoid more of the negative effect a sanction might have on the consumers in the initiating country.

8.2.4 Japan’s imports from China

In 2009, the year before the first round of tensions China was Japan’s largest source of imports. Imports from China accounted for US\$ 123 billion and 22,2 percent of Japan’s total imports. Japan imported approximately 50 percent of its electronic equipment and machinery and 80 percent of its apparel from China (International Trade Center, 2015).

Figure 16. Japan’s largest import sources



Source: (International Trade Center, 2015)

China was Japan’s fastest growing import source in 2010 and 2011. In 2012, the year tensions heightened again, China was still Japan’s fastest growing import source. Although there was a slowdown in imports from China in 2013, this coincided with a slowdown in imports from all large import destinations. Consequently, there is no 2010 or 2012 - tension effect to spot in Japan’s imports from China other than the REE slowdown in 2010. This puts China’s

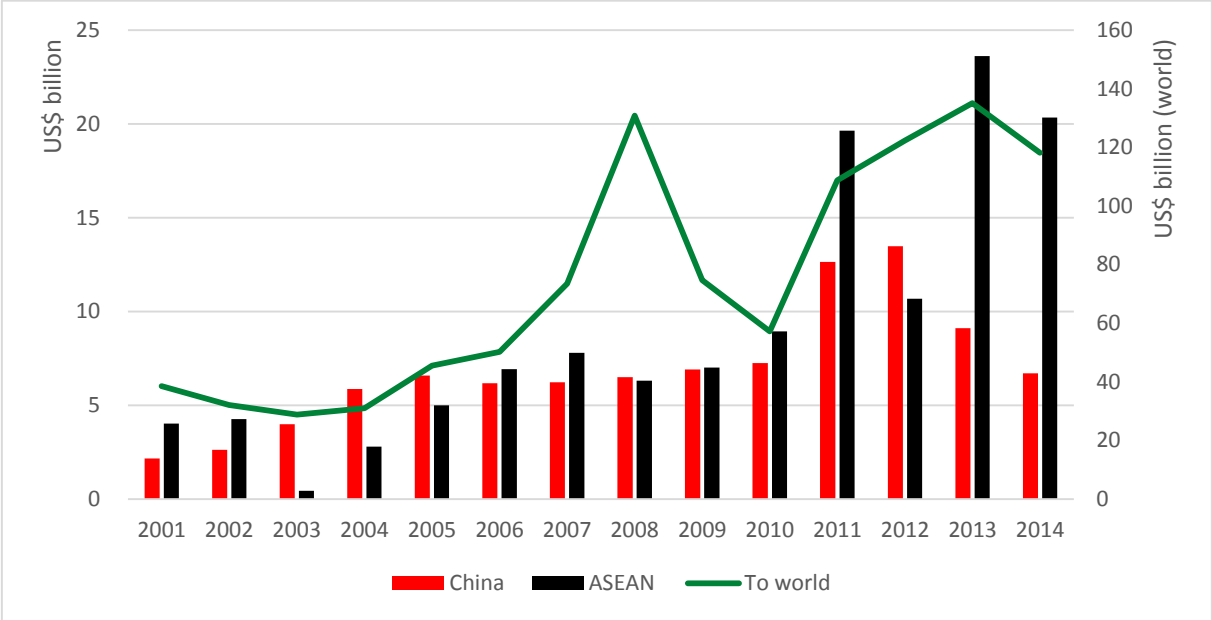
sanctions in perspective. China did not limit overall exports to Japan in 2010 and 2012, and Japan did not react to Chinese economic pressure by imposing sanctions themselves.

In short, total trade between Japan and China hit a record high of US\$ 345 billion in 2011. Japan External Trade Organization expected Sino – Japanese trade to reach US\$ 350 billion in 2012 (Qiunfen & Jiabao, 05.07.2012). Instead, total trade declined to US\$ 333 billion in 2012, US\$ 310 billion in 2013 and US\$ 307 in 2014, due to a drop in Japanese exports to China.

8.2.5 Japanese investments in China³¹

Such behavior [China’s sparring with neighbors] is going to have an effect on their economic activity at the end of the day, because it will lead to losing the confidence of the international community, which will result in less investments in China. I believe it is fully possible to have China to change their policy once they gain that recognition. – Shinzo Abe (as quoted in Harlan, 20.02.2013)

Figure 17. Japan’s outward FDI to China and ASEAN



Source: (Japan External Trade Organization, 2015)³².

In 2012, Japan was the world’s second largest investor (UNCTAD, 2013: xiii). The September 2010 tensions did not discourage Japanese investors from investing in the Chinese market. In 2011, Japanese investments surged by US\$ 5,4 billion or 42 percent, over 2010 investments. However, despite the fact that investments rose by 6 percent in 2012, Japanese investments started to slow down in September 2012 according to one of China’s official

³¹ Statistics on Chinese FDI in Japan is not included since investments to Japan from all countries remain low, also when contrasted with investments in other developed countries.
³² All statistics on Japanese investments are retrieved from Japan External Trade Organization (2015). Accessed 01.06.2015, <http://www.jetro.go.jp/en/reports/statistics/>. Calculations are made by the author.

broadcasters (Li, 20.10.2012). Furthermore, 2013 and 2014 saw a sharp decline in the flow of Japanese investments. In 2013, Japanese declining investments coincided with rising investments in China from the rest of the world (See appendix, Figure 3). In 2014, investments flows from Japan was half of what they were in 2011.

Stephen Nagy has focused research on how Japanese companies perceived investments in China after tensions in 2012 by conducting interviews with Japanese business leaders. He finds that anti-Japan sentiments in China has provided Japanese businesses with extra risk. Not only did Chinese consumers boycott Japanese goods voluntarily and with government encouragement in 2012, trade was also “physically disrupted” by anti-Japanese riots (Nagy, 2013: 54 & 55). Indeed, during the massive anti-Japan protests in September 2012, Japanese factories were attacked for the first time, including the iconic Panasonic factories (Katz, 2013). Consequently, some businesses have been hedging against the risk of future tensions by turning investments towards friendlier production platforms in ASEAN (Nagy, 2013: 54 & 55). After September 2012 tensions, Chief Executive in Nissan Motor, Carlos Ghosn, was quoted saying that Nissan “will remain cautious about future Chinese investments until the country's relations with Japan improve (Frost & Kubota, 15.01.2013)”. Another business leader said the “riots are one of many reasons including rising labor costs, corruption, and environmental issues, for retreating from the Chinese market. (...) we are becoming more and more hesitant about further investments (Former Japanese Company President, Linen Industry, as quoted in Nagy, 2013: 54)”.

As figure 17 illustrates, there was still a net positive investment flow from Japan to China. Thus, as one diplomat pointed out: increasing investments into ASEAN is not on the expense of investments in China (Japanese diplomat, February 2015). However, as the data and Nagy’s research demonstrates; and another Japanese diplomat emphasized: anti-Japanese sentiments have contributed to some Japanese investors turning investments away from China and towards ASEAN (Japanese diplomat, March 2015). Thus, although the consumer boycott inflicted a serious economic effect on Japan, anti-Japan sentiments and boycotts seem to have been a “double edged sword”.

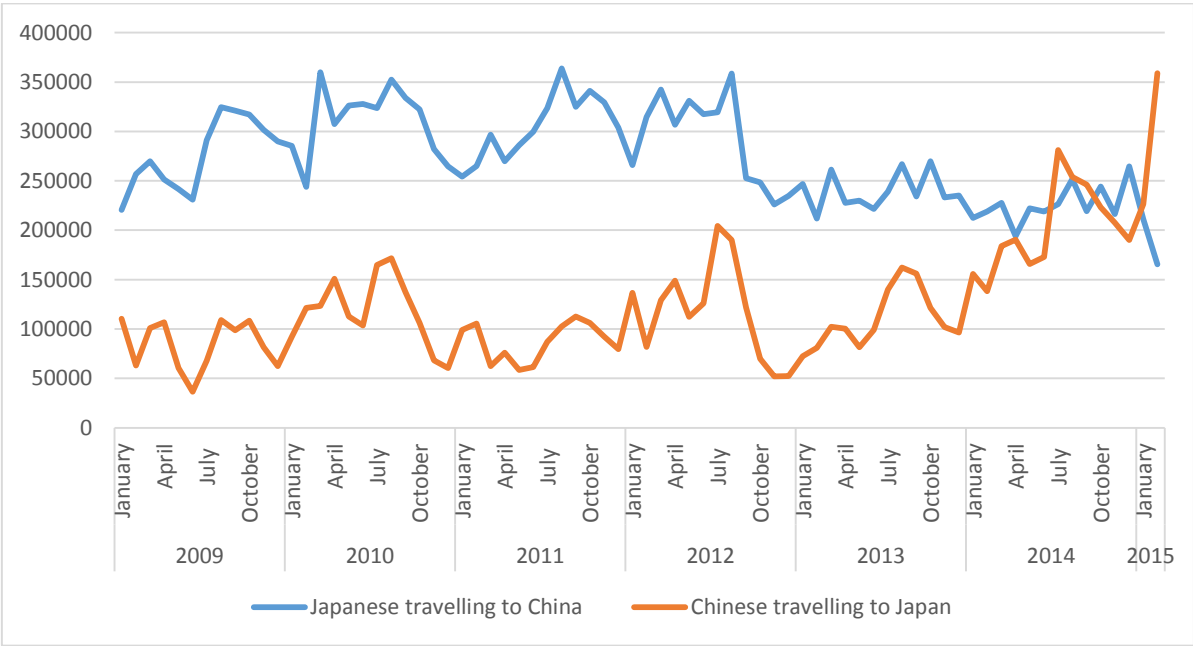
8.2.6 Tourism flows

Statistics on tourism flows are interesting for two reasons. Tourism is an important economic contributor and tourism is an estimate of a people’s perception of another country since tourists voluntarily choose where to travel. In Japan in 2012, the contribution of foreign visitors to GDP was estimated at only 0,3 percent, but tourism was described as an important

contributor to several Japanese industries (Mera & Kurachi & Ozaki, 2013: 4-5). In 2010, China was Japan’s second largest source of tourism, accounted for 1,4 million or 17 percent of 8,6 million foreign tourists. Moreover, according to Japan Tourism Agency in 2011, Chinese tourists accounted for almost 25 percent of the total tourist expenditure (US\$ 2,4 billion), although they “only” accounted for 16 percent of all foreign tourists³³ (Lee, 18.04.2013; Japan National Tourism Organization, 2015).

However, in 2010 Japan was also China’s second largest source of foreign tourism and accounted for 3,1 million or 12 percent, of 26 million foreign tourists in China. Moreover, if one assume that China’s revenue from Japanese tourism in 2012 were the same as China’s revenue from foreign tourism in general, Japan accounted for 12 percent or US\$ 3.9 billion of China’s revenue from foreign tourism. However, when visitors from Hong Kong, Macau and Taiwan are included as foreign tourists, Japanese tourists only accounted for 2,3 percent of all inbound tourists to China and 7,8 percent of the revenue (TravelChinaGuide.com, 2015). Thus, in terms of share of number and revenue the Chinese tourist industry was less dependent on Japanese tourists than opposite in 2010/2011.

Figure 18. Chinese tourists in Japan and Japanese tourists in China



Source: (Japan National Tourism Organization, 2015)³⁴.

³³ One million Chinese tourists visited Japan in 2011 and spent US\$ 2,4 billion (Lee, 13.04.2013; Japan National Tourism Organization, 2015).

³⁴ All statistics on Japanese inbound and outbound tourism flows are retrieved from Japan National Tourism Organization (2015). Accessed 01.06.2015, <http://www.jnto.go.jp/eng/ttp/sta/>.

Sino-Japanese tourism flows after the 2010 collision

Before tensions in September 2010, the average monthly growth of Chinese visitors in Japan was 72 percent over 2009 visitors³⁵. In the three months following the September 2010 collision, tourism on average dropped with 7 percent, while tourist inflow from Asia to Japan in general increased with an average of 12,2 percent. Hence, it seems as if the decrease in Chinese tourism for three months after September 2010 was due to tensions. However, growth turned positive in January 2011, when Chinese tourism increased with 7 percent³⁶.

Outbound tourism flows from Japan to China was higher from 2009 to 2013, than inbound. As such, Japan seems to have had a great possibility to inflict an adjustment process upon China's tourist industry. Before tensions in September 2010, Japanese visitors in China grew with an average of 20 percent over 2009 visitors. The first four months after tensions, numbers dropped with 6 percent before they turned positive in February 2011, with 9 percent growth. September 2010 tensions affected Japanese inbound and outbound tourism very similar. However, the negative effect was short-lived and not dramatic.

Chinese tourists to Japan after the 2012 nationalization

In contrast, the decrease in tourism after the September 2012 nationalization, in both Japanese inbound and outbound tourism to/from China was prominent. Before the nationalization in 2012, Chinese tourists to Japan increased on a monthly average with 9,5 percent over 2010/2011 numbers³⁷. The first four months after the nationalization saw an average monthly drop at 40 percent. For 11 months, tourism dropped on average with 28 percent compared with the same months the previous year. Moreover, it took one year before tourist numbers started growing³⁸. However, after September 2013, Chinese visitors to Japan grew fast and 2014 became a great year for Chinese tourism in Japan. Moreover, in a recent travel survey, Chinese travelers chose Japan as their number one tourist destination in 2015 (Jiang Daily, 09.01.2015). This is good news for Japan, as China in 2012 became known as the world's top source of tourism cash (Cripps, 12.04.2013). Moreover, it is also an implication of Chinese travelers having favorable views of Japan.

³⁵ All increase and decrease in growth is measured against the same month the year before if not otherwise stated.

³⁶ In 2011, Chinese tourism numbers are low, but so is tourism numbers in general due to the Fukushima accident in March 2011

³⁷ Change in numbers from March to September 2012 are over March to September 2010 numbers, due to the Fukushima accident in March 2011, which lowered tourism numbers to Japan dramatically for seven months after the accident.

³⁸ Although there is an increase in 2013 over 2012 numbers, the contra factual increase could have been better since the year is compared with the year before.

Japanese tourists to China after the 2012 nationalization

Before the nationalization in 2012 the average monthly growth in Japanese tourists in China was 8,1 percent, over 2011 numbers. The growth in Japanese tourism ended abruptly with anti-nationalization demonstrations in China. For four months after the nationalization tourism dropped with an average of 22 percent over these same months in 2011. Although the drop in share of tourism was greater from China to Japan the first four months (40 percent), in terms of absolute numbers the Chinese tourist industry was more severely hit in the short-term. 284 700 fewer Japanese travelled to China compared to 168 388 fewer Chinese tourists to Japan. Moreover, for 11 months after the nationalization Japanese tourists in China dropped with an average of 26 percent, compared to an average 28 percent drop in Chinese visitors in Japan.

In contrast to Chinese travelers, who steadily increased after September 2013, Japanese travelers continued to avoid China. As a China Daily article emphasized, the weaker yen and strong yuan probably affected Japanese travel pattern (Jin, 25.08.2014). However, Japan's leading financial newspaper mainly cited air pollution and the "lingering traces of bilateral tensions" as the reasons why Japanese tourists were avoiding China (Nikkei, 12.11.2014). Moreover, a Japanese diplomat also viewed bilateral tensions – in the form of anti-Japanese sentiments - as the main reason Japanese tourists were avoiding China as a holiday destination (Japanese diplomat, March 2015). This indicates that some Japanese tourists have been "balancing" against anti-Japan sentiments in China. Moreover, in a China Daily article entitled "China helps Japanese economy recover", Jin Baisong, the Deputy Director at the Chinese Academy of International Trade and Economic cooperation affiliated to the MOC argued that Japan should return the Chinese government's "tourist gesture". "We hope the positive developments on the tourism and economic fronts - thanks to Chinese tourists and consumers - will prompt the Japanese government and media to respond with similar goodwill gestures. If they do not, they could once again force non-governmental exchanges between China and Japan to deteriorate" (Jin, 25.08.2014). The article can be interpreted as a warning that China has the possibility to sanction against Japan's tourism industry (and products).

Contrasting the 2010 and 2012 tourist effect

Three weeks after the 2010 boat collision, CNTA warned "Chinese tourists and tour groups currently in Japan or planning to go to Japan in the near future to watch their travel safety", citing an attack on a Chinese tour bus by nationalist activists in Japan (Xinhua, 01.10.2010). CNTA issued a similar advisory in 2012, however, this time they *warned* travelers planning to

go to Japan and currently situated in Japan of “safety risks” (Xinhua, 22.09.2012). Thus, in contrast to the 2012 advisory, the 2010 advisory did not *warn* travelers of “safety risks”. It advised travelers to “watch their travel safety”. However, Beijing did give prominent media-coverage to right-wing protests in Japan, which stirred calls for anti-Japanese protests and boycotts (Weiss, 2014: 179), but even the conservative Japanese newspaper, Yomiuri Shimbun, cited the attack on the Chinese tour bus (Page & Hayashi, 02.10.2010). Considering the wording in the advisory and the attack on the Chinese tour bus, there might be less reason to believe that Beijing deliberately tried to encourage reduction in tourism as a foreign policy tool in 2010. Moreover, the drop in tourism in 2010 was short-lived and not dramatic, compared to the effect of the 2012 nationalization.

In addition to the slightly different wording in the advisories, the September 2012 tourist-effect was different in that before CNTA warned Chinese travelers of safety risks, tourists and the tourist industry (perhaps directly encouraged by the government?) had already started boycotting Japan as a travel destination. As Weiss noted about the aftermath of the nationalization: the pressure of nationalist anti-Japan sentiments “was real, but not unwelcomed” and intensified by official harsh rhetoric (Weiss, 2014: 207). Hence, there is more reason to believe that the encouragement of anti-Japan sentiments in 2012 was meant as punitive measure against Japan for the nationalization.

However, in 2012 many Japanese travelers also chose to avoid China. The short-term and medium-term effect in Japanese outbound flows to China and Chinese inward flows to Japan were very similar, but in the long-term the Chinese tourist industry was hit harder.

Encouraging anti-Japanese sentiments clearly had its disadvantages – also for the Chinese economy. However, a partial mitigation factor is that Japanese tourists only accounted for 7,8 percent of the revenue when inbound tourists from Hong Kong, Macau and Taiwan were included in 2010 (compared to Chinese tourists who accounted for 25 percent of total tourist expenditure in Japan in 2011). Moreover, one could also argue that perhaps it does not matter so much to a China that has had an economic growth at 7 percent or more anyway.

8.3 Contrasting the overall economic effect of 2010/2012 tensions

The nationalization in 2012 showed that Japan was unable/unwilling to avoid a new confrontation over the Senkaku/Diaoyu islands, due to domestic nationalist sentiments.

Despite the fact that the nationalization was under the pretext of conflict management, Beijing perceived the purchase as Japan changing the status-quo of the islands and thus effectively

strengthening Japan's sovereignty claim. The blue book published by the research institute of the MFA noted that the Japanese government:

(...) tried to use the so-called pressure from Ishihara as an excuse to strengthen Japan's claim over the Diaoyu Islands through the so-called "nationalization" of the islands, an act that was in contravention of the understanding and consensus reached at the time of the establishment of Sino-Japanese diplomatic relations (as quoted in Weiss, 2014: 198³⁹).

How much it did in fact strengthen Japan's claim is another question, and scholars have argued that the nationalization did not change the status-quo, that it was only a change in ownership (see for example Khan, 2012). However, Japan nationalized the islands, despite their awareness that it would anger China⁴⁰ and despite their awareness that China had the ability to "extend or withdraw economic cooperation (Baldwin, 1985: 100)". Indeed, the perceived REE embargo was proof to Japan that Beijing was willing to utilize economic links as a foreign policy tool. However, the 2010 tensions were also proof that a separation between cold politics and hot economics mainly persisted in Sino-Japanese relations. With the exception of the REE slowdown in October and November and a short-term undramatic decrease in tourism flows, overall economic links were not visibly affected. Consequently, the threat of a severe economic effect was perhaps not that prominent during the 2012 nationalization. Thus, one can argue that Japan had one less incentive to avoid a confrontation in 2012.

The contrast between the overall economic effect after the September 2010 collision and the 2012 nationalization is striking. The traditional *seikei bunri*⁴¹ relationship - a separation of economics from politics - no longer existed in the aftermath of the nationalization. When the Chinese public became a part of sanctions, Japan's economy contracted. China's large consumer market can help explain the effectiveness of the boycott. Consider the fact that China had 1.3 billion consumers in 2012. Moreover, if we assume that "only" 55 percent⁴² boycotted Japanese goods - this is still an extremely large number of people. Although consumers voluntarily have to choose to boycott goods, the statement of China's Vice-MOC, Jiang, on 13th of September was telling; it is within Chinese consumers' rights to express their opposition against Japan's "violation of China's territorial sovereignty (Xinhua,

³⁹ See (Weiss, 2014: 196-198) for more evidence of China seeing the nationalization as Japan effectively strengthening their territorial claim.

⁴⁰ Although they perhaps was unaware of how much it would anger China.

⁴¹ This is the Japanese pronunciation of the relevant characters - 政経分離.

⁴² 55 percent of the respondents in a Chinese newspaper poll said they would boycott Japanese goods (Kyodo, 29.08.2012)

13.09.2012)”. This can be characterized as encouraging a boycott. Moreover, China’s state media published lists with Japanese brands Chinese consumers could (should) boycott (Katz, 2013). As mentioned, it is not necessarily those products Chinese consumers associate with Japan, which inflicts an asymmetric economic effect. Hence, the lists can be viewed as another sign of government encouragement, or more accurate - an attempt from the state media to induce consumers to boycott rationally.

8.3.1 Why did not China restrict exports of REE in 2012?

Why did not China restrict their exports of REE in 2012? Although the short-term effect of the restrictions in 2010 was economic asymmetric, the long-term effect was that Japan successfully diversified its imports and became less dependent on Chinese REE (Kyodo, 25.10.2012). In addition to losing its monopoly of REE in Japan, China’s restrictions ended in a WTO complaint, which ruled in disfavor of China and in 2015 Beijing changed their quota policy. This backlash help explain why Beijing did not target REE, or another specific commodity in 2012. In contrast, after the 2012 boycotts, Japan could not file a complaint to the WTO against the Chinese population for not buying Japanese goods. Indeed, the Chinese consumer has the right to choose which products to purchase.

In addition to the economic backlash, the REE embargo was said to have altered “global perceptions of China, and Beijing was criticized by the international community for their “aggressive tactic” (Smith, 2012: 376; Hongo, 13.09.2012). However, utilizing the population as a foreign policy tool presents new forms of justification. Beijing can present a tourist advisory as a legitimate response to anti-China sentiments in Japan. Even encouragement of a boycott can be seen as a legitimate response to an overwhelmingly nationalistic population. Indeed, no one can blame Beijing for forcing Chinese consumers to boycott Japanese goods. As such, they are less involved in the sanction. In short, encouraging boycotts seem to be an innovative way to use bilateral trade as a foreign policy tool. Indeed, it is a tool not even Hirschman (1945) had thought of.

Japan is dependent on China, but China is also dependent on Japan (Japanese diplomat, February 2015). As Richard Katz argues; China’s power to squeeze Japan into making territorial concessions due to Japanese dependence on China as an export market is limited. Indeed, as the statistics demonstrated and Japanese diplomats emphasized; the second and third largest economies in the world are in a mutual beneficial relationship. Katz draws attention to the fact that China’s export-oriented miracle, which underpins the legitimacy of the Communist party, needs Japan. Chinese exported products are often made with advanced

Japanese-made parts that are not easily replaceable. In short: “China needs to buy Japanese products as much as Japan needs to sell them” (Katz, 2013). This can also be seen as one of the advantages of a consumer boycott of Japanese-made consumer products, compared to for example a government inflicted boycott of industrial parts, or an embargo of REE which are used to produce industrial parts in Japan.

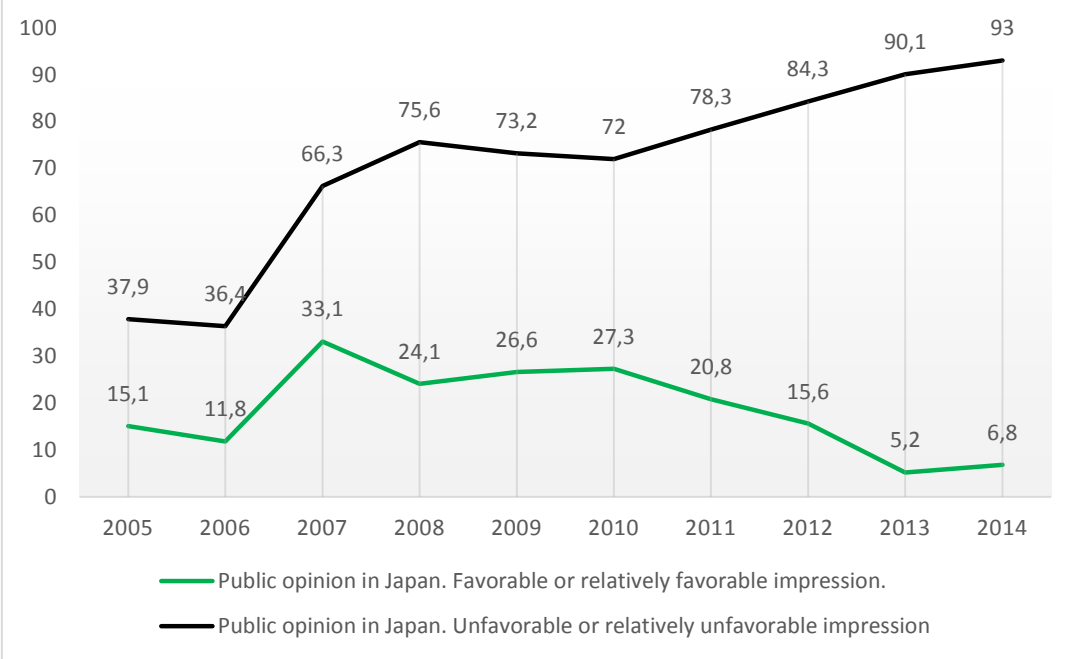
The economic impact of boycotts after the 2012 nationalization was asymmetric in that they inflicted a more serious economic effect on Japan. While Chinese consumers could boycott easily replaceable commodities (and China kept on importing industrial parts), Japan’s economy was hit in the short- and medium-term. Indeed, Japan’s growth contracted, while Japan’s imports from China were not visibly affected. However, the uncontrollable risk of anti-Japan sentiments in China contributed to businesses turning more investments towards “friendlier” markets in ASEAN. Moreover, anti-Japan sentiments seemingly contributed to Japanese tourists avoiding China as a travel destination also in the long-term, despite the fact that Japan in 2015 was selected Chinese travelers’ top tourist destination.

8.3.2 To sum up

In short, although the 2012 sanctions also inflicted economic cost on Beijing the cost inflicted on Japan was graver. Moreover, according to Hirschman’s influence of trade theory we can expect more appeasement the more overarching the threat of sanctions is, and more appeasement the more painful the impact of sanctions is. Despite the threat that nationalization would hurt economic links, Japan nationalized the islands. Moreover, despite a severe short-term and medium-term effect on trade and tourism, and perhaps a better long-term counterfactual trade scenario, Tokyo did not appease Beijing by agreeing a territorial dispute exists. Instead, Japan increased their diplomatic and military balancing strategies toward China after the 2012 nationalization. This raises further doubts about the “success” of China’s handling of the territorial issue.

CHAPTER 9: JAPAN’S STRATEGY TOWARDS CHINA AFTER THE 2012 SENKAKU/DIAOYU TENSIONS

Figure 19. Japanese general impression of China

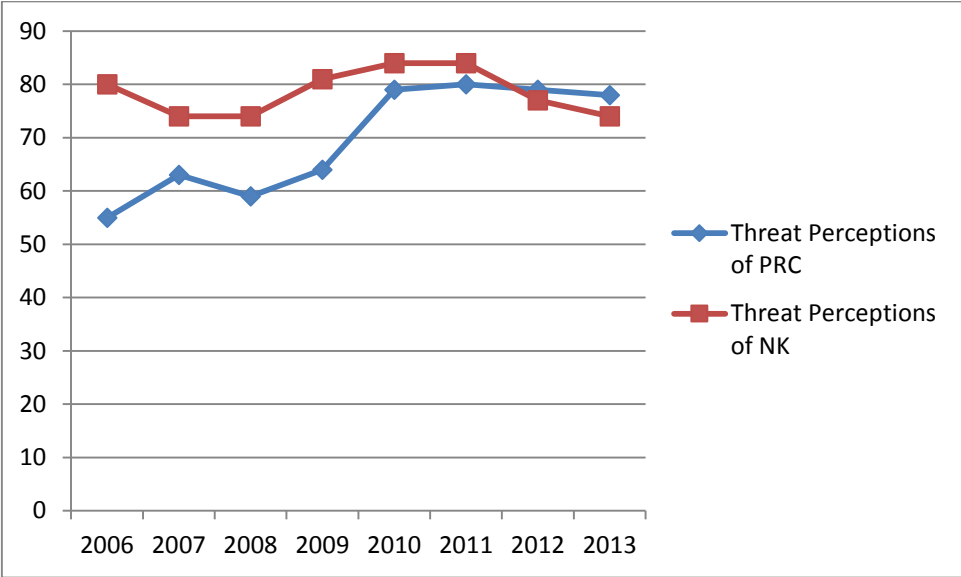


Source: (Genron NPO, 2014: 3)⁴³

An annual public opinion survey conducted by the Japanese think tank, Genron NPO, demonstrated a significant increase in unfavorable impressions of China among Japanese respondents and a significant decrease in respondents who held favorable impressions after 2010. The gap between favorable and unfavorable impressions kept on widening after 2012. Moreover, the most widespread answer for the “unfavorable impression” in 2013 was “continuous confrontation over the Senkaku Islands” at 53 percent (Genron NPO, 2014: 4)

⁴³ The Genron NPO is a Japanese non-profit think tank. The surveys are conducted in July/August in collaboration with Public Opinion Research Institute Corporation in Japan and China Daily, Horizon Research Consultancy Group. Survey polls have been conducted annually since 2005 (Genron NPO, 2014: 2).

Figure 20. Japanese threat perceptions



Source: (Yomiuri Shimbun, as presented in Midford, 2015).

In a Yomiuri Shimbun poll, which allowed respondents to cite as many countries as military threats as they wished, perceptions of China as a potential military threat increased dramatically after September 2010 tensions. In 2012 Chinese threat perceptions overtook those of North Korea. Only the results for China and North Korea are presented here (Midford, 2015)⁴⁴. The public’s more widely held perceptions of a China threat since 2010 influenced voters in the 2012 election. The Democratic Party of Japan’s (hereafter DPJ) foreign policies were perceived as incompetent (to dovish) in the handling of disputes with China. This in part contributed to the return of the Liberal Democratic Party (hereafter LDP) and the more “hawkish” Shinzo Abe (Midford, 2013: 179 & 192). One scholar even noted that the increased perception of China as a threat after the REE embargo and the anti-Japanese uproars in 2012, was easily hijacked by Abe to gather support for his return to power (Nagy, 2014: 9)⁴⁵. Although Abe’s economic policies were the main reason why he was elected in December 2012, one diplomat described him as different from other prime ministers Japan

⁴⁴ In contrast, when asked in a 2004 Mainichi Shimbun public opinion poll which country was the most threatening to Japan, 50 percent answered North Korea, 24 percent answered China and 11 percent answered the U.S. Moreover, polls often found that the Japanese population was almost as wary about their long-term military ally, the U.S., as they were of China (Kang, 2007: 179-180).

⁴⁵ In 2007, Abe lost power because of his focus on foreign policy, while the population wanted him to focus on economic troubles at home (Midford, 2014a). However, with heightened tensions in the ECS, in 2012, many seemed to favor Abe’s foreign policy stand (Midford, 2013: 192).

has had. While others have tried to accommodate China's rise, Abe has been very eager to defend Japan's national interests against China (Japanese Diplomat, February 2015).

Both the September 2010 tensions and the more dramatic September 2012 tensions took place under the DPJ administrations. Abe perceived the incidents as startling changes in China's foreign policy and reinforced his resolve to improve Japan's military, and his determination to balance against China (Inoguchi, 2014: 106). Abe's rhetoric one week before the election was telling; "what China is doing right now is damaging our economic ties by destroying Japanese companies and boycotting our products in order to achieve its political objectives over the Senkaku islands (...). Simply put, what we need in the waters near the Senkaku Islands are not negotiations, but physical force (as quoted in Weiss, 2014: 215)".

In his campaign Abe pledged to allow Japan to exercise the right of collective self-defense [hereafter CSD] and suggested a constitutional amendment that would make future constitutional amendments easier (requiring less than two-thirds of both chambers of the Diet), including potentially the war-renouncing Article 9 (Yoshida & Mie, 02.12.2012; Yellen, 12.06.2014).

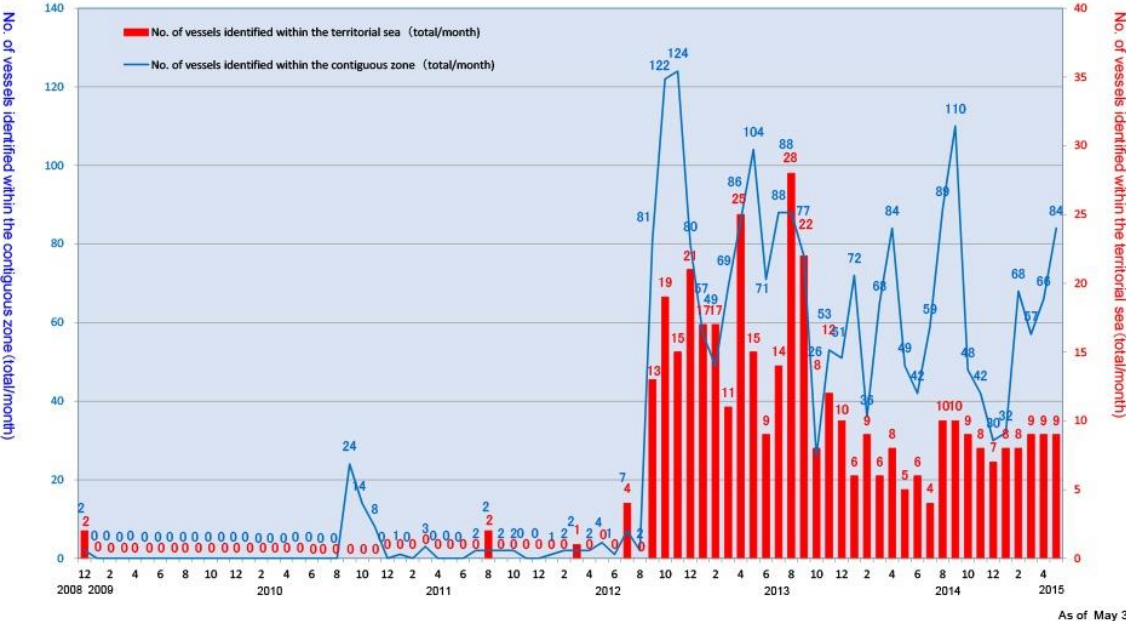
Thus, instead of appeasing China by for example stating that China and Japan must work to find a solution in territorial questions, or agree that there is a territorial dispute to be resolved, Abe announced after the election that; Japan would take "a tough stance" concerning China's claim to the islands (Heberer, 2014: 122). Furthermore, he was quoted as saying that it is crucial that the world "make [China] realize that they would not be able to change the rules or take away somebody's territorial water or territory by coercion or intimidation (Abe as quoted in Harlan, 20.02.2013)". Thus, despite a change in government in late 2012 in Japan, and also in China, the new president Xi Jinping refused to meet Abe. Xi's response to a meeting was that Japan had to recognize that there exists a territorial dispute. However, Tokyo kept on insisting that there was no territorial dispute, which has been their position since the 90s (Kyodo, 22.06.2013).

9.1 Incursions and increased perception of a China threat

Abe returned to power alongside an increased number of incursions of Chinese vessels into Senkaku/Diaoyu waters. The JCG regularly updates the numbers of Chinese government vessels observed in the contiguous zone and territorial waters around the islands. The JCG identified 81 vessels in the contiguous zone and 13 vessels within the territorial waters around the islands in September 2012 - a dramatic increase in incursions (Figure 21). In contrast, only

24 government vessels were observed within the contiguous zone and nil within territorial waters of the Senkakus/Diaoyus during the tense month of September 2010. Incursions continued in the months and years after the nationalization, despite the fact that boycotts largely seemed to have passed (there was no abnormal negative effect to spot in overall Japanese exports statistics for 2013 and 2014). The first 12 months after tensions, monthly incursions into territorial waters around the islands averaged 17.

Figure 21. Chinese government vessels in territorial waters around the islands and contiguous zone



Source: Japanese Ministry of Land, Infrastructure and Transportation (2015). Retrieved 01.06.2015, from http://www.mofa.go.jp/region/page23e_000021.html.

One Japanese diplomat, communicating personal opinions, expressed deep concern about incursions by vessels close to the Senkakus and China’s increased military expenditures. He argued that China was using force to change the status-quo in the region (SCS and ECS), rather than adhering to international law. Moreover, he argued that to Europe China does not pose an immediate security concern. Consequently, European state leaders care more about the business interests China represents, which is dangerous because Xi has become the naked king that no one dares to criticize. However, to Japan, China was an immediate security concern. Japan was scared, but tried to react calmly (Japanese diplomat, March 2015). It is important to note that this anonymous high-ranking diplomat was expressing personal views, but they might in fact reflect a message that Japan is informally sending - the non-declaratory views of the Japanese government.

Echoing public and elite threat perceptions of China, the Abe administration reinforced the Kan and Noda administrations internal and external balancing strategies. This was despite the fact that there was, according to China's MOC spokesperson, Shen: "great room for the long-term development of Sino-Japanese economic and trade relations" if Japan corrected for its wrongdoings (Li, 20.10.2012).

9.2. Internal balancing moves – Japan's coast guard (JCG) and maritime defense

Both China and Japan have avoided involving their navies in the Senkaku/Diaoyu dispute. Thus, in the front line of the dispute, responsible for policing Japan's national waters, is the JCG. In October 2012, the Noda cabinet hastened and approved a plan worth US\$ 212 million⁴⁶ to equip the JCG with four 1000 ton patrol ships, three 30 meter long patrol boats and three helicopters. The money was the largest payment of special funds for the JCG ever, put aside specifically for patrolling the waters around the Senkaku/Diaoyus (Masuda, 27.10.2012). When the LDP took over in December 2012 they continued to increase the coast guard budget to improve the capacity of the JCG to patrol the area "24 hours a day" (The Page, 23.03.2015: 39 min).

Asia Maritime Transparency Initiative has reported that although Japan did not considerably raise the overall JCG budget after September 2012 (it remained stable at around US\$ 2,5 billion⁴⁷ from 2006 to 2015), they have allocated internal funds to improve patrolling around the islands. Moreover, recent reports state that the JCG officially are creating a Senkaku specialized team (which informally has existed since 2012) to guard the territorial waters. The Senkaku-fleet will consist of six new and a total of 12 patrol ships (Kyodo, 27.04.2014; Arakawa & Colon, 01.04.2015).

Moreover, in 2013, Japan's defense budget increased for the first time in 11 years (Asahi Shimbun, 2013), despite "the tight state of finance", (Ministry of Defense, 2013: 2)". However, the increase in money (0,8 percent) can be described as symbolic (Grønning, 2014: 4). The budget however emphasized: "China's increased activities in the airspace and sea area around Japan, including violation of Japan's territorial waters and breach of airspace", which "require due consideration" (Ministry of Defense, 2013: 1)". In line with the 2010 NDPG, when it came to defending Japan's territorial land, waters and airspace the budget focused on

⁴⁶ 17 billion yen equaled US\$ 212 million 26.10.2012, according to Oanda (2015). "Currency converter" retrieved 01.06.2015 from <http://www.oanda.com/currency/converter/>

⁴⁷ 200 billion yen equaled US\$ 2,5 billion 26.10.2012, according to Oanda (2015). "Currency converter" retrieved 01.06.2015 from <http://www.oanda.com/currency/converter/>

improving “information-gathering”, “warning”, “surveillance” and strengthening “maritime deterrence”. In addition to investing in life extension of destroyers, submarines and patrol aircrafts, this was expressed explicitly by the purchase of one 5000 t destroyer with improved capabilities to detect submarines, one 2 900 t submarine, two patrol aircrafts, and the development of a new surface to surface missile (Ministry of Defense, 2013: 5).

9.3 External balancing moves – enhancing ties with the U.S.

As with the foregoing two DPJ administrations, Abe emphasized the U.S. presence in Asia, and described it as “critical” to deter China from grabbing territory controlled by other states (as quoted in Harlan, 20.02.2013). Aimed at enhancing ties with the U.S. and with China’s more assertive behavior as an excuse, Abe worked towards lifting the ban on CSD. However, according to the Cabinet Legislative Bureau, the Japanese constitution forbid Japan from defending allies under attack. In August 2013, Abe unilaterally appointed, Komatsu Ichiro, as new director-general of the CLB, recognized for being positive to CSD. The appointment was seen as an obvious step toward constitutional revision and CSD (Inoguchi, 2013: 107-108). Amidst complaints from the Chinese media, in July 2014 a resolution was passed that to a limited extent permitted lifting the prohibition on CSD. The resolution does not revise Japan’s constitution, which needs a two-third majority of approval in both houses of the Diet and then majority support in a national referendum (Hoang, 26.07.2014). Regarding the resolution, China’s MFA spokesperson, Hong Lei, stated at a press briefing that China opposed “Japan’s fabrication of the so-called China threat so as to serve its domestic political purposes (Xinhua, 01.07.2014)”. In interviews, the Japanese diplomats expressed their positive views about Japan being able to exercise the right of CSD.

Kan, Noda and Abe moving closer to the U.S, stand in contrast to Hatoyama’s foreign policy moves before tensions. During his time as Prime Minister (2009-2010), Hatoyama, and his “Anti-American”- wing of the DPJ tried to distance Japan from the U.S. by seeking a more equal alliance and improve relations with China. However, Hatoyama’s failure to change an U.S. base relocation agreement led to his resignation in May 2010 (Rosenbluth 2011: 43; Inoguchi, 2013: 190). The fact that distancing from the U.S was on the agenda at all says something about the change in Japan’s foreign policy, which after 2010 has been directed towards balancing against China.

9.4 Political balancing moves – Abe’s propaganda tactics

As a part of their political struggle against China, the Abe administration increased their efforts to spread Japanese propaganda, in an attempt to create international support for Japan’s claim and undermine support for China’s claim.

Refuting claims by China, South Korea and the U.S. about Japan’s wartime history have received the main attention in the PR efforts (Sieg, 10.02.2015), but so has Japan’s territorial claims to the Senkakus/Diaoyus and Dokdo/Takeshima (a territorial dispute with ROK) (Nikkei, 08.04.2015). For example, a recent press conference held by the LDP for the Foreign Correspondents' Club of Japan, focused on what government officials described as historical evidence of the Senkakus rightfully belonging to Japan (The Page, 23.03.2015). In 2014, when the leader of LDP’s international PR campaign, Yoshiaki Harada, was asked what he thought about Japan’s external communications, he answered that Japan had territorial issues with China and South Korea, who had been way more active in promoting aggressive information strategies abroad. Therefore:

It is crucial that we [Japan] be "aggressive" in our communications (...) we also need to enhance our public institutions in other countries that serve as communications points, establish new international broadcasting mechanisms, and also be active in our approaches to legislators and business and intellectual leaders in other countries. These efforts must go beyond "public relations," and take the form of "strategic information." We have requested the budgetary measures to accomplish this. - Yoshiaki Harada to Lib Dem News (04.11.2014).

Consequently, MOFA received US\$ 590 million in a “strategic communication” budget for 2014/2015. This was US\$ 420 million more than the initial budget at US\$ 170 million (Sieg, 10.02.2015). Moreover, Japan Broadcasting Cooperation (hereafter NHK) announced a 32 percent budget increase from 2014 to 2015 in order to strengthen their international broadcasting services. With 12 NHK governors appointed by Abe, a Japan Times editorial expressed fear that NHK was becoming a mouthpiece for the administration’s keen efforts of promoting “Japan’s national interests” through international broadcasting (Japan Times, 25.01.2015).

In line with Harada’s quote that Japan needs to approach intellectual leaders in other countries, a background source suggests he was approached. A Norwegian academic received what he described as an “aggressive” Japanese diplomat who overloaded him with information about Japan’s rightful claims to the Senkaku/Diaoyu Islands, to the Dokdo/Takeshima, and China’s threatening actions in the SCS and ECS (Norwegian

academic, January 2015). Moreover, Germany's correspondent in Japan, Carsten Germis, received complaints directly from Japanese diplomats after critical coverage of Abe's historical revisionism and Japan's territorial claims. The Japanese consul general of Frankfurt even visited his editor and accused Germis of writing pro-China propaganda in the pay of Beijing (Germis, 02.04.2015).

Thus, Abe's official PR campaign has been aimed at legitimizing Japan's Senkaku claim and undermine China's Diaoyu claim. In addition, there are implications that the official campaign is complemented with Japanese diplomats conducting a "covert information campaign" in order to, amongst other, create legitimacy and silence criticism of Japan's Senkaku claim⁴⁸.

9.5 Reconciliation? The 2014 handshake

Although political and economic relations after the 2012 nationalization have taken time to thaw there have been indications of improved ties. There was no "tension-effect" to spot in trade flows in 2013 and 2014, and in addition to the increased flow of Chinese tourists to Japan, incursions have declined in frequency. Since January 2014 to the end of March 2015, monthly incursions into waters around the islands averaged 7,5, compared to 17 the first 12 months after the nationalization, indicating less assertive Chinese behavior (see figure 21).

Two years after the nationalization, Xi and Abe finally met at the Asia-Pacific Economic Cooperation (APEC) conference in November 2014. This was the first Sino-Japanese summit since Hu told Noda that nationalization would be an intolerable change in the status-quo. A week before the summit, they issued a joint declaration which can be interpreted as Japan taking a step towards recognizing a territorial dispute exists. According to China's English translation, the two sides had "acknowledged that different *positions* exist between them regarding the tensions which have emerged in recent years over the Diaoyu Islands and some waters in the East China Sea" (Xinhua, 07.11.2014). Japan's wording was toned down, they acknowledged the different "*views* as to the emergence of tense situations in recent years in the waters of the East China Sea, including those around the Senkaku Islands" (MOFA, 07.11.2014). Thus, how much Japan really conceded is open to question. Shannon Tiezzi interpreted the statements as the two sides not "agreeing to disagree on the territorial issue – they are agreeing that different stances exist on the cause behind recent tensions (Tiezzi, 07.11.2014)". Moreover, the Japan's MOFA website still states, "that there exists no issue of

⁴⁸ How successful the attempts have been is another question.

territorial sovereignty to be resolved” (MOFA, 2015). However, according to Genron NPO, the recognition that a territorial dispute exists has increased among the Japanese public during the Abe administration. In 2014, 64,3 percent of the respondents recognized that a Sino-Japanese territorial dispute exists compared to 62,7 in 2013 (Genron NPO, 2014: 29). Thus, maybe Japan is closer to agreeing to China’s demand than they were before. However, the diplomats interviewed referred to territorial “questions”, not “disputes”.

On 22nd of April 2015, the Xi and Abe met again at the sidelines of the Bandung Conference in Indonesia. This time Xi looked less stone-faced than during the first handshake (Asahi Shimbun, 22.04.2015).

9.6 Japan’s strategy toward China after the 2012 tensions

Despite the economic effect inflicted on Japan after the nationalization in 2012, Japan did not try to appease China in territorial “questions”. The value of territorial integrity help explain why Japan did not comply with China’s demand. As one diplomat expressed it, “if you know the history it is very clear the Senkaku islands belong to Japan”. Consequently, there was no point in talking about the value of maritime resources to Japan (Japanese diplomat, Oslo, February). The value of “inherent territory” in itself, cannot explain Japan’s increased resolve to balance against China since 2012. However, a widened perception among the public and elites of China as a threat to Japan’s “inherent territory” help explain the strategy Japan did choose in 2010 and which intensified in 2012. China’s “non-transparent” military buildup is a background condition. However, since the buildup has been going on long before 2010 tensions it was not the triggering cause. It can seem as if Captain Zhan’s “ramming” of the two JCG vessels in 2010 and Beijing’s subsequent pressure characterized by the perceived REE embargo and a perceived hostage crisis (the arrest of the four businessmen) might have been more important in generating a threat perception among Japanese elites and public. Moreover, the already negative impression of China after the 2010 tensions worsened with anti-Japanese protests and boycotts, coupled with incursions in 2012. Thus, instead of appeasing China, Japan followed a localized balancing strategy against China’s claim to the Senkaku/Diaoyu islands.

CHAPTER 10: CASE 3, THE SCARBOROUGH SHOAL TENSIONS IN 2012

10.1 Overlapping territorial claims between China and The Philippines

At the heart of the dispute between The Philippines and China are several overlapping sovereignty claims in the SCS⁴⁹. China claims most of the SCS (see map on next page), including the portions claimed by the Philippines, and insists that Scarborough Shoal (known as Panatag shoal in the Philippines and Huangyan Island in China, hereafter Scarborough Shoal) has been part of its territory since the 13th century. China bases their claims in the SCS on Xia and Han dynasty records. In 1947, under the rule of the nationalist Kuomintang party, China officially asserted an eleven-dash-line claim on a map. In 1949, Mao declared the establishment of the Peoples Republic of China and in 1953; the government removed two dashes and asserted a nine-dash-line, equivalent to Kuomintang's eleven-dash-line claim (Glaser, 25.07.2012; CSIS, 2015). In 2009, the government declared the nine-dash-line in a letter to the U.N Secretary General. The letter said; "China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters, and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof (as quoted in Song, 2014: 58)". There are different interpretation of what China's claims include. Do the dashes "only" represent sovereignty claims to the islands within the nine-dash-line? Is China claiming all waters within the dashed-line as territorial waters? Or do the dashes represent a national maritime boundary (Gupta, 11.01.2015)? The UNCLOS does not determine sovereignty over land features, like islands and insular formations (Reichler, 2013). Thus, the wording in the letter to the UN is UNCLOS consistent, in that China did not explicitly claim that the waters within the nine-dash line were all territorial waters, which some suspect China is claiming⁵⁰.

In the case of the Philippines, the nine-dash line comes within 15 nm of the Philippine coast. In addition to overlapping claims to Scarborough Shoal, the Philippines has asserted claims to 50 Spratly Islands/features (known in the Philippines as the Kalayaan islands and in China as

⁴⁹ There are other claimants to the Spratly islands. Vietnam argues they have exercised control over the Spratly islands since the 17th century. Taiwan effectively claims everything in the in the SCS that China claims, and controls the largest "natural" Spratly island, Itu Aba. Malaysia claims sovereignty over southern Spratly islands and legitimize its claims based upon historical occupation. Brunei is the only claimant that does not occupy any of the Spratlys. They only claim one island, Louisa Reef, which might be characterized as a rock. However, they do claim a large maritime zone (BBC, 08.05.2014; Burgess, 2003: 7; Roach, 2014: ii).

⁵⁰ See for example (Womack, 2014: 244).

the Nansha islands, hereafter Spratly Islands). All of these claims fall within China’s nine-dash-line claim (Reichler, 2013; Rosen, 2014: ii).

Figure 22. Map of overlapping claims in the South China Sea



Source: (BBC, 17.04.2015).

The Philippines justifies its Spratly claims in much the same way as China justifies its nine-dash-line claim, based on historical rights. In the case of Scarborough Shoal, there are some evidence that the American and Philippine navy historically have exercised some effective control over the features. According to a legal analysis, this is not “a legal slam dunk” in favor of the Philippines (Rosen, 2014: ii).

10.1.2 The tangible and intangible value of Scarborough Shoal and the Spratlys
Both China and the Philippines are signatories of UNCLOS. As mentioned UNCLOS does not determine sovereignty over land features, like islands and insular formations (Reichler, 2013). UNCLOS is important in this context because it defines territorial waters 12 nm out from the coast, and entitles countries to EEZ, which begins beyond the 12 nm territorial

waters. An EEZ entitles countries to the right of exploiting both living resources; like fish, and non-living resources situated underneath the seabed; like oil, gas and minerals, within 200 nm of the coast. This means that sovereignty over islands can generate a 12 nm of territorial waters and 200 nm of EEZ. However, islands that cannot support human habitation and artificial islands are not entitled to EEZ (UNCLOS, 1982).

Thus, apart from UNCLOS, both China and the Philippines have overlapping sovereignty claims to almost all of the Spratly islands/features, in addition to Scarborough Shoal (Rosen, 2014: ii). Since Scarborough Shoal (more accurately described as a group of islands/atolls/reefs) exists above high tide, it is susceptible to sovereignty claims under international law (Rosen, 2014: ii). However, many claim that the value of Scarborough Shoal and the Spratlys are not sovereignty in itself, but the entitlement to tangible resources which sovereignty would provide, under UNCLOS (Storey, 1999: 96) Suggested (vast) hydrocarbon reserves are considered the most valuable resource in the SCS. In addition, many argue that fishery resources are an important economic and symbolic factor in the Sino-Philippine dispute (Fabinyi, 22.02.2015). Scarborough Shoal in particular is known for being a rich fishing ground (Inquirer.net, 09.05.2012).

In addition, “territory also has a symbolic or intangible function for its inhabitants. It is homeland; a source of historic, religious or cultural security; and a source of independence and prestige that creates a sense of exclusive attachment that excludes ‘others’ (Manicom, 2014: 28)”. Although the islands/rocks are uninhabited, the Philippines’ view them as a part of their historical homeland. At least their Philippine fishermen have “always” viewed it as their fishing ground (Philippine Department of Foreign Affairs, 2012). In addition, one can expect that since Scarborough Shoal is proximate to the Philippine mainland, controlling the shoal would provide them with at least a symbolic source of security, compared to having an external power controlling the islands. Thus, we can expect attachment to Scarborough Shoal.

10.2 The Scarborough Shoal standoff

The standoff resulting in China employing sanctions against the Philippines began on April 10, 2012. The Philippine Navy sent a navy frigate to investigate the presence of eight Chinese fishing vessels docked at Scarborough Shoal - in waters both China and the Philippines claim jurisdiction over. A team from the Philippine frigate boarded and inspected the Chinese fishing vessels and found clams, corals, and sharks onboard the boats. Secretary of Foreign Affairs of the Philippines, Albert del Rosario, blamed the Chinese fishermen for illegally “fishing and harvesting endangered species”. Two Chinese unarmed marine surveillance

vessels arrived and hindered the arrest of the fishermen (Glaser, 25.07.2012, Inquirer.net, 09.05.2012, Castro, 2013: 114). The Chinese embassy in the Philippines (hereafter CEPH) interpreted the incident differently. They reported that 12 Chinese fishing boats had tried to enter the lagoon “to take shelter due to harsh weather conditions, when a Philippine Naval gunboat blocked the entrance of the lagoon, and sent 12 Philippine soldiers, six of whom were armed, to the lagoon, and harassed the Chinese fishermen”. Two Chinese surveillance vessels were sent to the Shoal to protect the fishermen. The CEPH repeated China’s claim to Huangyan Island and “urged the Philippine side to stop immediately their illegal activities and leave the area”. Moreover, they complained that the Philippines were using a naval vessel, while China was not. Despite this, the CEPH was working to find a solution with the Philippine Department of Foreign Affairs in order to preserve Sino-Philippine peaceful and friendly relations (Xinhua, 11.04.2012a; Xinhua, 11.04.2012b).

On 12 of April, when China sent their most advanced and armed Fishery Law Enforcement Command ship and explicitly strengthened their physical presence and implicitly their coercive capabilities on the scene, the Philippines partly complied with China’s demand and withdrew the navy frigate. However, they replaced it with a Coast Guard Cutter. This resulted in a two-month tense and dangerous standoff between Philippine and Chinese paramilitary vessels around Scarborough Shoal (Glaser, 25.07.2012, Inquirer.net, 09.05.2012, Castro, 2013: 114). During the first month, the CEPH was the main mouthpiece for China, and it kept on urging the Philippines to stop what they described as illegal activities. However, they also reported that Chinese and Philippine diplomats were working to find a solution (Xinhua, 24.04.2012).

After a month, on 7th of May, China increased their show of resolve. China’s Foreign Vice Minister, Fu Ying, summoned the diplomat in charge of the Philippine embassy in Beijing, Alex Chua for the third time. Fu accused the Philippines of escalating tensions: they had not stopped sending Philippine government vessels to Huangyan Island. Moreover, they had made false statements that had mislead the Philippine population and international community. This had in turn provoked public feelings in China and severely damaged bilateral relations. Reportedly, the 7th of May meeting was different than the previous two in that Beijing lodged the strongest protest against Manila’s overlapping claims since the standoff began. Fu urged the “Philippine side to withdraw its vessels” and “never again impede the operations of Chinese fishing vessels or Chinese government vessels performing their duties in accordance with Chinese law”. She also stated that; China had “made all preparations to respond to any

escalation of the situation by the Philippine side (Xinhua, 08.05.2012, China Daily, 09.05.2012)”. A toughly worded China Daily-editorial stated:

So far all our endeavors have been ignored or dismissed by the Philippines, which is gambling that we fear a war in the South China Sea. No matter how willing we are to discuss the issue, the current Philippine leadership is intent on pressing us into a corner where there is no other option left but the use of arms. Since ancient times, our nation has deemed war the last resort in handling state-to-state relations. But Manila is living in a fantasy world if it mistakes our forbearance for timidity. This is a dangerous delusion. We have never been a trigger happy nation. But nor have we ever been afraid to fight when necessary. We do not want to exhaust all possibilities of a peaceful resolution. But, as we informed them the other day, we are ready for any possibilities – China Daily (10.05.2012).

The Philippines still did not withdraw their two vessels on the scene. On 10th of May, the Chinese General Administration of Quality Supervision proclaimed that 1200 containers of Filipino fruits were in quarantine in Chinese ports and after CEPH reported that “massive anti-China demonstrations” were expected in the Philippines, CNTA warned Chinese travel agencies from arranging trips to the Philippines on “safety grounds”. China was at the time the third-largest source of tourists for the Philippines (Castro, 2013: 114; Glaser, 25.07.2012). Chinese scholars and government officials said that if tensions did not ease Sino-Philippine trade would be affected and “real” sanctions imposed. A Chinese scholar noted that bilateral trade was only “a small share of China’s foreign trade” but “closely related to the Philippines’ economic growth”. Moreover, “in addition to the great effect on the Philippines’ tourism, the country’s exports to China would be severely affected if the situation was not resolved.” Another Chinese scholar stated that restrictions on Philippine fruits were only a warning and intended “to test the reaction of the Philippines before economic sanctions are introduced”. However, the Philippines could expect bilateral trade to increase to a higher level than before if they proved willing to solve the dispute (Li, 14.05.2012). Also Philippine media coverage emphasized the Philippines’ dependence on the Chinese economy. The World Bank’s lead economist for the Philippines, Rogier van den Brink, stated to the media during the standoff that the Philippines’ economic fate was closely linked to its mighty neighbor and that the impact China had on Filipino trade was prominent (Visconti, 23.05.2012).

How did economic sanctions affect Sino-Philippine trade during and after the standoff around Scarborough Shoal in 2012?

10.2.3 Banana sanctions

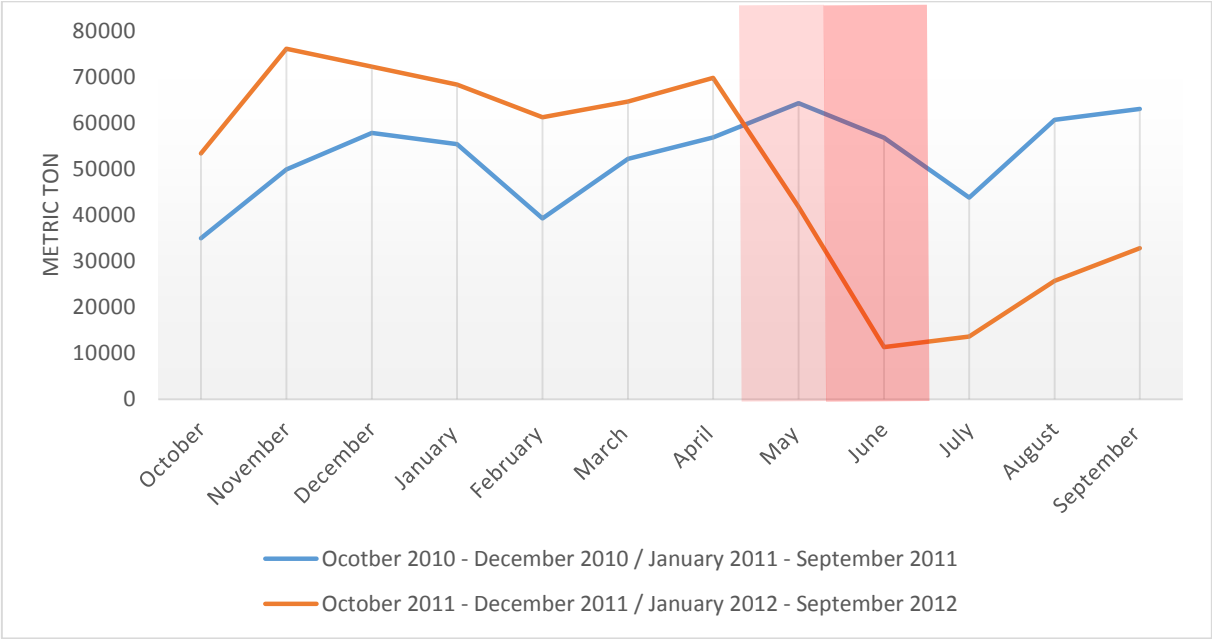
The banana industry was directly targeted by sanctions during the confrontation. Bananas are the Philippines’ second-largest agricultural export product and the mainstay of the economy

in the Davao-region. In 2012, about 500 000 Filipinos were dependent on the industry as a livelihood, according to industry data. Executive director of “the Pilipino Banana Growers and Exporters Association (hereafter PBGEA)”, Stephen Antig, estimated that 200 000 workers would lose their livelihood if Chinese restrictions continued (Almonte, 28.05.2012; Higgins, 10.06.2012).

Before the crisis, China was the Philippines second-largest banana market, consumed about a quarter of Philippine banana exports, and stirred excitement among banana growers because their banana-appetite grew fast. According to Chinese officials in May, the Philippine fruits no longer upheld China’s quality requirements. The government in Manila did not publicly dispute Beijing’s assertion that the collapse of banana exports was due to health concerns and not political tensions (Higgins, 10.06.2012), which can be interpreted as a sign of diplomatic appeasement from Manila, trying to end the tense standoff and ease economic punishment. Moreover, if they had protested China’s restrictions as sanctions, they might have minimized the road for China to formally impose “real” sanctions, as China would already have suffered much of the related political fallout. Thus, it could have been a more limited tactical move to ease economic punishment.

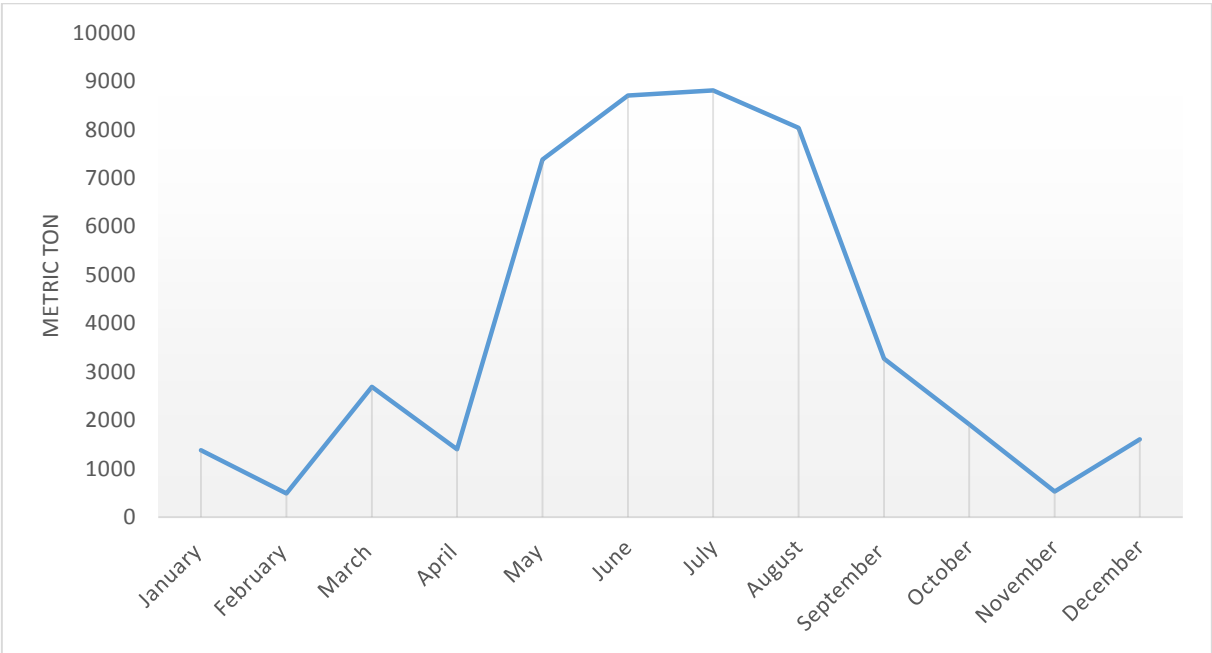
Moreover, PBGEA announced that Latin American companies operating in Ecuador and Costa Rica were substituting Philippine bananas (Pbgea.com, 09.12.2012). A sales executive at “Alisa Sunrise”, Gisele Gomez, explained that the problems Philippine bananas had with entry into China in 2012 had provided “Alisa Sunrise” with the opportunity to open up a lucrative new market in China (Littler, 22.08.2012). In addition, China’s domestic banana production was increasing at the time (Food and Agriculture Organization of the UN, 2014: 3). Consequently, this seemed to be a low-cost sanction for China to impose, since they could replace Philippine bananas - they were well positioned to bear the cost.

Figure 23. China’s banana imports from the Philippines, October 2010- September 2012



Source: (UN Comtrade, 2015b)⁵¹.

Figure 24. Ecuador's banana exports to China in 2012



Source: (UN Comtrade, 2015b).

⁵¹ Source: UN Comtrade. (2015b). Bananas including plantains, fresh or dried (0803). Retrieved 01.06.2015, from <http://comtrade.un.org/monthly/Main/Data.aspx#>. Calculations are made by the author.

Table 1. Philippine banana exports to China from 2008 - 2014

	Philippine banana export to China in US\$ dollar million	Philippine banana exports to China in metric tons	Chinese banana imports from the world (tons)	Philippine % share in Chinese banana imports	Philippine banana export to the world (tons)	China's % share in Philippine banana export
2008	18	122 549	362 325	34 %	2 192 630	6 %
2009	14	84 195	491 339	17 %	1 743 898	5 %
2010	33	165 797	665 230	25 %	1 590 066	10 %
2011	75	358 828	818 675	44 %	2 046 771	18 %
2012	92	423 211	626 039	68 %	2 648 369	16 %
2013	131	462 439	514 784	90 %	3 201 905	14 %
2014	264	974 421	1 127 168	86 %	7 927 742 ⁵²	12 %

Source: (International Trade Center, 2015).⁵³

The Philippines has not reported monthly data in quantity to UN Comtrade, but China has reported monthly imports of Philippine bananas in quantities up to September 2012. Figure 23 demonstrates that there was a sharp drop in China's imports of Philippine bananas from May-September, compared to these months in 2011, which coincides with reports of banana restrictions.

In line with reports that Ecuadorian bananas replaced Philippine bananas, there was a huge increase in Ecuador's⁵⁴ exports to China from May-August 2012. From January – December 2011, Ecuador's banana exports to China totaled 10 500 tons. In 2012, their total banana exports to China quadrupled. 70 percent (33 000 tons), of Ecuadorian bananas were exported from May-August 2012. Despite this dramatic increase in Ecuadorian exports, China imported more (92 300 tons) from the Philippines from May – August 2012, according to Chinese import data.

The Philippines has reported their monthly exports in value. When comparing Philippine and Ecuadorian banana exports from May – August in value, Ecuador exported for 13 million, while the Philippines exported for 16 million. This implies that Ecuador's share of Philippine banana export to China was 81 percent in value according to Ecuadorian and Philippine

⁵² The huge increase in 2014 is partly due to the rehabilitation of banana plantations after a devastating typhoon that hit the Mindanao region in December 2012 and rising global banana-demand. Japan was the Philippines largest banana importer in 2014 (Manila Bulletin, 22.05.2014; Knowler, 23.12.2014).

⁵³ Source: International Trade Center (2015). Category 0803 – Bananas and plantains, fresh or dried. Retrieved 01.06.2015, from <http://www.trademap.org/Bilateral.aspx>. Calculations are made by the author.

⁵⁴ Costa Rica has not reported their banana exports to UN Comtrade.

export statistics, but only 33 percent in quantities according to Ecuadorian export statistics and Chinese imports statistics. A possible explanation is that monthly import numbers reported by China are too high. Indeed, while the Philippines reported they exported bananas worth US\$ 16 million from May-August, China reported they imported Philippine bananas worth US\$ 56 million from May-August. However, China's import value for Ecuadorian bananas from May-August (US\$ 16 million) was in line with Ecuador's reported export value (US\$ 13 million). Import/export statistics vary because they are national statistics. There are several reasons why this is. One explanation is that China has reported imports destined for a third country (re-imports) as imports when they entered Chinese customs (Dong, 2009: 4 & 20). This is perhaps the most viable explanation for the high Philippine banana import numbers reported by Chinese customs to UN Comtrade. Large parts of Philippine bananas probably entered Chinese customs before they were shipped to third countries and were thus included in China's monthly import statistics⁵⁵.

If one assumes that prices on Ecuadorian and Philippine bananas were the same from May-August (not lower or higher) this indicates that the Philippines exported 40 590 tons from May – August, not 92 300 tons⁵⁶ as Chinese import statistics indicates. Moreover, it implies that Philippine banana exports in June was at 3 300 tons, since the Philippines reported that they only exported bananas worth US\$ 1,3 million. However, if one assume that prices on Philippine bananas were stable from January-December 2012 the Philippines exported 73 500 tons from May – August⁵⁷.

No matter if the Philippines exported about 40 000 tons, 70 000 tons or 90 000 tons from May – August 2012 this was much less than during the same period in 2011, when China imported about 225 000 tons. From these numbers it seems fair to conclude that if it were not for the standoff in the spring of 2012, the Philippine share in China's import market would have been

⁵⁵ There can be several reasons for variation in exports/imports: different valuations, timing of measurement, differences in definitions of trade partners etc. (Dong, 2009: 4). However, China consistently reports about 2 to 3 times higher value on Philippine monthly banana imports in 2011 and 2012, compared to the value the Philippines reports on their monthly banana exports to China (UN Comtrade, 2015b). Moreover, according to Chinese monthly import statistics they imported twice as many bananas from the Philippines in 2011 (700 000 tons), not 358 828 tons as the Philippines give up in their annual statistics. The most viable explanation is probably the one presented; China's monthly import statistics include Philippine bananas destined to other countries.

⁵⁶ $16 \cdot 100 / 13 = 123\%$ & $1,23 \cdot 33\ 000\ \text{tons} = 40\ 590\ \text{tons}$.

⁵⁷ Total quantities in 2012 according to the Philippines (423 200 tons) / Total value according to the Philippines (92 million) = 4595 tons pr million. $4595\ \text{tons pr million} \cdot 16\ \text{million} = 73\ 521\ \text{tons}$.

much greater from May – August 2012, and that the Philippines overall banana exports to China in 2012, in terms of quantities and value, would have been greater.

The Philippines withdraws their vessels and banana exports surge

The Philippines withdrew their two vessels at the Shoal, a Coast Guard vessel and a Bureau of Fisheries and Aquatic Resources survey ship, on 15th of June, reportedly due to typhoon season. The Philippine Department of Foreign Affairs, stated that both sides had agreed in June to withdraw their vessels from the Shoal. China however, withdrew their fishing vessels, but on 18th of June the CEPH announced that China had no immediate plans of withdrawing their government vessels from Scarborough. China's MFA spokesperson, Hong Lei, did not know "where the so-called commitment the Philippine side mentioned on China's withdrawal of vessels came from". China would "continue to maintain administration and vigilance" over the shoal (Esplanada, 19.06.2012). Consequently, the territorial issue remained bitter.

According to Chinese foreign and security policy analyst, Bonnie Glaser, Philippine business leaders had pressured the government to abandon their confrontational approach in the dispute, which was precisely what China hoped would happen (Glaser, 25.07.2012). This might have some truth to it. In addition to Antig, who spoke out for the Philippine banana growers, president of the Philippine Exporters Confederation, Sergio Ortiz Luis, warned that; "we have more to lose than them (Kwong & Landingin, 15.05.2012)". However, when this hypothesis was raised to a Philippine diplomat he answered that it was the first time he had heard of business leaders lobbying the withdrawal of Philippine vessels from Scarborough Shoal (Philippine diplomat, January 2015).

China did not withdraw from the shoal, but it seems as if the Philippine's was rewarded with increased banana exports. According to UN Comtrade, Philippine monthly banana exports to China totaled US\$ 28 million from January – April 2012, US\$ 16 million from May – August and US\$ 48 million from September – December 2012. Moreover, Ecuadorian exports from September – December totaled US\$ 3 million, and thus accounted for 6,25 percent of Philippine exports in value from September-December, compared to 81 percent from May-August. Thus, Filipino bananas clearly dominated the Chinese import market compared to Ecuadorian bananas from September 2012 to December 2012. Was this a 'reward' for complying with China's demand? It can seem so. Furthermore, in addition to increased banana exports the last months of 2012, the Philippine share in the Chinese import market increased from 68 percent in 2012 to 90 percent in 2013. At the same time as China let the Philippine increase their market share to 90 percent, Chinese banana imports decreased (see

table 1). Consequently, other banana exporters must have fallen off, while Philippine bananas gained ground. Moreover, when the Chinese import market more than doubled in 2014, the Philippines market share in the Chinese import market was an impressive 86 percent.

The Philippine's share in the Chinese banana market in 2013 and 2014, stand in stark contrast to Norway's share in the Chinese salmon market after the peace prize in 2010. Before the peace prize, Norway had about a 90 percent share in the Chinese salmon market. In 2011, Norway's market share dropped to 28 percent. In line with Norway not complying with China's demand, Norway's share in the Chinese import market was down at 26 percent in 2014 (Rapp, 27.03.2012; Laugen, 23.01.2015). China let the Philippines' increase their market share after they complied with China's demand (maybe because Chinese banana consumers prefer the taste of Philippine bananas?), and the statistics demonstrates that there was no long-term negative "Scarborough Shoal" - effect to trace in Philippine banana exports.

Banana balancing?

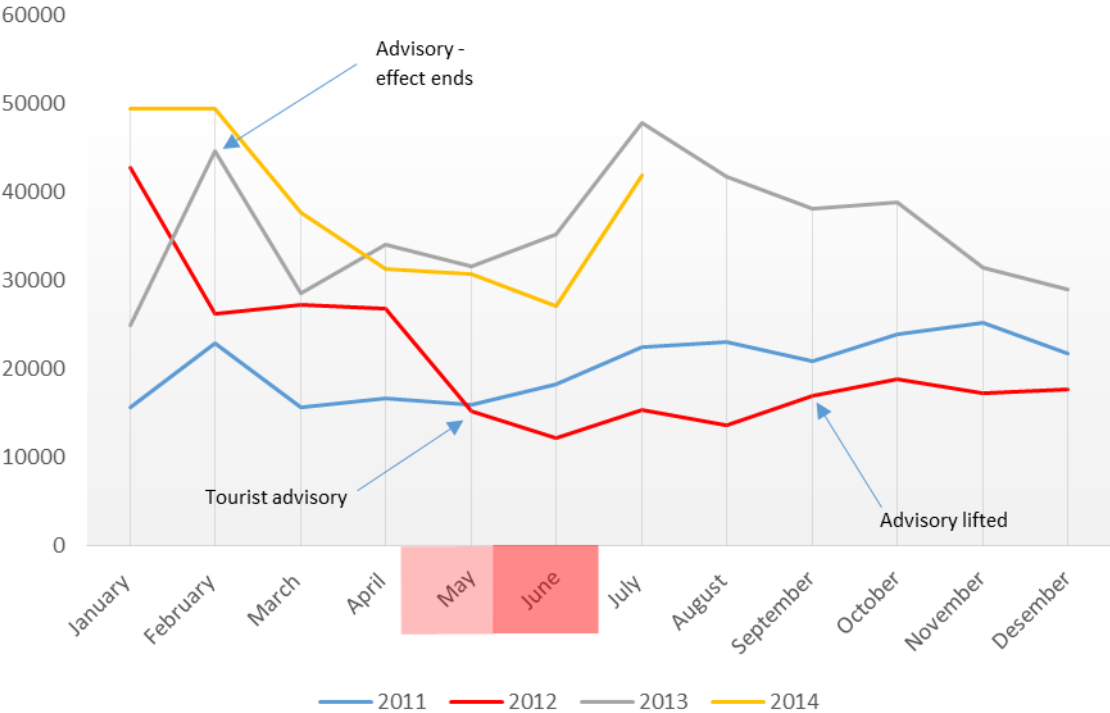
Not only did China reward the Philippines with an increased market share. The growth in banana exports suggests that the Philippines has become more vulnerable to an influence effect. Hence, the Philippines did not "banana balance" against their reliance on the Chinese banana market. In terms of absolute banana imports, China strengthened their coercive economic tool. However, since Philippine global exports surged, China's share in Philippine exports dropped from 18/16 percent in 2011/2012 to 12 percent in 2014. Thus, in terms of share of exports the Philippines was less dependent on Chinese exports in 2014 compared to 2012.

10.2.4 Tourist warning

According to World Bank's economic update on the Philippines in August 2014, the Philippines is mainly linked to the Chinese economy through trade and tourism (World Bank, 2014: 11). Tourism was the other industry directly targeted by Chinese sanctions. In 2011 and 2012, the contribution of the tourist industry to GDP was 6 percent - higher than other core sectors (Astrologo, 05.12.2013). Visitor statistics from Department of Tourism in the Philippines demonstrate that China was the Philippines' fourth-largest tourist market in 2011. In early 2012, they became third-largest (Glaser, 25.07.2012). On 9th of May, MFA spokesperson, Hong Lei, accused Manila of having "instigated the Philippine public and Philippine people living overseas to stage demonstrations against China" (Xinhua, 09.05.2012). On 10th of May, after the CEPH warned that "massive anti-China demonstrations" would be held in the Philippines the CNTA issued a travel warning that

called for Chinese tourist agencies to postpone tours to the Philippines. The Philippine tourist industry was hammered by cancellations and numerous flights from China to the Philippines were cancelled (Xinhua, 15.05.2012; Xinhua 16.05.2012; Higgins, 10.06.2012). On 11th of May, when the massive anti-China demonstrations were expected to take place, Philippine and international media reported that about 400 of the expected 1000 demonstrators showed up outside the CEPH in Manila. A demonstration at around 200 people was also reported outside the Chinese consulate in Cebu. The demonstrations remained peaceful (BBC, 11.05.2012; Esmaguél, 12.05.2012) A video shows that some demonstrators ended up “singing and dancing to the tune of ‘Kung Fu Fighting’ (Esmaguél, 12.05.2012)”. MFA spokesperson Hong Lei, blamed Manila for encouraging the protests, while Aquino’s spokesperson countered that it was “a private initiative, by private citizens (Bordadora, 12.05.2012)”. Although demonstrations were smaller than expected and remained peaceful, a CNTA official stated on 14th of May, that “no one travelling in tour groups will be staying in the Philippines after May 16”, noting the intensification of the island dispute (Xinhua, 14.05.2012). The group travel-ban lasted for five months (Ocampo, 16.09.2014).

Figure 25. Number of Chinese tourists to the Philippines January 2011 – July 2014⁵⁸



Source: (Department of Tourism in the Philippines, 2015).

⁵⁸ Source: Department of Tourism in the Philippines. (2014). Visitor Statistics. Retrieved 01.06.2015, from <http://www.visitmyphilippines.com/index.php?title=visitorstatistics&func=all&pid=39&tbl=1>

China provided about 251 000 visitors in 2012, which equaled 6 percent of all visitors to the Philippines in 2012. This was actually an increase of 3,2 percent over 2011's volume. The increase is small compared to the strong increase of 2011's volume of 30 percent over 2010's and was clearly due to high visitor numbers in the months before the standoff. One estimate is that cancellations in May alone resulted in losses equivalent to US\$ 1 million for the Philippine tourist industry (Thayer, 2012). From June to August the average monthly tourism drop was 35 percent compared to 2011 numbers. Although the group travel ban "only" lasted for five months, the average monthly drop in tourism for eight months after the advisory was 30 percent compared to the same months the previous year. Hence, the advisory seems to have had a lingering effect. Considering Beijing's warning that Manila had instigated the Philippine public with anti-China sentiments – some Chinese tourists might have feared that the Philippines had turned anti-Chinese. In addition, if it was not for the tense standoff and tourist warning we could have expected an increase due to the trend in increased tourism from January - April in 2012. Thus, the drop was significant.

The "travel advisory effect" definitively ended eight months after the standoff. In February 2013, the Philippines received almost twice as many Chinese visitors compared to February 2012. In total 426 000 tourists visited the Philippines in 2013. Thus, 2013 became a better year for visits by Chinese tourists than had been forecasted by the Philippine Department of Tourism for the period 2011-2016. The arrival forecast was barely above 300 000 in 2013. A number above 400 000 was first expected in 2015 (Philippine Department of Tourism, 2014: 29).

Comparing the Philippine and Japanese tourist drop

In terms of share of tourism, the Chinese visitor drop to the Philippines after the Scarborough tensions was more severe than to Japan after the 2010 tensions. This is in line with the different wordings in the advisories issued. During the Senkaku/Diaoyu 2010 tensions Chinese tourists currently in Japan or planning travels to Japan were advised to watch their safety. During the Scarborough tensions, travel agencies were warned *against* arranging tours to the Philippines.

The share of the drop in Chinese tourists to the Philippines in 2012 resembles the drop in Chinese tourists to Japan after the 2012 nationalization, although the drop in tourism to Japan was longer-lived and the volume of the drop was larger. However, the Senkaku/Diaoyu 2012

tensions differ in that it seemed as if Chinese tourists and travel agencies needed less incentive to boycott Japan, since they had already started to boycott Japan before CNTA issued a travel advisory.

Tourism - a successful sanction?

The economic cost for China of imposing a tourist sanction against the Philippines is low. Compared to Japan, the Philippines did not have the same “balancing”- possibilities. Filipinos accounted for only 0,33 percent of foreign tourists visiting China⁵⁹ in 2011⁶⁰. One can actually argue that tourism was a non-cost or perhaps even a net gain sanction for China to impose. Even if some Philippine tourists did boycott China in return, they constituted such a small share of Chinese foreign tourists that it would hardly be noticeable. However, if Chinese tourists ended up staying in China, China might actually have gained, because their citizens spent their vacation money at home. Thus, in terms of inflicting an asymmetric economic cost, restricting tourism is especially applicable towards countries who cannot effectively punish back.

In addition to the low economic cost for China, and similar with boycotts of products, Beijing is less involved, compared to for example REE restrictions, since Chinese travelers in the end have decide to boycott the Philippines as a tourist destination. Although tourists only comfortable travelling in tour groups did not have much choice as their trips were cancelled by the tourist agencies. Moreover, it can be perceived as legitimate to blame anti-China sentiments in the Philippines. Indeed, there were some demonstrations. Hence, China can avoid more of the political fallout of being a powerful country using coercive tools to put pressure on an economic and military weaker neighbor.

Restricting tourism to the Philippines had two advantages for Beijing – the economic backlash was low or non-existent, and the political fallout was perhaps lower, compared to other sanction possibilities (perhaps even compared to banana restrictions?). Considering these advantages, we might expect to see a rise in China reporting anti-China sentiments (when there are indications of anti-China sentiments) in countries. These advantages might be the reason why Beijing did not restrict bananas, but imposed another tourist advisory in 2014, believed to be a rebuff to Manila’s handling of territorial disputes (I return to the 2014 advisory later in the chapter). Using tourism as a foreign policy tool seems like a clever way

⁵⁹ Hong Kong, Macau and Taiwan are not included in the calculation.

⁶⁰ The Philippines accounted for 90 000 tourists out of 27 million foreign tourists in 2011. 96 000 in 2012, 100 000 in 2013 and 97 000 tourists in 2014 according to (TravelChina.com, 2015).

of imposing an economic effect without creating an economic backlash for China – it is a very asymmetric sanction.

10.3 Sino-Philippine overall economic links⁶¹

The two industries directly targeted by sanctions were clearly affected. The banana-effect was short lived, while the tourist effect was medium-lived. Did tensions also visibly affect Sino-Philippine economic links overall?

Overall trade between China and the Philippines are much lower than overall trade between Japan and China. However, the relationship is more asymmetric in that Philippine trade constitutes a very small portion of Chinese trade, while Chinese trade constitutes a large portion of the Philippines' trade. Moreover, the influence effect China holds over trading partners should be greater when trading with poorer countries because the marginal utility of income in poorer countries is higher (Hirschman, 1945: 25). This also suggests that trade with China should be more important to the Philippines, characterized as a lower-middle-income economy by the World Bank, than to Japan which is classified as a high income OECD member⁶². Hence, the Philippines should be more susceptible to the influence effect.

10.3.1 Philippine exports to China

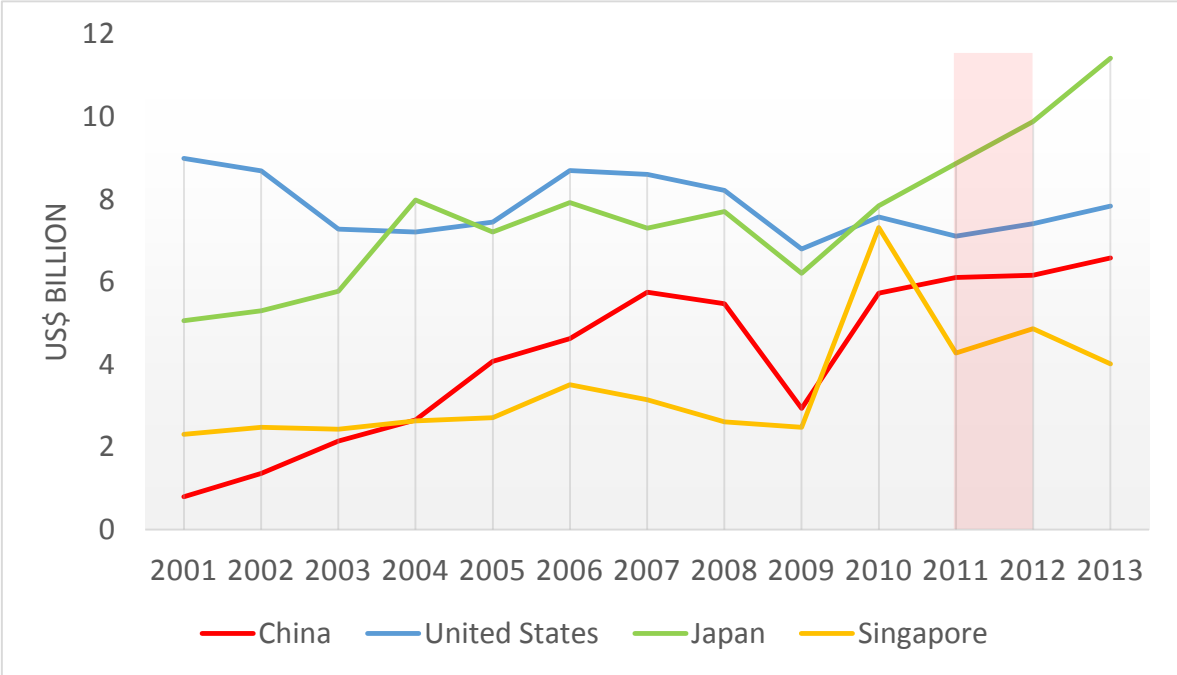
In 2011, China was the Philippines third largest export market. Philippines exports to China totaled 6.1 US\$ billion, accounted for 12,7 percent of the Philippine's total exports and equaled 2,7 percent of the Philippines' GDP⁶³. In contrast did China's imports from the Philippines from 2011-2013 on average equal 0,9 % of China's total imports. The Philippines was only China's sixth largest import source among ASEAN countries (International Trade Center, 2015). As a Chinese scholar noted - bilateral trade is only "a small share of China's foreign trade" but "closely related to the Philippines' economic growth (Li, 14.05.2012)".

⁶¹ All statistics on annual exports and imports have been retrieved from www.trademap.org, provided for by International Trade Center (ITC). The data is based on COMTRADE, the world's largest trade database maintained by the United Nations Statistics Division.

⁶² World Bank. (2015). Country and Lending Groups. Retrieved 01.06.2015, from <http://data.worldbank.org/about/country-and-lending-groups>.

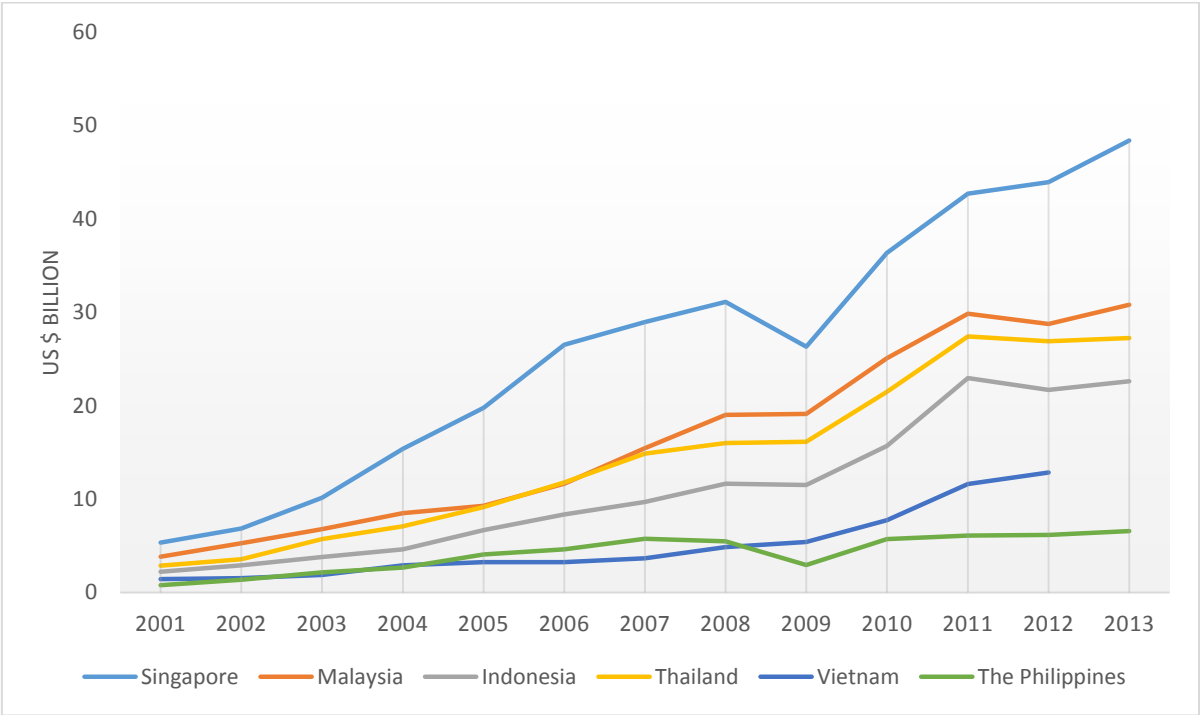
⁶³ World Bank. (2015). GDP (current US\$). Retrieved 01.06.2015 from <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

Figure 26. Annual exports to the Philippine's top export markets



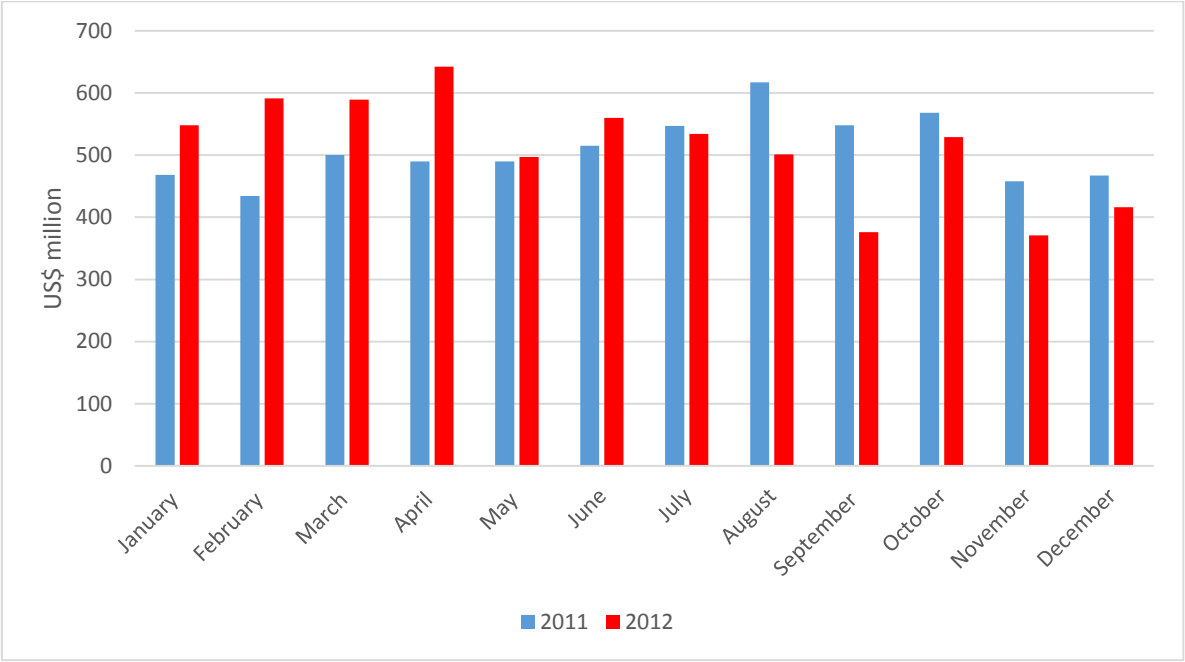
Source: (International Trade Center, 2015).

Figure 27. ASEAN 6 exports to China



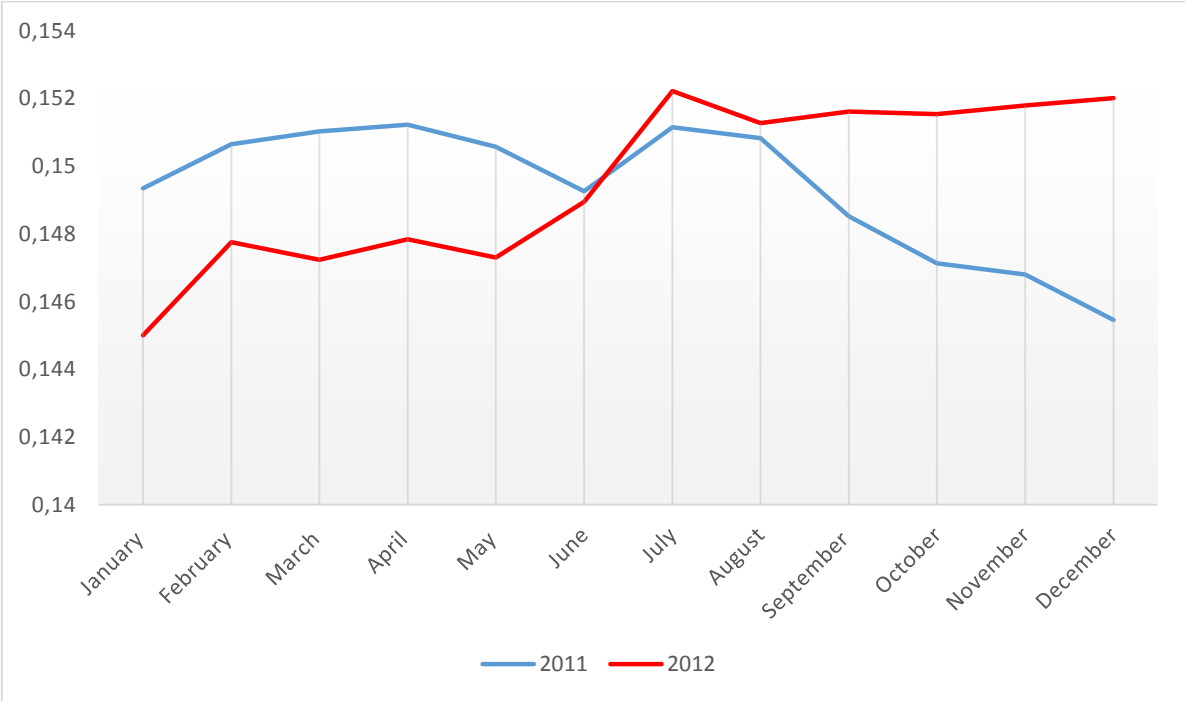
Source: (International Trade Center, 2015).

Figure 28. Monthly Philippine exports to China in 2011 and 2012



Source: (UN Comtrade, 2015b).

Figure 29. Monthly peso/yuan appreciation



Source: (X-rates, 2015).

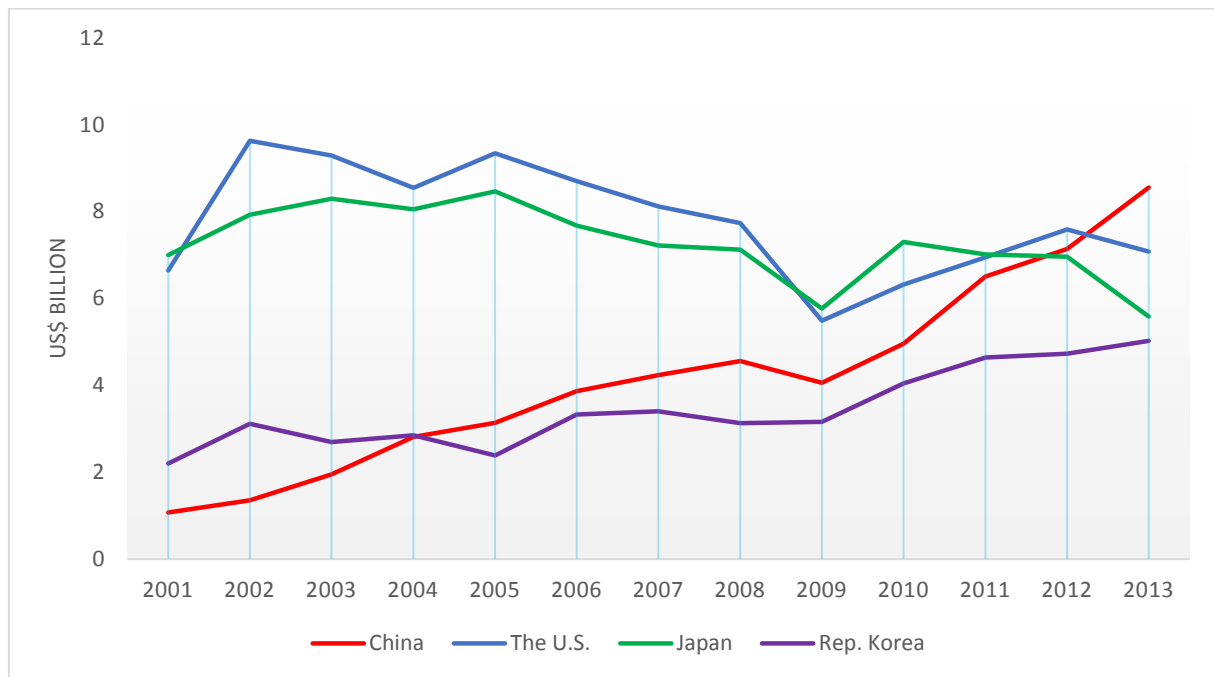
Annual exports from the Philippines' to China from 2011-2013 was stable despite the increase in tensions. In 2012, exports grew with 0,9 percent over 2011 numbers. In comparison, exports to Japan grew with 10 percent over 2011 numbers. Considering that China's growth rate averaged 8,2 percent compared to Japan's growth rate at 0,8 percent, one could argue the Philippines was set for an increase in exports to China⁶⁴, and that stable growth equals a "Scarborough Shoal effect". However, compared to the other large economies in ASEAN, there is nothing unusual to spot in Philippine exports to China in 2012. Exports from Singapore and Vietnam grew with 2,8 and 9,5 percent, while exports from Malaysia, Indonesia and Thailand dropped with 3,8 - 5,9 and 1,8 percent over 2011 numbers.

Monthly statistics on 2012 over 2011 numbers show that exports decreased during and after the standoff. However, lower exports to China coincided with rising appreciation of the Philippine peso over the Chinese yuan. This stands in contrast to the Senkaku/Diaoyu 2012 tensions, when Japanese exports to China decreased despite the fact that the Japanese yen dropped. Moreover, both Philippine economists and business people agreed that the rising peso-appreciation in 2012 negatively affected exports since Philippine exports became more expensive compared to its competitors (Sicat, 22.08.2012; Rappler.com, 28.11.2012; Navarro & Yap, 2013: 9). It is thus hard to link declining exports in the months after the standoff to tensions. The conclusion in respect to overall exports is that Scarborough Shoal tensions did not visibly affect Philippine exports negatively in 2012. Perhaps this is not that surprising when considering that the Philippines complied with China's demand and withdrew their vessels.

⁶⁴ World Bank. (2015). GDP growth (annual %). Retrieved 01.06.2015, from <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

10.3.2 Philippine imports from China

Figure 30. The Philippine's top import sources



Source: (International Trade Center, 2015)

In 2011, imports from China accounted for 10,2 percent of the Philippines total share of imports and 0,9 percent of China's total share of exports. From 2011-2013 imports from China increased more than imports from other large import sources and in 2013 China became the Philippines' number one import source. This demonstrates that China did not curb its exports to the Philippines, which can have something to do with the nature of the goods traded. Ravindran, who has analyzed the strategic nature of Philippine imports from China does find that 29 percent of Philippine imports of telecommunication parts come from China, which is important, due to the Philippines fast-growing telecommunication sector (Ravindran 2012: 117). However, compared Japan's dependence on China's 97 percent monopoly of REE in 2010, this commodity is hardly essentially irreplaceable to the Philippines. In addition, as Revindran argues, there is "a high opportunity cost for China in implementing such export restrictions as it may harm its own export-oriented industry (Ravindran, 2012: 118)".

The import statistics also demonstrate that the Philippines was not balancing against reliance on Chinese imports by importing more from other sources, which would be a good defensive principle if they feared becoming too economically dependent. Instead, the Philippines became more dependent on China as an import source in terms of market share, but not necessarily in terms of irreplaceability of goods.

10.3.3 Chinese investments in the Philippines

The Chinese and Philippine economies are mainly linked through trade and tourism (World Bank, 2014: 30) and FDI from China constitutes a small portion of total FDI inflows to the Philippines, although many other ASEAN nations are receiving notable FDI from China. “Between 2009 and 2012, net FDI from China turned negative”, and Japan and the U.S. remains the biggest sources of FDI for the Philippines (World Bank, 2014: 28).

10.4 The counterfactual development in economic links

Although overall trade statistics do not show a negative economic effect, the counterfactual development since 2012, especially in relation to exports and FDI, might have been better. When Aquino visited China in 2011, the governments had actually agreed to make China the largest export market of the Philippines (Li, 14.05.2012). Despite of this, exports from 2011 to 2013 were stable. Moreover, diplomatic exchanges between trading nations nurture trade through official visits (Nitsch, 2007), and healthy bilateral relations with China has earlier lead to economic rewards. For example when China’s Commerce Minister, Bo Xilai, visited Manila in 2006, he announced investments that would total US\$ 32 billion in agriculture, fishing, tourism, mining and energy (Kang, 2007: 138). However, since Xi came to power official high-level diplomatic exchanges has been frozen, and a Philippine scholar argues that China has deliberately suppressed extensive investments to the Philippines due to the tense territorial issues (Heydarian, 21.01.2015).

Moreover, World Bank’s economic update in August 2014 devoted several pages to the role of China in the development of the Philippines. This was the first time the World Bank had ever devoted a special section to another country’s influence on the Filipino economy (Tiglao, 12.08.2014). The section was entitled “Special Focus: China’s slowdown and rebalancing — How the Philippines can still benefit.” The report stated explicitly that one of the external factors that posed a risk to further growth in the Philippines was the territorial dispute with China; “(...) territorial disputes with China can dampen external demand and FDI, and raise the country’s import bill” (World Bank, 2014: 11). The report indicated that the Philippines should fix their bilateral relations, or at a minimum avoid further confrontations with China, in order to secure future economic growth.

10.5 The economic impact of Scarborough Shoal tensions

In 2011, the value of the Philippine banana exports accounted for 1,23% of the total value of exports to China. If China really wanted to hurt the Philippine economy they could have hit Philippine exports of electronic parts and components, which from 2005-2009 accounted for

50 percent of Philippine total exports to China. However, according to the World Bank the Philippines has become an important source for electronics parts and components for China (World Bank, 2014: 26-27). “The move of enhancing fruit quality inspections” however was “convenient and easy to operate” and intended “to test the reaction of the Philippines before economic sanctions [were] introduced (Li, 14.05.2012)”. Banana restrictions had an asymmetric effect. Although restrictions were short-lived, the economic cost for imposing them was even lower. One specific region (Davao) was hit hard, while China substituted Philippine bananas.

In terms of the economic effect, the tourist advisory and banana restrictions were low-cost ways for China to put pressure on the Philippines. Since overall exports and imports were not visibly affected, sanctions were perhaps a threat that Sino-Philippine trade and tourism would be in jeopardy if the Philippines did not withdraw their vessels. For Beijing, the sanctions were successful in that the Philippines complied with China’s original demand. Indeed, China still controls access to the Shoal, which they did not do before the standoff.

10.6 Alternative explanations for appeasing China

Economic sanctions were imposed in combination with other foreign policy tools – most notably the continued presence of Chinese vessels and increasingly harsh rhetoric. Fu’s statement on 7th of May, and toughly worded editorials in the China Daily and also in the 9th of May issue of the media outlet of the People’s Liberation Army (Castro, 2013: 115) were examples of how China’s belligerent rhetoric escalated in the period when sanctions were introduced. The rhetoric can be described as China issuing a threat to use military force if the Philippines did not comply with China’s demands, what Schelling would describe as issuing a “compellence threat” (Schelling, 2008[1966]: 70). If it was only a threat, or a threat Beijing intended to act on if the Philippines escalated the situation, or did not withdraw, is unknown. However, the rhetoric did portray the use of military force as a tolerable, although unwanted scenario for China, and probably contributed to the withdrawal or at least to the speeding up of diplomatic efforts that ended in what was portrayed by the Philippine side - a joint agreement to withdraw.

In addition, the threat of force likely contributed to Philippine paramilitary vessels not returning to the Shoal, despite Aquino indicating in June 2012 that they would if China did not withdraw (Esplanada, 26.11.2012; Esplanada, 03.03.2014). However, Philippine vessels and aircrafts have monitored the Chinese vessels after the standoff, but vessels did not return

close to the Shoal (Quismundo, 08.06.2013) As of 2015, China still controls access to the Shoal, and have hindered Philippine fishermen to fish around the Shoal (Xinhua, 05.02.2015).

CHAPTER 11: THE PHILIPPINES' STRATEGY TOWARDS CHINA AFTER THE 2012 SCARBOROUGH SHOAL STANDOFF

During the standoff the Philippines invited China to take the Scarborough Shoal dispute to the International Tribunal for the Law of the Sea (hereafter ITLOS), and threatened to unilaterally do so if China did not join (Thayer, 2012). In October 2012, Fu visited Manila and warned Rosario: i) “not to appeal to the U.N. to resolve the dispute”, ii) “not to internationalize the issue in forums such as the ASEAN”, iii) “not to coordinate with any other country such as the U.S.”. In addition, Manila should not; “issue press releases [of the discussions] (Wall Street Journal, 25.01.2013).”

Although withdrawing and not returning close to the Shoal must be described as an appeasing move - the Philippines' appeasement strategy ends there. The Philippines did not try to avoid putting the territorial dispute on the agenda after Scarborough Shoal and they did not comply with Fu's demands. Rather, Philippine perceptions of a China threat to their control of disputed islands lead Manila too diplomatically and militarily balance against China in territorial disputes after Scarborough Shoal tensions.

11.1 Threat perceptions of China surge among Philippine public and elites

According to an opinion poll conducted by Social Weather Station (SWS), a social research institution in the Philippines, perceptions of China hit a new record low in the end of May 2012. Net trust in China was measured as bad (-36)⁶⁵, which was the same level of trust the SWS measured after the Mischief Reef incident in 1995 (Social Weather Station, 13.08.2012), when China occupied a Philippine-claimed Reef, which is a part of the Spratly's chain (Midford & Moen, 2007: 18). In comparison was net trust in North Korea also measured as bad (-34), while net trust in the U.S was measured as very good (62) and Japan as good (32). Moreover, 48 percent reported that they “closely” or “somewhat closely” followed the news reports on the standoff. Those who followed it “very closely” rated their trust in China as “very bad (-52)”. Those who followed it “somewhat closely”, “just a little” or “not at all” rated their trust as bad (-36), bad (-34) and bad (-34) (Social Weather Station, 2012).

Although the survey was conducted during the standoff, which ended in mid-June, a high-ranking Philippine diplomat explained that Filipinos felt deceived when China did not withdraw from the shoal. Moreover, he guessed the standoff and China's continued control of

⁶⁵ The SWS categorize net trust ratings of 70 and up as “excellent”, 50 to 69 as “very good”, 30 to 49 as “good”, 10 to 29 as “moderate”, +9 to -9 as “neutral”, -10 to -29 as “poor”, -30 to -49 as “bad”, -50 to -69 as “very bad” and -70 and below as “execrable.”

the Shoal at least had led well-educated Filipinos to start to fear China as a military threat (Philippine diplomat, January 2015).

Statements from the Philippine president since 2012 have clearly demonstrated what threat-perceptions he held of China after tensions. Two days after the standoff began, he told his Defense Secretary, Voltaire Gazmin, and Philippine military officials: “what is important is that we take care of our sovereignty. We cannot give it [Scarborough Shoal] away and we cannot depend on other but ourselves (as quoted in *Inquirer.net*, 09.05.2012)”. Aquino’s rhetoric became more aggressive with time. At an ASEAN summit in February 2014, he compared China’s behavior in the SCS to Hitler’s seizure of the Sudetenland. The American journal, *Foreign Affairs*, confronted Aquino and beneath is his answer to managing editor, John Tepperman:

During a lunch at an ASEAN summit the leader of another ASEAN country was sitting next to me, and he said, “They’re a big country (China), and we’re small. This is the reality of the world. They can be very generous.” The idea was to give in to what they wanted. My response was “Isn’t that the same as what (people said about) Hitler? He said, we need “living space”. I want a third of Czechoslovakia. And the Czechs were not even consulted. In this situation, obviously I cannot say, “Please take a portion of the Philippines”. And nobody will stand up for our rights unless we stand up for our rights. – Benigno Aquino to *Foreign Affairs* (2014).

Aquino’s rhetoric’s stand in stark contrast to the rhetoric’s of the previous Philippine president, Gloria Macapagal-Arroyo, who was the first Philippine president that made Beijing her first official visit over Washington. In 2006, she stated that Sino-Filipino relations had entered a “golden period” – referring to a deepening of military and economic cooperation (Kang, 2007: 62).

11.1.2 “Rally-around-the-flag” effect

Against the perception that small states do not balance, Larson and Schweller argue that states that choose to underbalance against perceived threats are politically divided. In contrast, states that balance manage to unite the population behind the government (Larson, 1991; Schweller, 2010). In line with Larson’s and Schweller’s domestic reasoning around a balancing response, the external factors - China’s physical presence at the shoal, belligerent rhetoric and economic pressure - created a “rally-around-the-flag” effect in the Philippines. In line with the above-mentioned perceptions of China, the Philippine elites and public backed a balancing strategy against China’s claim to Scarborough Shoal. During the standoff, the Filipino public and the different power blocks united behind the Aquino administration’s decision to assert their claim to Scarborough Shoal (Robles, 26.05.2012, Castro, 2013: 115).

11.2 Internal balancing - “The boarder protection program”

Scarborough Shoal was a wake-up call for the Philippines, as they realized how small their defense capabilities were, compared to China’s (Philippine diplomat, January 2015).

Consequently, during and after the standoff the Philippines started to increase their military budget. During the standoff, Filipino legislators agreed to distribute more money to the modernization of the Armed Forces of the Philippines (hereafter AFP). Aquino’s administration doubled its efforts in establishing a “comprehensive border protection program (hereafter CBPP)” to balance against China’s maritime assertiveness (Castro, 2013: 115). The CBPP is developed by the National Security Council; the principal advisory body on coordination and integration of plans and policies affecting national security in the Philippines. It focuses on reinforcing border security anchored “on the establishment and enhancement of surveillance, deterrence and border patrol capabilities of the Philippine Air Force, Philippine Navy and Philippine Coast Guard⁶⁶”.

Although the standoff ended in mid-June, Aquino proposed an AFP modernization bill in July, which added US\$ 1,8 billion for defense spending the forthcoming five years. The money would amongst other be used on cannons, frigates and aircrafts (Larano, 23.07.2012). The *AFP Modernization Act* passed in December 2012 and was meant “to strengthen the AFP “as it shifts from internal to external defense” (Valente, 22.07.2013).

11.3 External balancing - enhanced military cooperation with the US

“We were happy when the U.S. left, now we are welcoming them back” (Philippine diplomat, January 2015).

In addition to being a former US colony, the Philippines is the oldest of the U.S.’ treaty-based allies in the Asia-Pacific region. In 1951, they signed the Mutual Defense Treaty and from that time, they have been military partners. The U.S. maintained a permanent military presence in the Philippines until the Philippines moved to distance themselves from their ally. In 1992, Filipino legislators refused to ratify a new basing treaty, leading to the departure of American troops from Subic Bay naval base and Clark Air base, the only two remaining bases (Sidel, 2014: 69). However, when China occupied the Philippine-claimed Mischief Reef in 1995, the Philippines reversed their distancing policy. They once again tightened their military relations with the U.S. and in 1998 they entered an agreement that allowed American

⁶⁶ For details of the “Comprehensive border protection program” see National Security Council. (2010). *Securing the Gains of Democracy, National Security Policy 2011-2016*. Retrieved 01.06.2015, from <http://www.nsc.gov.ph/attachments/article/29/NSP-2011-2016.pdf>

troops to return for short-term exercises on Filipino soil (Midford & Moen, 2007: 18 & 28). However, despite the Mischief Reef incident, the Philippines' military cooperation with the U.S. was limited during the first decade of the 21st century. The cooperation was almost exclusively focused at the Mindanao Islamic insurgency that is seeking independence in the southern Philippines. Most relevant for the outline of Philippine's military strategy after 2012 tensions – the cooperation was not focused on a China-threat (Kang, 2007: 140).

Reminded of that their military capabilities could not match, and maybe not even deter a more assertive China, the Philippines appealed for U.S support. In June 2012, President Barack Obama assured Aquino that the U.S. would abide by its security commitment as provided by the Mutual Defense Treaty (Castro, 2013: 116). However, in contrast to Japan's defense agreement, the Philippines has no guarantee that the treaty covers their claims in the SCS (Economist, 19.04.2015). However, the US might be obligated to defend the Philippines if a military conflict with China escalated to the point of Chinese strikes on uncontested Philippines territory (Reuters, 30.04.2014). In 2013, they started discussions with the U.S. on a new bilateral defense treaty, which would permit broader American military presence in the Philippines. The treaty remains unconcluded, but the recent "Enhanced Defense Cooperation Act" (EDCA) will see American troops share facilities with AFP, but not maintain any permanent presence in the country. EDCA was concluded in March 2014, and was an executive agreement, but not a formal treaty (Sidel, 2014: 69; Manila Times, 28.04.2014). In relation to the agreement Rosario told Manila Times that military exercises with the U.S. would bolster the preparedness of the Philippines and the U.S. to deal with tensions "due to excessive and expansive maritime and territorial claims" and "aggressive patterns of behavior" in the SCS. This was obviously negative rhetoric about China's behavior in the region (Manila Times, 06.05.2014).

11.4 External balancing - coast guard cooperation with Japan

"We have two strategic partners who have demonstrated real friendship to us over quite a number of decades, especially after the war, and that's the United States and Japan" - Benigno Aquino (as quoted in Foreign Affairs, 2014).

Some years ago, Japan's rise to a normal military power was unthinkable, due to Japan's wartime history in the region. Now the Philippines welcomes Japan as a counter-balance to China (Philippine diplomat, January 2015). Japan, which has had a limited role in the SCS due to their historic role in the region before 1945, has since 2010 become a credible counter-China strategic partner for the Philippines (Midford, 2014b: 3 & 34). Japan's coastguard

cooperation and strategic Official Development Assistance to the Philippines started out as a counter-piracy initiative in 2006/2007, but has been redirected to counterbalance China in the SCS. In 2011, the Noda administration in Japan and the Aquino administration in the Philippines agreed to a strategic partnership. In March 2012, Tokyo said they would provide the Philippine coast guard with “two 40 meter 1000 ton class large patrol ships and ten 180 ton class patrol ships” (Nihon Keizai Shimbun, 22.03.2012; Midford, 2014b: 33). Overall, the initiative will provide the Philippine coastguard with much better surveillance and mobility measures in the SCS (Midford, 2014b: 31 - 33).

Although the strategic partnership between Japan and the Philippines was not a direct effect of the Scarborough Shoal incident, on Japan’s side it was a direct reaction to the 2010 Senkaku confrontation (Midford, 2014b). Hence, it was a result of a perception of a China threat in the ECS and SCS, and it contributes in explaining why the Philippines could chose a balancing strategy in the aftermath of Scarborough Shoal. They have indeed a very credible ally in the United States, but also in the regional power of Japan. In addition, as the economic outline demonstrated, Japan has become the Philippines largest trading partner (for example they are the top importer of Philippine bananas), and an important source of investments and tourism in the Philippines.

11.5 Legal challenge and deepening of the rift

Despite Fu’s warning and China’s declaration it would not accept or participate in international arbitration under any circumstances, the Philippines’ deepened the rift by diplomatically balance against China. In January 2013, Manila lodged a legal challenge against China’s claims in the South China Sea to the International Tribunal for the Law of the Sea (hereafter ITLOS), established by the UNCLOS (BBC, 08.05.2014; Chansoria, 20.04.2014). After the challenge, Aquino was no longer welcomed to attend the 10th China-ASEAN Expo in Nanning, although the Philippines was the “country of honor”, Xi continued to refuse to meet Aquino and Philippine business leaders blamed the soured political relations for missed opportunities in trade, tourism and investments (Sidel, 2014: 69).

According to the UNCLOS, the Philippines is entitled to an EEZ and continental shelf from its (archipelagic) baseline. This includes sovereignty over features classified as low-tide elevations⁶⁷, such as the Reed Bank and the Mischief Reef, which according to international law are “not susceptible to sovereignty or occupation” (Rosen, 2014: ii). In the legal challenge

⁶⁷ Low tide elevations are features that are beneath water at high tide.

the Philippines insists that the Mischief Reef, Reed Bank and parts of Scarborough Shoal are underwater features within the Philippines mainland EEZ and therefore authorized to the Philippines mainland by the UNCLOS. With this background, the Philippines' claim that underwater features within their EEZ are being illegally occupied by China, and that China interferes with the use and management of Philippine maritime resources (Reichler, 2013; Rosen, 2014: ii). In addition to claim that some of the features are low tide elevations and thus not susceptible to sovereignty or occupation, the Philippines claim that some Spratly islands China claims are not entitled to an EEZ (which China claims that they are) because they are not islands or cannot support human habitation. According to UNCLOS, rocks and reefs, in contrast to islands, do not generate EEZs or continental shelves. This implies that sovereignty over these features, if classified as rocks by international law, only would entitle the sovereign state with a 12 nm territorial zone, not an EEZ (Reichler, 2013)⁶⁸.

According to the Philippine diplomat, China wants Scarborough Shoal because of the EEZ it would generate. Furthermore, the Philippines took China to court in order to prove that China has to follow international law and to demonstrate that they have to prove themselves as a responsible international player. There are no sanction options if arbitration judge in favor of the Philippines, but there will be a moral victory (Philippine diplomat, January 2015). A favorable decision would also tend to delegitimize China's claims in the eyes of international public opinion (Rosen, 2014: 40) and thus decrease the chance that other countries will recognize Chinese sovereignty over the features and decrease the likelihood that foreign companies will do business there.

11.5.1 Beijing's retaliation

China has refused to take part in the arbitration. A position paper they issued in the aftermath said that the Philippine initiation "will not change the history and fact of China's sovereignty over the SCS islands (MFA, 2014)". Without doubt, Manila knew that the legal challenge would arouse Beijing. The move cannot be understood as anything else than an attempt by Manila to strengthen its territorial claims against China's.

This was the first legal challenge filed with an international arbitration body against China's nine-dash-line claim and it has been described as an unprecedented move. In early 2014, before the deadline of the written pleading to ITLOS, former national security advisor in the

⁶⁸ Even if some of the Spratly islands are entitled to an EEZ, it would at most go only half way to Philippine mainland (i.e. the mid line principle). However, an island entitled to an EEZ would extend 200 nm west towards the center and west towards Vietnam - a significant maritime area.

Philippines, Roilo Golez, and two government insiders, stated that China, through backdoor channels, had offered to withdraw from Scarborough Shoal if the Philippines dropped the written pleading (set for 30th of March). The CEPH had “no information to offer” on China’s alleged carrot. Reportedly, Aquino had discussed the offer with the Cabinet (Esmaguél, 26.02.2014; Robles & Ng, 01.03.2014). The Philippine diplomat did not dismiss China’s offer to withdraw, although he did not know more than what the news had reported (Philippine diplomat, June 2015). Considering that China also offered to withdraw from the Shoal during the standoff in 2012, it might be that China’s carrot was not assessed as serious. However, if the offer was serious, it means that Manila’s counterbalancing now goes beyond the original trigger for its initiation – China’s continued presence at Scarborough Shoal.

Manila ended up filing the written pleading and it spurred Beijing’s retaliations. In May 2014, media discussed that China’s absence at the World Economic Forum in Manila was a rebuff to the legal challenge (Makabenta, 21.05.2014). In mid-September 2014, both the MFA and CNTA warned tourists *against* travelling to the Philippines due to a “worsened security situation”. The tourist advisory followed an alleged bomb plot against the CEPH, general concerns of criminal gangs and the kidnapping of a Chinese man in the southern Philippines (Global Times, 16.09.2014; Almendral, 22.10.2014). The day after the warning, an editorial in Global Times linked the security situation to Sino-Philippine tensions and argued that:

The Philippine authorities are a major agitator of a nationalist and anti-China sentiment among its population, which can easily turn into extremism. Plus, the government of the Philippines lacks the ability to manage safety issues⁶⁹. Consequently, certain criminals may take advantage of this anti-China mood as a cover to increase the likelihood of escaping punishment for their crimes – Global Times Editorial (16.09.2014).

However, according to Sino-Philippine analyst, Aileen Baviera, the security situation for Chinese visitors in the Philippines had not worsened and; "hyping up the danger to their own nationals in the Philippines is one way that they [Beijing] put subtle pressure on the [Philippine] government" (Almendral, 22.10.2014). Thus, the world’s fastest growing outbound tourist-source and the world’s biggest tourist spenders⁷⁰ were again avoiding the Philippines. According to Philippine Department of Tourism they felt the economic impact

⁶⁹ The editorial also mention the hijacking of a Hong Kong tourist bus in 2010, when the Philippine police rescue attempt resulted in eight dead tourists, and an episode in 2013 when the Philippine Coast Guard vessel fired on a Taiwanese fishing boat and killed a fisherman (Global Times, 16.09.2014). Hence, there is some background information that makes the warning plausible.

⁷⁰ Chinese tourists had spent US\$ 144.7 million in the Philippines between January and August 2014 (Almendral, 22.10.2014).

already in October. In total, the number of Chinese tourists declined 7 percent in 2014⁷¹. By April 2015, the advisory was still not lifted (Cripps, 12.04.2013; Almendral, 22.10.2014; Esmaque, 05.04.2015).

The Philippine diplomat viewed the tourist warning as retaliation for Manila's handling of territorial disputes. He explained that it was embarrassing for the Chinese when the Philippines took them to court. They were losing "face", and consequently they imposed tourist sanctions (Philippine diplomat, January 2015). Thus, the tourist advisory seems to be another attempt to put pressure on Manila, which has taken few military and diplomatic measures to appease China in territorial disputes in the aftermath of the standoff at Scarborough Shoal.

11.6 Reconciliation? A meeting of minds

In 2014, there were some indications of warmer relations. In addition to meeting with Abe, Xi met with Aquino at the sidelines of the APEC conference in November 2014. This was the first time the two leaders met since 2011. Aquino said their approximately 10-minute discussion was warm and sincere; the two "had a meeting of the minds". Moreover, during APEC's CEO summit Aquino stressed that the Philippines sought healthy political relations with Beijing, and linked this with prosperous economic relations: "Your economy has to keep on growing and growth cannot happen when there is instability, especially when a situation is very unstable or very tense". Interestingly, Xi and Aquino met at the initiative of Xi (Leyco, 13.11.2014), about three weeks after the Philippines became a prospective founding member of China's recently established Asian Infrastructure Investment Bank (hereafter AIIB)⁷². Philippine analysts has stressed that the AIIB is important to the Philippines since it will provide Philippine rural areas with much-needed basic infrastructure (Bauzon, 12.10.2014; Parameswaran, 07.04.2015). However, joining the AIIB was not necessarily free for Manila. The U.S. had asked its allies not to join the bank, which they see as a competitor to the World Bank, and a way for China to extend its soft power in the Asia-Pacific. Moreover, other U.S. – allies, such as the U.K. and ROK did not join until right before the deadline in March 2015 and Japan did not join (Watt & Lewis & Branigan, 13.03.2015). The meeting with Xi might have been a reward to the Philippines for becoming a prospective member of China's AIIB, as

⁷¹ Philippine Department of Tourism had by 01.05.2015 not released statistics for July-December 2014.

⁷² The formal signing is in June 2015.

it was useful for China to win acceptance of the AIIB by having a U.S.-ally join. Hence, Manila's decision in October 2014 can be seen as a costly gesture towards Beijing⁷³.

11.7 Recent developments – China's "construction spree"

Despite the above mentioned indications of reconciliation efforts, satellite images from April 2015 demonstrated that China had been expanding on seven features in the SCS (which China has occupied since the 1980s and early 1990s). Perhaps most significantly they had build an artificial island at Fiery Cross Reef in the Spratlys and were in the process of building an airstrip⁷⁴, long enough to land almost all types of Chinese planes, including military aircrafts⁷⁵. On 9th of April, in the wake of the release of photos of more constructions also on Mischief Reef, which demonstrated that China was building port facilities and also a radar base, a Chinese MFA spokesperson admitted the constructions would give it military advantages (Asia Maritime Transparency Initiative, 2015). A Chinese Defense Ministry spokesman has also admitted that Spratly constructions have military purposes, although he also claimed they were for civilian use (Denyer, 26.05.2015). Aquino was quoted saying that China's rapid expansion: "should engender fear for the rest of the world (Economist, 19.04.2015)". This year's Balikatan exercise, an annual U.S – Philippine military exercise, was the biggest in 15 years, with 11 000 troops. Amongst other, the troops had conducted amphibious assault exercises that would be relevant to a Spratly combat scenario (Mangosin, 30.04.2015). Moreover, the Philippines and Vietnam (which has overlapping claims to almost all of the Spratly islands), agreed to establish a strategic partnerships in order to balance against China's expansion in the SCS. In practical terms, the partnership could mean sharing information and joint naval drills (Venzon, 21.04.2015).

Moreover, a new Sino-Philippine spat recently emerged in the SCS as China warned Philippine (and American aircrafts) patrolling over Chinese held Spratly islands to leave the area. According to an American security analyst and Philippine media, China's recent island building and aircraft warnings indicate that: "China is moving toward declaring an air defense identification zone" over the SCS (Aguinaldo, 20.05.2015; Esguerra, 26.05.2015). On his side, Aquino vowed to continue air patrols over the disputed Spratly islands, saying that "we will defend our rights to the best of our abilities (Esguerra, 26.05.2015)", while the Philippine defense minister stated that the Philippines was seeking a "stronger commitment" from the

⁷³ Manila's final decision to join or not will be made in June 2015 (Parameswaran, 07.04.2015).

⁷⁴ The Philippines, Malaysia and Taiwan already have airstrips in the Spratlys.

⁷⁵ For an interactive map of Fiery Cross Reef constructions see Asia Maritime Transparency Initiative. (2015). Retrieved 01.06.2015, from <http://amti.csis.org/fiery-cross/>

U.S.. At a news conference, a MFA spokesperson reminded the Philippines: “that China will not bully small countries, but small countries must not ceaselessly and willfully make trouble (Denyer, 26.05.2015)”. In June 2015, Aquino visited Japan and the two countries agreed to deepen their strategic partnership. They would start negotiations on Japanese exports of defense equipment like patrol aircrafts and radar equipment to the Philippines. In addition, Aquino and Abe discussed a “Visiting Forces Agreement”, which could imply joint military exercises and Japanese forces refueling in the Philippines (Kyodo, 05.06.2015). During Aquino’s Japan visit, he once again compared China’s actions in the SCS to Hitler’s expansion before WWII, but this time in an official speech. Beijing urged Aquino to stop the provocations (Xinhua, 03.06.2015).

Hence, similar with Japan’s strategy toward China, the Philippines have utilized both diplomatic and military means in order to balance against what they perceived as a China-threat to their SCS claims after Scarborough Shoal. Instead of trying to downplay territorial issues, the Philippines put Scarborough and the Spratlys on the agenda of their relationship with China, which in turn led to more retaliation. There were implications of warmer relations in 2014, but considering the latest developments there are reasons to suspect that the Philippines’ balancing strategy will continue.

CHAPTER 12: CONCLUSIONS

Has China's political use of economic ties in territorial disputes been successful?

This thesis set out to analyze if China's sanctions in territorial disputes can be deemed successful. I limited the analysis by examining if China's sanctions had an asymmetric impact and by analyzing how Japan and the Philippines reacted in the short- and long-term. At the outset of the project, I thought I would find clear empirical implications of *The Philippines and Japan appeasing China in territorial disputes and acting to avoid further tensions*. Indeed, the two countries benefit economically from healthy political relations with China, and all three cases examined showed proof that China was able to impose an asymmetric economic cost. The perceived rare earth element (REE) "embargo" against Japan in 2010, and banana restrictions and tourist advisory against the Philippines in 2012, were successful in the short-term in that they complied with Beijing's original demands. Indeed, as of today China still controls access to the contested Scarborough Shoal. Of course, it is hard to distinguish the effect of other forms of pressure from the sanctions themselves. Economic tools were imposed with complementary foreign policy tools, such as belligerent rhetoric against the Philippines and a perceived "hostage crisis" against Japan.

Perhaps as a function of withdrawing their vessels and not returning close to the shoal, the Philippines was rewarded with an increased market share in the Chinese banana market. Moreover, after tensions had started to ease between China and Japan, Chinese REE poured into Japan in December 2010. Despite some angry rhetoric after the captain's release, one might start to wonder if increased REE exports in December 2010 perhaps was a type of reward for giving into China's demand not to charge the captain. The huge increase in China's REE exports in December 2010 does match the huge increase in banana imports from the Philippines after the Scarborough-tensions⁷⁶. In these two cases, general trade relations were not visibly affected, perhaps since they complied with China's original demands. Since overall economic links were not visibly affected, one could argue that Japan after 2010-tensions and the Philippines after 2012-tensions, had less incentive to avoid further territorial tensions with China. However, in the case of the Philippines there are reasons to believe that the counterfactual development in Sino-Philippine economic links would have become better if they had done more to appease China in the long-term. Despite of this, the Philippines did

⁷⁶ However, whether the REE slowdown in October and November in fact was linked to tensions, has been questioned.

not try to avoid further tensions, and as a rebuff to Manila's handling of territorial disputes, the world's biggest tourist power is again avoiding the Philippines as the travel advisory is still not lifted.

The 2012 Japan-case differs from the other two in that Japan did not comply with China's demand even though the economic cost imposed was the most severe among the cases examined. Indeed, although the economic impact was asymmetric, the economic cost imposed on China was also the most severe among the cases examined. The 2012 Senkaku/Diaoyu-case proved that cold politics and hot economics have to remain separate, and the next time the issue flares up Beijing might abstain from encouraging boycotts. However, it might be that domestic pressure, in the form of Chinese nationalism, makes it difficult not to⁷⁷. Despite the severe economic cost on Japan, the case demonstrated that high cost was not decisive in motivating Japan to appease China. The threat of sanctions was unsuccessful in that Japan nationalized the islands, and the impact of sanctions was unsuccessful in that Japan did not admit that a territorial dispute exists. It can be that China's coercive pressure backfired and undermined the effectiveness economic sanctions might have had. If China's actions had been more economically focused and less incursion-focused, perhaps it would have been easier for Japan to agree that a dispute exists.

Japan and the Philippines' long-term strategies

Japan and the Philippines' long-term strategies strengthen the competing hypothesis: *Japan and the Philippines will follow a localized balancing strategy against a perceived China-threat to their control of disputed islands.*

The Scarborough Shoal standoff and the September 2010 collision were turning points in public and elites' threat perceptions of China, and the Philippines and Japan's long-term balancing strategies question the success of China's sanctions combined with complementary policy tools in territorial disputes.

In line with Walt's prediction that states do not balance against power in itself, but against perceived proximate threats, the Philippines and Japan beefed up their alliances with the world's strongest military power to balance against a Chinese threat to their control of disputed islands. In addition, Japan has become a credible coast guard alignment partner for the Philippines. The Philippines and Japan reacted similarly, despite their differences in

⁷⁷ The economic severities of the boycotts can also be seen as an implication of an escalation of Senkaku/Diaoyu-tensions in 2012 compared to 2010.

economic and military capabilities. In addition to boosting their alliances with the U.S., both directed internal funds towards maritime defense. They have also balanced by political means by trying to create international legitimacy for their own claims and undermine China's claims. Japan's and the Philippines' similar reactions are in line with Larson and Schweller's domestic reasoning for balancing: in the Philippines and Japan, elites and the public agreed that China had become an unambiguous threat that needed to be checked by diplomatic and military means.

Japan still exercises administrative control of the Senkaku/Diaoyu islands and their long-term balancing response can be understood as balancing to maintain their control of the Senkaku/Diaoyu Islands against a rising China⁷⁸. The Philippine balancing strategy after the standoff however, could be a strategy to regain control of the Shoal and/or a strategy to deter China from physically taking control of more disputed islands. As already mentioned, if China seriously offered its withdrawal from the Shoal in 2014, Philippine counter balancing now goes beyond the initial trigger for its initiation. Perhaps this should not come as a surprise since the Philippines still physically controls, and obviously fears for their control, of quite a number of disputed islands in the SCS. The Mischief Reef incident in 1994 and the Scarborough Shoal incident in 2012 were indeed proof that China possess what Walt describes as *the offensive capabilities* to challenge Philippine control of disputed islands.

Implications for China's peaceful rise

Baldwin argues that economic sanctions appeal to rational decision makers who do not want to do too much. They are tools intended "to demonstrate firmness while reassuring others of their sense of proportion and restraint (Baldwin, 1985: 104 & 105)". However, Beijing's use of economic sanctions in combination with other more coercive policy tools did not reassure Manila and Tokyo of Beijing's sense of proportion. Instead, it created perceptions of Beijing's willingness to use its economic and military might to try to bully them into making territorial concessions.

Further research should analyze what China's objectives by imposing sanctions really were. Were they trying to force territorial concessions or just stop Philippine and Japanese behavior they disliked – behavior that caused China to lose face? It might be that China failed to sufficiently communicate the limited nature of their demands. If sanctions and Chinese

⁷⁸ Although it is worth noting that Beijing viewed Japan's behavior in both confrontations - insisting that they handled the captain under domestic law in 2010 and the nationalization in 2012 - as Japan acting to strengthen their claims and not maintain the status-quo of "shelving" the Senkaku/Diaoyu-dispute.

objectives were more carefully vocalized from the Chinese side, perhaps threat perceptions would have become less prominent, as the Philippines and Japan would have known explicitly (not implicitly) what China wanted. This has implications for China's strategy as they have failed to reassure Japan and the Philippines of their so-called "peaceful rise" in relation to territorial disputes. Consequently, Japan and the Philippines have balanced against a China threat. According to balance of threat theory balancing will lead to a more secure world because aggressors face opposition (Walt 1987: 17), but an arms-buildup and mistrust between regional actors can also spark a dangerous security dilemma (Christensen, 2003: 25-26).

Would threat-perceptions of China have risen had it not been for Beijing's complementary coercive policy tools against Japan in 2010 and the Philippines in 2012? If sanctions were combined with less aggressive policy tools, threat perceptions would perhaps have become less prominent and the balancing responses might have been milder. However, if Beijing's alternative to economic sanctions were to use more coercive military force, Japan's and the Philippines' balancing responses would probably have been stronger and in a worst case scenario perhaps even the U.S would have been dragged into a violent clash. Hence, compared to counterfactual scenarios where Beijing utilized more coercive military tools, economic sanctions might in fact have provided relative reassurance to Japan and the Philippines of Beijing's sense of proportion.

Implications of my findings for future research

States that find themselves targets of Chinese sanctions

When Denmark in 2009, France in 2009, the Philippines in 2012, and perhaps Japan in 2010, found themselves targeted by Chinese sanctions and complied with Chinese interests, they were rewarded. If Norway were to apologize for the 2010 Peace Prize, there are reasons to believe that China's imports of Norwegian salmon would increase, perhaps even dramatically. As such, it can be very tempting for states to comply with China's demands. However, if most top leaders choose to comply, it becomes easier for China to effectively punish the leaders and countries that do defy Chinese interests. To use the Dalai Lama issue as an example; if top leaders perceive meetings with the Dalai Lama as important they should make an arrangement that all would meet with him (and in fact do so), as it would be much more costly for China to effectively punish them all. In line with Marcus Olson's public goods theory (Olson, 1965) one can argue that if everyone cooperates (for example defy Chinese opposition

against meetings with the Dalai Lama) the «public good» of ineffective Chinese sanctions is provided, but if some defect the good will be underprovided or not provided at all.

Perhaps the same can be said of the current tensions in the SCS? If all claimants were to be as assertive towards Chinese behavior as the Philippines, China would have had trouble punishing them all. However, it can seem as if the opposite of the «public good» of ineffective Chinese sanctions has materialized. Instead of all cooperating to defy Chinese interests it might be that the Philippines in Southeast Asia and Norway in Europe have become useful examples for China to demonstrate what might happen when a few countries defy Chinese interests. Hence, instead of cooperating to defy Chinese interests, other countries choose to comply out of fear of ending up in the same situation as the Philippines and Norway. They care more about their own benefits of healthy China relations, than about the “public good” of ineffective Chinese sanctions. As one ASEAN state leader advised Philippine president Benigno Aquino in 2014; if the Philippines gave into what China wanted, “they [China] can be very generous (Foreign Affairs, 2014)”. In further research it would therefore be interesting to analyze how other countries in Southeast Asia perceive Sino-Philippine relations. In addition, it would be interesting to examine how European countries perceive Sino-Norwegian relations. A suggestion for further research is to analyze if Norway in Europe and the Philippines in Southeast Asia have become useful examples for China to demonstrate that countries, which defy Chinese interests, are punished.

Implications for the study of China’s use of economic sanctions

This study has also shed light upon the strategic nature of Chinese sanctions. Perhaps most intriguing for further research, how China (and perhaps other states) have an opportunity to take advantage of, or manipulate nationalism, so as to use it as a “privatized” economic sanction. While the boycott of Japanese products in 2012 could be seen as a boycott motivated by grassroots nationalism more than by government policy or manipulation, the Philippine tourist boycott in 2012 (and perhaps also in 2014), could seem to be more of a “top-down” government inflicted sanction than a “bottom-up” domestic pressured sanction. A suggestion for further research is to examine how taking advantage of the populations as a foreign policy tool is perceived by the international public opinion. Is China perceived as using its population as an economic foreign policy tool? Is taking advantage of the population as a foreign policy tool perceived as more legitimate (does it decrease the political fallout of imposing sanctions among the international public opinion), compared to a more top-down government inflicted sanction?

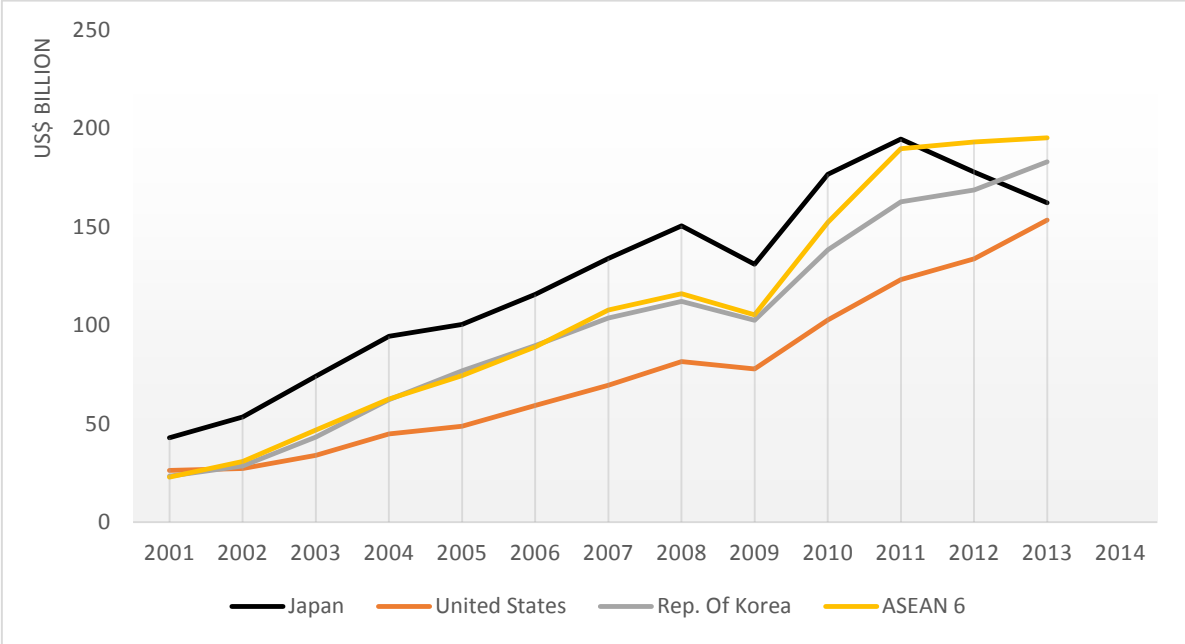
Encouraging a boycott is also an economic policy tool applicable to leaders in other countries, including democracies. Using this instrument is in some cases easier and more available due to a high degree of anger in the population towards certain “enemies”. Thus, with Chinese nationalism on the rise and its population’s growing buying power, Beijing has perhaps a greater capacity to encourage a boycott and actually inflict an economic cost, than leaders in most other countries. Moreover, this instrument seems to be especially applicable towards Japan, since anti-Japanese sentiments are widespread. Thus, another suggestion for further research is to analyze if Beijing has a greater capacity than other governments to effectively take advantage of the population as an economic policy tool.

Implications for the study of economic sanctions in general

One might begin to wonder if economic sanctions imposed by China were perceived as inherently more aggressive by the Philippines and Japan because China is an authoritarian state. Can it be that economic tools intended “to demonstrate firmness while reassuring others of their sense of proportion and restraint (Baldwin, 1985: 104 & 105)”, are dependent on regime types? Perhaps for Norway, American restrictions on Norwegian salmon (after a hypothetical peace prize to Edward Snowden) would be perceived as less aggressive than Chinese restrictions were? Would perhaps authoritarian Vietnam perceive authoritarian China’s sanctions as less threatening than those of a democratic America? Can it be that mutual mistrust/trust between different/similar regime types affect how sanctions are perceived in the country targeted? Hence, a suggestion for further research is to analyze if the imposition of economic sanctions among different regime types look more aggressive to the target

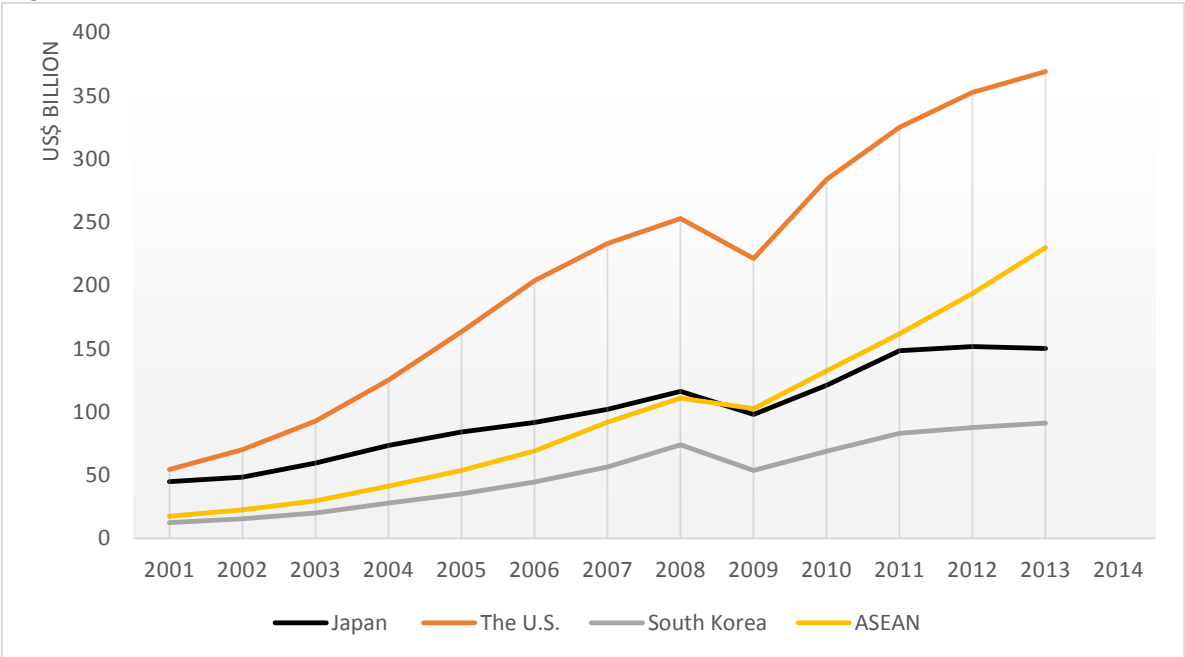
APPENDIX

Figure 1) China's import sources



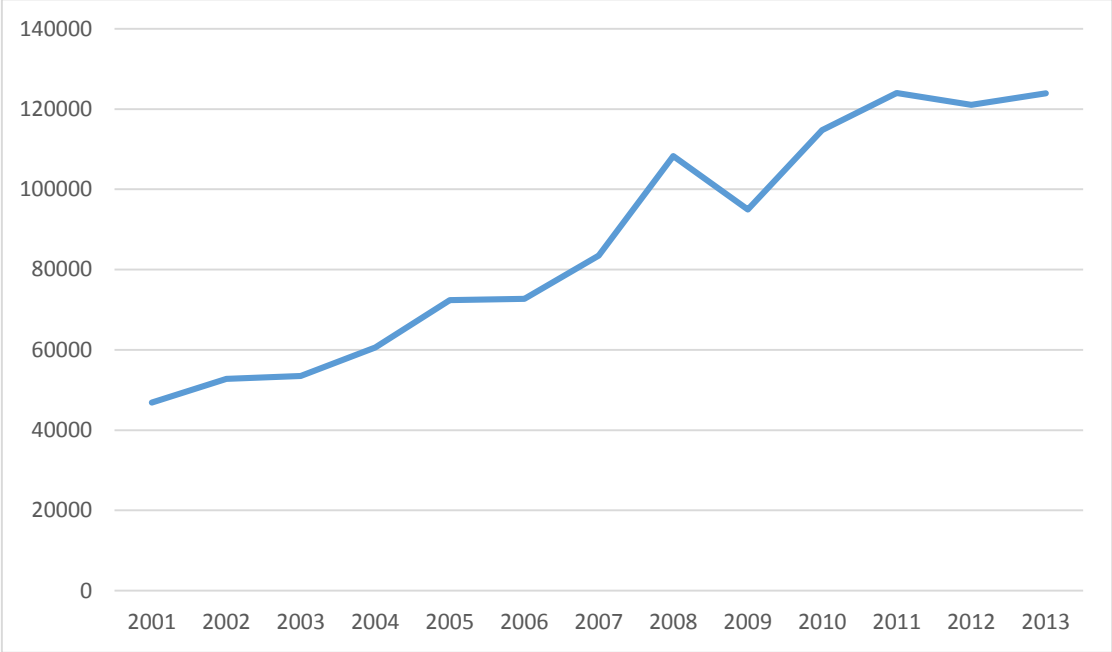
Source: (International Trade Centre, 2015).

Figure 2) China's export markets



Source: (International Trade Centre, 2015).

Figure 3) Global FDI flows to China



Source: Retrieved from United Nations Conference on Trade and Investment (UNCTAD) (2015). Accessed 01.05.2015 http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf.

BIBLIOGRAPHY

- Aguinaldo, S. (20.05.2015). US may give PHL more support to counter pressure from China over sea dispute. *GMA News*. Retrieved 01.06.2015, from <http://www.gmanetwork.com/news/story/489978/news/nation/us-may-give-phl-more-support-to-counter-pressure-from-china-over-sea-dispute>
- Almendral, A. (22.10.2014). Philippines feels force of China travel warning. *BBC*. Retrieved 01.06.2015, from <http://www.bbc.com/news/world-asia-29684938>
- Almonte, L. (28.05.2012). Carriers note dip in PH shipments following China's tighter quarantine rules. Retrieved 01.06.2015, from <http://www.portcalls.com/carriers-note-dip-in-ph-shipments-following-chinas-tighter-quarantine-rules/#>
- Arakawa, N. & Colon, W. (01.04.2015). The Japan Coast Guard: Resourcing and Responsibility. Retrieved 01.06.2015, from <http://amti.csis.org/the-japan-coast-guard-resourcing-and-responsibility/>
- Asahi Shimbun. (20.08.2012). Japan fears Senkaku landings will fuel dispute but rejects China's protest. *The Asahi Shimbun*. Retrieved 01.06.2015, from http://ajw.asahi.com/article/behind_news/politics/AJ201208200105
- Asahi Shimbun. (20.09.2012). China suggests economic sanctions over Senkakus. *The Asahi Shimbun*. Retrieved 01.06.2015, from http://ajw.asahi.com/article/special/isles_dispute/AJ201209200084
- Asahi Shimbun. (22.04.2015). Abe praises summit with Chinese leader Xi as very productive. *The Asahi Shimbun*. Retrieved 01.06.2015, from http://ajw.asahi.com/article/behind_news/politics/AJ201504220102
- Asia Maritime Transparency Initiative. (2015). A Fiery Cross to Bear. Retrieved 01.06.2015, from <http://amti.csis.org/fiery-cross/>
- Baldwin, D. A. (2006). The sanctions debate and the logic of choice. *International Security*, 24(3), 80-107.
- Baldwin, D. A. (1980). Interdependence and Power: A Conceptual Analysis. *International Organization*, 34(4), 471-506. doi: 10.2307/2706510
- Baldwin, D. A. (1985). *Economic statecraft*. Princeton, N.J.: Princeton University Press.
- Bauzon, B. C. V. (12.10.2014). China is not likely to make deal with Aquino. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/china-likely-make-deal-aquino/133883/>
- BBC. (08.05.2014). Q&A: South China Sea dispute. *BBC*. Retrieved 01.06.2015, from <http://www.bbc.com/news/world-asia-pacific-13748349>
- BBC. (11.05.2012). Protest in Philippines over South China Sea stand-off. *BBC*. Retrieved 01.06.2015, from <http://www.bbc.com/news/world-asia-18030805>
- BBC. (14.09.2012). China ships sail in waters near disputed islands. *BBC*. Retrieved 01.06.2015, from <http://www.bbc.com/news/world-asia-china-19595490>
- BBC. (19.08.2012). Anti-Japan protests across China over islands dispute. *BBC*. Retrieved 01.06.2015, from <http://www.bbc.com/news/world-asia-19312226>
- Bergman, J. (14.03.2011). Setting Rivalry Aside: China Responds to Japan's Plight. *Time*. Retrieved 01.06.2015, from <http://content.time.com/time/world/article/0,8599,2058697,00.html>
- Bordadora, N. (12.05.2012). Philippines denies involvement in anti-China protests. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/36711/philippines-denies-involvement-in-anti-china-protests>
- Bradsher, K. (19.10.2010). China Restarts Rare Earth Shipments to Japan. *The New York Times*. Retrieved 01.06.2015, from <http://www.nytimes.com/2010/11/20/business/global/20rare.html>

- Brennan, E. (10.01.2013). The Next Oil?: Rare Earth Metals. *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2013/01/the-new-prize-china-and-indias-rare-earth-scramble/>
- Briguglio, L., Cordina, G., Farrugia, N., & Vella, S. (2009). Economic vulnerability and resilience: concepts and measurements. *Oxford Development Studies*, 37(3), 229-247.
- Burgess, J. P. (2003). The Politics of the South China Sea: Territoriality and International Law. *Security Dialogue*, 34(1), 7-10. doi: 10.1177/09670106030341002
- Castro, R. C. D. (2013). The Philippines in 2012: "Easygoing, Do-Nothing" President Delivers. *Asian Survey*, 53(1), 109-116. doi: 10.1525/as.2013.53.1.109
- Chansoria, M. (20.04.2014). China-Philippines face-off heightens regional tension. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/china-philippines-face-off-heightens-regional-tension/90691/>
- Chen, X. & Garcia, R. J. (26.02.2015). *China's Salmon Sanction* [Powerpoint slides]. Paper presented at the Non-tariff barriers, food safety and international trade, NUPI, C.J. Hambros plass 2 D, Oslo. Retrieved from [file:///C:/Users/Oda/Downloads/Chen%20and%20Garcia%20\(2015\)%20-%20China's%20Salmon%20Sanction%20\(2\).pdf](file:///C:/Users/Oda/Downloads/Chen%20and%20Garcia%20(2015)%20-%20China's%20Salmon%20Sanction%20(2).pdf)
- China Daily. (02.03.2009). Premier: We all know why. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/china/2009-02/03/content_7440286.htm
- China Daily. (10.05.2012). A dangerous delusion. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/cndy/2012-05/10/content_15253929.htm
- China Daily. (24.09.2010). 'No ban' on exports of rare earths to Japan. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/china/2010-09/24/content_11340909.htm
- China Daily. (27.10.2009). France goes back on China's shopping list. Retrieved 01.06.2015, from http://www.china.org.cn/business/2009-10/29/content_18786639.htm
- Christensen, T. J. (2003). China, the U.S.-Japan Alliance, and the Security Dilemma in East Asia. In G. J. Ikenberry & M. Mastanduno (Eds.), *International relations theory and the Asia-Pacific* (pp. VI, 450 s.). New York: Columbia University Press.
- Clinton & Gates & Matsumoto & Kitazawa. (2011). *Toward a Deeper and Broader U.S.-Japan Alliance: Building on 50 Years of Partnership*. Retrieved 01.06.2015, from http://www.mofa.go.jp/region/n-america/us/security/pdfs/joint1106_01.pdf.
- Cripps, K. (12.04.2013). Chinese travelers the world's biggest spenders. *CNN*. Retrieved 01.06.2015, from <http://edition.cnn.com/2013/04/05/travel/china-tourists-spend/>
- CSIS. (2015). China's maritime disputes - Historical Context. Retrieved 01.06.2015, from <http://www.cfr.org/asia-and-pacific/chinas-maritime-disputes/p31345#!/#historical-context>
- Daozu, B. (20.09.2010). China warns Japan of strong response. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/china/2010-09/20/content_11325545.htm
- Davies, A. (12.10.2012). China Is Hurting Itself By Boycotting Japanese Cars. *Business Insider*. Retrieved 01.06.2015, from <http://www.businessinsider.com/chinas-boycott-of-japanese-cars-backfires-2012-10>
- Denyer, S. (26.05.2015). Chinese military sets course to expand global reach as 'national interests' grow. *The Washington Post*. Retrieved 01.06.2015, from http://www.washingtonpost.com/world/asia_pacific/chinese-military-sets-course-to-expand-global-reach-as-national-interests-grow/2015/05/26/395fff14-3fb1-4056-aed0-264ffcbbcd4_story.html
- Det Udenrigspolitiske Nævn (2009). *UPN, Alm. del - bilag 24, Verbalnote til de kinesiske myndigheder om det dansk-kinesiske forhold*. www.ft.dk: Folketinget, Christiansborg

- Ding, Q. L., Jiabao. (07.05.2012). 'Conditions right' for Sino-Japan FTA agreement. *China Daily*. Retrieved 01.06.2015, from http://usa.chinadaily.com.cn/business/2012-07/05/content_15549782.htm
- Dong, G. (2010). *Mirror Statistics of International Trade in Manufacturing Goods: The Case of China*. United Nations Industrial Development Organization. Retrieved 01.06.2015, from http://www.unido.org/fileadmin/user_media/Publications/Research_and_statistics/Branch_publications/Research_and_Policy/Files/Working_Papers/2009/WP%2019%20Mirror%20Statistics%20of%20International%20Trade%20in%20Manufacturing%20Goods-%20The%20Case%20of%20China.pdf
- Drezner, D. W. (1999). *The sanctions paradox: economic statecraft and international relations*. Cambridge: Cambridge University Press.
- Economist. (19.04.2015). Standing shoulder-to-woy-shoulder. *The Economist* . Retrieved 01.06.2015, from <http://www.economist.com/node/21648852?zid=306&ah=1b164dbd43b0cb27ba0d4c3b12a5e227>
- Emery, K. O., Hayasi Y., Hilde T., Kobayashi K., Ko J.H., Meng C.Y., Niino H, Osterhagen J. H., Reynolds L. M., Wageman J. W., Wang C. S. & Yang S. J. (1969). *Geological Structure and Some Water Characteristics of the East China Sea and the Yellow Sea* (Vol. 2, pp. 3-41): CCOP Technical bulletin.
- Esguerra, C. V. (26.05.2015). Aquino: PH to defy China. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/123477/aquino-ph-to-defy-china>
- Esmaquel, P. (05.03.2015). China on travel warning vs PH: 'Advice, not order'. *The Rappler*. Retrieved 01.06.2015, from <http://www.rappler.com/nation/85878-china-travel-warning-philippines>
- Esmaquel, P. (12.05.2012). China hits PH for 'instigating' citizens. *The Rappler*. Retrieved 01.06.2015, from <http://www.rappler.com/nation/5247-china-hits-ph-for-instigating-citizens>
- Esmaquel, P. (26.02.2014). China offers PH 'carrot' to quit case. *The Rappler*. Retrieved 01.06.2015, from <http://www.rappler.com/nation/51558-china-derail-philippines-memorial-itlos>
- Esplanada, J. (03.03.2014). No Coast Guard vessels near Panatag Shoal, says spokesman. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/99803/no-coast-guard-vessels-near-panatag-shoal-says-spokesman#ixzz3cHbg5O44>
- Esplanada, J. (19.06.2012). China ships stay in Panatag Shoal. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/40487/china-not-pulling-out-7-vessels-around-scarborough-shoal>
- Esplanada, J. (26.11.2014). PH patrol vessel on standby. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/57907/ph-patrol-vessel-on-standby>
- Fabinyi, M. (22.02.2015). China and the South China Sea Resource Grab. *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2015/02/china-and-the-south-china-sea-resource-grab/>
- Fermann, G. (2013). *Utenrikspolitik og norsk krisehåndtering*. Oslo: Cappelen Damm akademisk.
- Fish, I. S. (06.05.2014). Blame Norway, Why is Oslo kowtowing to Beijing and stiff-arming the Dalai Lama? *Foreign Policy*. Retrieved 01.06.2015, from http://www.foreignpolicy.com/articles/2014/05/06/why_wont_norwegian_prime_minister_meet_with_dalai_lama_china

- Food and Agriculture Organization of the United Nations (2014). *Banana Market Review and Banana Statistics 2012-2013*. Retrieved 01.06.2015, from <http://www.fao.org/docrep/019/i3627e/i3627e.pdf>
- Foreign Affairs. (2014). The Mission for Manila. *Foreign Affairs*. Retrieved 01.06.2015, from <http://www.foreignaffairs.com/discussions/interviews/the-mission-for-manila>
- Frost, L., & Kubota, Y. (15.01.2013). Japan-China tension weighs on Nissan investments. *Reuters*. Retrieved 01.06.2015, from <http://fr.reuters.com/article/idUKL6N0AJE3720130115>
- Fuchs, A., & Klann, N.-H. (2013a). Appendix B of Paying a visit: The Dalai Lama effect on international trade. *Journal of International Economics*, 91(1), 164-177. doi: <http://dx.doi.org/10.1016/j.jinteco.2013.04.007>
- Fuchs, A., & Klann, N.-H. (2013b). Paying a visit: The Dalai Lama effect on international trade. *Journal of International Economics*, 91(1), 164-177.
- Genron NPO. (2014). The 10th Japan-China Public Opinion Poll - Analysis Report on the Comparative Data. Retrieved from http://www.genron-npo.net/en/pp/docs/10th_Japan-China_poll.pdf
- Germis, C. (02.04.2015). Confessions of a foreign correspondent after a half-decade of reporting from Tokyo to his German readers. Retrieved 01.06.2015, from <http://www.fccj.or.jp/number-1-shimbun/item/576-on-my-watch.html>
- Glaser, B. S. (25.07.2012). China's coercive economic diplomacy. *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2012/07/chinas-coercive-economic-diplomacy/>
- Global Times. (16.09.2014). Chinese targeted by Philippine nationalism[editorial]. *Global Times*. Retrieved 01.06.2015, from <http://www.globaltimes.cn/content/881623.shtml>
- Grønning, B. E. M. (2014). Japan's Shifting Military Priorities: Counterbalancing China's Rise. *Asian Security*, 10(1), 1-21. doi: 10.1080/14799855.2013.870157
- Gupta, S. (11.01.2015). Why US analysis of China's nine-dash line is flawed. Retrieved 01.06.2015, from <http://www.eastasiaforum.org/2015/01/11/why-us-analysis-of-chinas-nine-dash-line-is-flawed/>
- Hagström, L. (2005). *Japan's China Policy: A Relational Power Analysis*. New York: Routledge.
- Hagström, L. (2012). 'Power Shift' in East Asia? A Critical Reappraisal of Narratives on the Diaoyu/Senkaku Islands Incident in 2010. *The Chinese Journal of International Politics*, 5(3), 267-297.
- Hancké, B. (2009). *Intelligent research design: a guide for beginning researchers in the social sciences*. Oxford: Oxford University Press.
- Harlan, C. (20.02.2013). Japan's Prime Minister Shinzo Abe: Chinese need for conflict 'deeply ingrained'. *The Washington Post*. Retrieved 01.06.2015, from http://www.washingtonpost.com/world/japans-prime-minister-shinzo-abe-chinese-need-for-conflict-is-deeply-ingrained/2013/02/20/48adbc80-7a87-11e2-9a75-dab0201670da_story.html
- Heberer, T. (2014). China in 2013: The Chinese Dream's Domestic and Foreign Policy Shifts. *Asian Survey*, 54(1), 113-128.
- Heilmann, S. S., Dirk H. (2014). *China's Foreign Political and Economic Relations*. United Kingdom: Rowman & Littlefield.
- Heydarian, R. J. (21.01.2015). The Diplomatic implications of Philippines-China arbitration. Retrieved 01.06.2015, from <http://amti.csis.org/the-diplomatic-implications-of-philippines-china-arbitration/>
- Higgins, A. (10.06.2012). In Philippines, banana growers feel effect of South China Sea dispute. *The Washington Post*. Retrieved 01.06.2015, from

- http://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html
- Hirschman, A. O. (1945). *National power and the structure of foreign trade*. Berkeley, California: University of California Press.
- Hoang, D. (26.07.2014). Is Japan's Collective Self Defense as Bad as China Suggests? *International Policy Digest*. Retrieved 01.06.2015, from <http://www.internationalpolicydigest.org/2014/07/26/japans-collective-self-defense-bad-china-suggests/>
- Hoem, E. (2006). *The Taiwan Strait: approaching the end of status quo? Assessing the degree of Taiwan's economic dependence on China and its consequences: to what extent is Taiwan's growing economic dependence upon China weakening Taiwan's pro-independence movement? And is this dependence jeopardizing the island's ability to maintain its de facto independence?* (Master thesis, Norwegian University of Science and Technology). E. Hoem, Trondheim.
- Hongo, J. (19.09.2012). Japanese companies become protest targets in China. *The Japan Times*. Retrieved 01.06.2015, from http://www.japantimes.co.jp/news/2012/09/19/business/japanese-companies-become-protest-targets-in-china/#.VWQZfU_tmkp
- Håkonsen, J. R. & Sandvik S. (23.04.2014). Norge møter knallharde Kina-krav i hemmelige forhandlinger i Oslo. *NRK*. Retrieved 01.06.2015, from <http://www.nrk.no/norge/kina-med-knallharde-krav-1.11680018>
- Inoguchi, T. (2013). Japan in 2012. *Asian Survey*, 53(1), 184-197.
- Inoguchi, T. (2014). Japan in 2013: Abenomics and Abegeopolitics. *Asian Survey*, 54(1), 101-112.
- Inquirer.net. (09.05.2012). Scarborough shoal standoff: A timeline. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/36003/scarborough-shoal-standoff-a-historical-timeline>
- International Trade Center. (2014). Trade Map User Guide - Trade statistics for international business development. Retrieved 01.06.2015, from <http://www.trademap.org/Docs/TradeMap-Userguide-EN.pdf>
- International Trade Center. (2015). Trade map: Trade statistics for international business development. Data retrieved 01.06.2015, from <http://www.trademap.org/Index.aspx>.
- Japan Times. (21.08.2010). China rare-earth export curbs hit. *The Japan Times*. Retrieved 01.06.2015, from <http://ipm-archives.japantimes.co.jp/resources.asiaportal.info/dpscripts/DpSearch.dll?DpAllSearch>
- Japan Times. (27.03.2012). Rare earth dispute now before WTO. *The Japan Times*. Retrieved 01.06.2015, from <http://ipm-archives.japantimes.co.jp/resources.asiaportal.info/dpscripts/DpSearch.dll?DpAllSearch>
- Japan Times. (25.01.2015). NHK must maintain independence [Editorial]. *The Japan Times*. Retrieved from http://www.japantimes.co.jp/opinion/2015/01/25/editorials/nhk-must-maintain-independence/#.VSeVk_msXmg
- Jiang Daily. (09.01.2015). Destination Asia: Chinese tourists plan to stay close to home in 2015. *Jiang Daily*. Retrieved 01.06.2015, from <https://jingdaily.com/destination-asia-chinese-tourists-plan-to-stay-close-to-home-in-2015/>
- Jin, B. (25.08.2014). China help Japan economy recover. *China Daily*. Retrieved 01.06.2015, from http://usa.chinadaily.com.cn/opinion/2014-08/25/content_18478187.htm
- Johnston, A. I. (2013). How new and assertive is China's new assertiveness? *International Security*, 37(4), 7-48.
- Kang, D. C. (2007). *China rising: peace, power, and order in East Asia*. New York: Columbia University Press.

- Katz, R. (2013). Mutual assured production: why trade will limit conflict between China and Japan. *Foreign Affairs*, 92, 18.
- Khan, A. S. (25.09.2012). Japan's "nationalisation" of Senkaku: Internal and External Determinants. Retrieved 01.06.2015, from http://www.idsa.in/idsacomments/JapansNationalisationofSenkaku_sakhan_250912.html
- King, A. A., Shiro (18.08.2013). Did China really ban rare earth metals exports to Japan? Retrieved 01.06.2015 from <http://www.eastasiaforum.org/2013/08/18/did-china-really-ban-rare-earth-metals-exports-to-japan/>
- Koo, M. G. (2009). The Senkaku/Diaoyu dispute and Sino-Japanese political-economic relations: cold politics and hot economics? *The Pacific Review*, 22(2), 205-232. doi: 10.1080/09512740902815342
- Kuwahara, K. S., Toru (22.11.2013). Ford triumphs in China as Japanese carmakers shake off boycott. *Nikkei Asian Review*. Retrieved 01.06.2015, from <http://asia.nikkei.com/Business/Companies/Ford-triumphs-in-China-as-Japanese-carmakers-shake-off-boycott>
- Kwong, L. (15.05.2012). Philippine business warns on China stand-off. *Financial Times*. Retrieved 01.06.2015, from <http://www.ft.com/home/europe>
- Kyodo. (05.06.2015). Philippine pres. ready to create pact with Japan for joint exercises. *Nikkei Asian Review*. Retrieved 10.06.2015, from <http://asia.nikkei.com/Politics-Economy/International-Relations/Philippine-pres.-ready-to-create-pact-with-Japan-for-joint-exercises>
- Kyodo. (08.12.2012). ADB Lowers Projection Over China Tensions. *The Japan Times*. Retrieved 01.06.2012, from <http://www.japantimes.co.jp/news/2012/12/08/business/adb-lowers-projection-over-china-tensions/>
- Kyodo. (10.04.2013). U.S. warned government against buying Senkaku Islands: Campbell. *The Japan Times*. Retrieved 01.06.2015, from http://www.japantimes.co.jp/news/2013/04/10/national/politics-diplomacy/u-s-warned-government-against-buying-senkaku-islands-campbell/#.VV3Gd0_tmkp
- Kyodo. (20.08.2012). Chinese stage anti-Japan rallies over Senkakus. *The Japan Times*. Retrieved 01.06.2015, from <http://www.japantimes.co.jp/news/2012/08/20/national/chinese-stage-anti-japan-rallies-over-senkakus/#.VTewjiHtmko>
- Kyodo. (21.10.2010). MSDF 16-sub fleet to get six more to up presence. *The Japan Times*. Retrieved 01.06.2015, from <http://www.japantimes.co.jp/news/2010/10/21/national/msdf-16-sub-fleet-to-get-six-more-to-up-presence/#.VX16rfntmkp>
- Kyodo. (22.06.2013). China set summit precondition for Japan: Declare no-entry zone around Senkakus. *The Japan Times*. Retrieved 01.06.2015, from http://www.japantimes.co.jp/news/2013/06/22/national/politics-diplomacy/china-set-summit-precondition-for-japan-declare-no-entry-zone-around-senkakus/#.VV8l4E_tmkp
- Kyodo. (25.10.2012). China losing rare-earth diplomatic leverage over Japan; exports hit lowest level in 10 years. *The Japan Times*. Retrieved 01.06.2015, from http://www.japantimes.co.jp/news/2012/10/25/business/china-losing-rare-earth-diplomatic-leverage-over-japan-exports-hit-lowest-level-in-10-years/#.VXhGc_ntmkr
- Kyodo. (25.11.2010). Sojitz eyes Lynaz tieup on rare earths. *The Japan Times*. Retrieved 01.06.2015, from <http://ipm->

- archives.japantimes.co.jp/resources.asiaportal.info/dpscripts/DpSearch.dll?DpAllSearch
h
- Kyodo. (27.04.2014). Japan Coast Guard to seek to double budget to expand Senkaku patrols. *The Japan Times*. Retrieved 01.06.2015, from <http://www.japantimes.co.jp/news/2014/08/27/national/japan-coast-guard-seek-double-budget-expand-senkaku-patrols>
- Kyodo. (29.08.2012). 63% of Chinese favor boycott of Japan products. *The Japan Times*. Retrieved 01.06.2015, from <http://www.japantimes.co.jp/news/2012/08/29/national/63-of-chinese-favor-boycott-of-japan-products/#.VTejYiHtmko>
- La Feanerie, S. & Cowell, A. (01.04.2009). French and Chinese Leaders Meet to End Tibet Friction. *The New York Times*. Retrieved 01.06.2015, from http://www.nytimes.com/2009/04/02/world/europe/02france.html?_r=0
- Ladegaard, I. (28.01.2012). Kina stikker kjepper i hjulene for norsk forskning. Retrieved 01.06.2015, from <http://forskning.no/forskningspolitikk-kina/2012/01/kina-stikker-kjepper-i-hjulene-norsk-forskning>
- Larano, C. (23.07.2012). Aquino Urges Expansion of Philippine Military. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://www.wsj.com/articles/SB10000872396390443570904577544480905671846>
- Larson, D. W. (1991). Bandwagon Images in American Foreign Policy: Myth or reality? In R. Jervis & J. L. Snyder (Eds.), *Dominoes and bandwagons: strategic beliefs and great power competition in the Eurasian rimland* (pp. 1 online resource (viii, 299 s.)). New York: Oxford University Press.
- Laugen, S. T. (23.01.2015). Kutter i Kina og Russland. *Dagens Næringsliv*. Retrieved 01.06.2015, from <http://www.dn.no/nyheter/naringsliv/2015/01/23/2153/Fiskeri/kutter-i-kina-og-russland>
- Lee, P. Q. (18.04.2013). Tokyu Group in steadfast pursuit of Chinese tourists. Retrieved 01.06.2015, from <http://www.ttg mice.com/article/tokyu-group-in-steadfast-pursuit-of-chinese-tourists/>
- Leyco, C. (13.11.2014). Aquino sees start of China reconciliation process. *Manila Bulletin*. Retrieved 01.06.2015, from <http://www.mb.com.ph/aquino-sees-start-of-china-reconciliation-process/#MVwEsD9A7biR4mqd.99>
- Li, J. (14.05.2012). China-Philippines trade may be affected - experts. *China Daily*. Retrieved 01.06.2015, from http://usa.chinadaily.com.cn/china/2012-05/14/content_15282715.htm
- Li, J. (20.09.2012). Crisis 'will hit Japan trade'. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/business/2012-09/20/content_15784280.htm
- Li, J. (20.10.2012). Islands dispute hurts investment, trade with Japan. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/business/2012-10/20/content_15833642.htm
- Li, X. (17.08.2012). Beijing demands activists' release. *China Daily*. Retrieved 01.06.2015, from http://www.chinadailyasia.com/news/2012-08/17/content_116010.html
- Lib Dem News. (04.11.2014). More aggressive external communications: False report about comfort women issues damages national interests, Need to enhance communications. Retrieved from <https://www.jimin.jp/english/news/126507.html>
- Littler, B. (22.08.2012). Ecuador: Recent international events pave way to China banana trade. Retrieved 01.06.2015, from <http://www.freshplaza.com/article/99841/Ecuador-Recent-international-events-pave-way-to-China-banana-trade>

- Makabenta, Y. (21.05.2014). China practices statecraft, Philippines employs public relations. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/china-practices-statecraft-philippines-employs-public-relations/98351/>
- Malacinski, L. (16.01.2015). De kinesiske spilleregler. *Weekendavisen*. p. 8.
- Mangosin, F. (30.04.2015). AFP chief calls US PH's big brother, friend and ally. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/122160/afp-chief-calls-us-phs-big-brother-friend-and-ally>
- Manicom, J. (2014). *Bridging troubled waters: China, Japan, and maritime order in the East China Sea*. Washington DC: Georgetown University Press.
- Manila Times. (06.05.2014). US, Philippines Begin Annual 'Balikatan' Military Exercise. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/us-philippines-begin-annual-balikatan-military-exercise/94355/>
- Manila Times. (28.04.2014). New military accord elevates PH-US defense alliance, says DFA Chief. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/new-military-accord-elevates-phl-us-defense-alliance-says-dfa-chief/92415/>
- Masuda, Y. (27.10.2012). The Race to Beef Up Japan's Coast Guard. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://blogs.wsj.com/japanrealtime/2012/10/27/the-race-to-beef-up-japans-coast-guard/>
- McLean, I., & McMillan, A. (2009). *The Concise Oxford dictionary of politics*. Oxford: Oxford University Press.
- Mera, Y., Kurachi Y. & Ozaki N. (2013). *Recent Increase in Foreign Visitors and Impact on Japan's Economy* (Vol. 2013-E-4, pp. 1-7): Bank of Japan
- MFA. (2014). Ministry of Foreign Affairs of the People's Republic of China Is Authorized to Release the Position Paper of the Government of the People's Republic of China on the Matter of Jurisdiction in the South China Sea Arbitration Initiated by the Republic of the Philippines. Retrieved 01.06.2015, from http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1217148.shtml
- Midford, P. (2013). Foreign Policy as an Election Issue. In R. Pekkanen, E. Scheiner, & S. R. Reed (Eds.), *Japan Decides 2012*. New York: Palgrave MacMillan.
- Midford, P. (2014a). Balancing threats foreign and domestic: The case of Japanese public opinion and the 2007 Upper House election. In R. D. Wilhelm Vosse, Verena Blechinger-Talcott (Eds.), *Governing Insecurity in Japan: The Domestic Discourse and Policy Response* (pp. 32-49): Abingdon: Routledge.
- Midford, P. (2014b). Japan's Approach to Maritime Security in the South China Sea. *Asian Survey*, forthcoming 2015.
- Midford, P. (2015). Sino-Japanese Conflict and Reconciliation in the East China Sea. In T. F. Liao, K. E. Wiegand, & K. Hara (Eds.), *The China-Japan Border Dispute: Islands of Contention in Multidisciplinary Perspective* (pp. 177-198). Farnham: Ashgate, forthcoming 2015.
- Midford, P., & Moen, C. (2007). *Risk-taking versus Reassurance in Chinese Foreign Policy*. Paper presented at the Annual Meeting of the American Political Science Association, Chicago, Illinois, August 30-September 2, 2007.
- Ministry of Defense. (2010). *National Defense Program Guidelines for FY 2011 and beyond*. Retrieved 01.06.2015, from http://www.mod.go.jp/e/d_act/d_policy/national.html
- Ministry of Defense. (2013). *Defense program and budgets of Japan*. Retrieved 01.06.2015, from http://www.mod.go.jp/e/d_budget/pdf/250516.pdf
- Ministry of Finance Japan. (2015a). Japan's Tariff Schedule as of April 1 2010 - Section VI products of the chemical or allied industries - Chapter 28 Inorganic chemicals; organic

- or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes. Retrieved 01.06.2015, from http://www.customs.go.jp/english/tariff/2010_4/data/i201004e_28.htm
- Ministry of Finance Japan. (2015b). Trade Statistics of Japan - Monthly Data by Commodity by Country. Retrieved 01.02.2015 from <http://www.customs.go.jp/toukei/srch/indexe.htm?M=63&P=0>
- MOFA. (2014). Regarding Discussions toward Improving Japan-China Relations. Retrieved 01.06.2015, from http://www.mofa.go.jp/a_o/c_m1/cn/page4e_000150.html
- MOFA. (2015). About the Senkaku Islands. Retrieved 01.06.2015, from <http://www.mofa.go.jp/region/asia-paci/senkaku/>
- Moses, J. W., & Knutsen, T. L. (2012). *Ways of knowing: competing methodologies in social and political research*. Basingstoke: Palgrave Macmillan.
- Nagy, S. R. (2013). Territorial Disputes, Trade and Diplomacy. *China Perspectives*, 2013(4).
- Nagy, S. R. (2014). Nationalism, Domestic Politics, and the Japan Economic Rejuvenation. *East Asia*, 31(1), 5-21.
- Navarro, A. M. & Yap, J. T. (2013). The Philippine economy in 2012 and prospects for 2013. *Development research news*, Vol. XXXI (No. 1), 1-16.
- Nihon Keizai Shimbun. (22.03.2012). Firipin ni junshisen kyouyo seifu, Chugoku wo kennsei & Kaizoku taisaku ni junshitei teikyou. *Nihon Keizai Shimbun*.
- Nikkei. (08.04.2015). Japan to step up PR on territorial claims. *Nikkei Asian Review*. Retrieved 01.06.2015, from <http://asia.nikkei.com/Politics-Economy/International-Relations/Japan-to-step-up-PR-on-territorial-claims>
- Nikkei. (27.03.2014). Japan wins dispute on rare earths; China may appeal. *Nikkei Asian Review*. Retrieved 01.06.2015, from <http://asia.nikkei.com/Politics-Economy/International-Relations/Japan-wins-dispute-on-rare-earths-China-may-appeal>
- Nitsch, V. (2007). State Visits and International Trade. *World Economy*, 30(12), 797-816. doi: 10.1111/j.1467-9701.2007.01062.x
- Ocampo, R. (16.09.2014). China slaps new travel advisory on the Philippines while South Koreans get jittery over destination's security. Retrieved 01.06.2015, from http://www.ttgasia.com/article.php?article_id=23820
- Olson, M. (1965). *The logic of collective action: public goods and the theory of groups*. Cambridge, Mass.: Harvard University Press.
- Page, J., & Hayashi, Y. (02.10.2010). China Warns Travelers About Japan. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://www.wsj.com/articles/SB10001424052748704483004575524971327026774>
- Pape, R. A. (1997). Why Economic Sanctions Do Not Work. *International Security*, 22(2), 90-136. doi: 10.2307/2539368
- Parameswaran, P. (07.04.2015). Will the Philippines Join China's Bank? *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2015/04/will-the-philippines-join-chinas-bank/>
- Pbgea.com. (02.09.2012). Latin America snaps up opportunity in China. Retrieved 06.11.2014, from <http://pbgea.com/?p=467>
- Penh, P. (11.07.2012). Japan protests Chinese ships entry into waters near disputed isles. *Reuters*. Retrieved 01.06.2015, from <http://www.reuters.com/article/2012/07/11/us-japan-china-islands-idUSBRE86A03320120711>
- People's Daily. (02.04.2009). China appreciates France's commitment on Tibet. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90001/90776/90883/6628669.html>

- People's Daily (10.07.2012). China will not sell Diaoyu Islands: FM spokesman. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7869713.html>
- Philippine Department of Foreign Affairs. (2012). Philippine position on Bajo de Masinloc (Scarborough Shoal) and the waters within its vicinity. *Official Gazette*. Retrieved 01.06.2015, from <http://www.gov.ph/2012/04/18/philippine-position-on-bajo-de-masinloc-and-the-waters-within-its-vicinity/>
- Philippine Department of Tourism. (2011). *The Philippine National Tourism Development Plan 2011-2016 (Draft Action Plan, for discussion purposes only)* [Powerpoint slides]. Retrieved 01.06.2015, from <http://visitmyphilippines.com/web.php?q=National+Tourism+Development+plan&func=search&btnSubmit.x=0&btnSubmit.y=0&btnSubmit=Submit>
- Quismundo, T. (08.07.2012). China's surveillance ships back at Scarborough Shoal. *Inquirer.net*. Retrieved 01.06.2015, from <http://globalnation.inquirer.net/80007/chinas-surveillance-ships-back-at-scarborough-shoal>
- Rapp, O. M. (27.03.2012). Norsk eksport i dypfryseren. *Aftenposten*. Retrieved 01.06.2015, from <http://www.aftenposten.no/okonomi/Norsk-eksport-i-dypfryseren-6793453.html>
- Rappler.com. (28.11.2012). Strong peso to erode PH competitiveness - Balisacan. *The Rappler*. Retrieved 01.06.2015, from <http://www.rappler.com/business/16918-strong-peso-to-erode-ph-competitiveness-balisacan>
- Ravindran, M. S. (2013). China's Potential for Economic Coercion in the South China Sea Disputes: A Comparative Study of the Philippines and Vietnam. *Journal of Current Southeast Asian Affairs*, 31(3), 105-132.
- Reichler, P. (2013). A Discussion on the Philippines' South China Sea Arbitration Case [video]. Retrieved 01.06.2015, from <http://csis.org/multimedia/video-discussion-philippines-south-china-sea-arbitration-case>
- Reilly, J. (2012). China's unilateral sanctions. *The Washington Quarterly*, 35(4), 121-133.
- Reuters. (30.04.2014). Philippines says U.S. obligated to help in case of attack. *Reuters*. Retrieved 01.06.2015, from <http://www.reuters.com/article/2014/04/30/us-philippines-usa-idUSBREA3T02U20140430>
- Roach, J. A. (2014). Malaysia and Brunei: an analysis of their claims in the South China Sea. Retrieved 01.06.2015, from <https://www.cna.org/sites/default/files/research/IOP-2014-U-008434.pdf>
- Robles, A. (26.05.2012). Filipinos united in shoal row. *South China Morning Post*. Retrieved 01.06.2015, from <http://www.scmp.com/article/1001099/filipinos-united-shoal-row>
- Robles, R., & Ng, T. (01.03.2014). Philippines 'rejects China deal on disputed shoal' - as China denies making any such offer. *South China Morning Post*. Retrieved 01.06.2015, from <http://www.scmp.com/news/china/article/1437621/philippines-rejects-china-deal-disputed-shoal-china-denies-making-any>
- Rosen, M. E. (2014). Philippine Claims in the South China Sea: A Legal Analysis. Retrieved 01.06.2015, from <http://www.cna.org/sites/default/files/research/IOP-2014-U-008435.pdf>
- Rosenbluth, F. M. (2011). Japan in 2010. *Asian Survey*, 51(1), 41-53. doi: 10.1525/as.2011.51.1.41
- Schelling, T. C. (2008). *Arms and influence*. New Haven: Yale University Press.
- Schweller, R. L. (2010). *Unanswered Threats : Political Constraints on the Balance of Power*. Princeton, USA: Princeton University Press.
- Shisui, K. (23.02.2015). 60% of Yonagunijima islanders vote for stationing of SDF unit. *The Asahi Shimbun*. Retrieved 01.06.2015, from http://ajw.asahi.com/article/behind_news/politics/AJ201502230013

- Sicat, G. P. (22.08.2012). Peso exchange rate: something to correct. *Philstar.com*. Retrieved 01.06.2015, from <http://www.philstar.com/business/2012-08-22/840631/peso-exchange-rate-something-correct>
- Sidel, J. T. (2014). The Philippines in 2013: Disappointment, Disgrace, Disaster. *Asian Survey*, 54(1), 64-70. doi: 10.1525/as.2014.54.1.64
- Sieg, L. (10.02.2015). Japan global PR message could misfire with focus on wartime past. *Reuters*. Retrieved 01.06.2015, from <http://www.reuters.com/article/2015/02/10/us-japan-diplomacy-campaign-idUSKBN0LE0O920150210>
- Skivenes, I. (2012). Mindre eksport til Kina, men mer laks. Retrieved 01.06.2015, from <http://www.ssb.no/utenriksokonomi/artikler-og-publikasjoner/mindre-eksport-til-kina-men-mer-laks>
- Smith, S. A. (2012). Japan and the East China Sea Dispute. *Orbis*, 56(3), 370-390.
- Social Weather Stations. (2012). Second Quarter 2012 Social Weather Survey: Net trust in China a bad -36; 48% of Filipinos closely followed the Philippines-China Scarborough Shoal Stand-off. Retrieved 01.06.2015, from <http://www.sws.org.ph/index.htm>
- Song, S. (05.03.2014). Southeast Asia Receives More Foreign Direct Investment (FDI) Than China, Which Is Now The World's Third-Largest Foreign Investor. *International Business Times*. Retrieved 01.06.2015, from <http://www.ibtimes.com/southeast-asia-receives-more-foreign-direct-investment-fdi-china-which-now-worlds-third-largest>
- Song, Y.-h. (2014). *Major Law and Policy Issues in the South China Sea: European and American Perspectives*: Ashgate Publishing, Ltd.
- Storey, I. J. (1999). Creeping assertiveness: China, the Philippines and the South China Sea dispute. *Contemporary Southeast Asia*, 21(1), 95-118.
- Støre, J.G. (11.10.2011). Norge og Kina. Regjeringen.no: Retrieved 01.06.2015, from https://www.regjeringen.no/nb/aktuelt/norge_kina/id660339/.
- Thayer, C. (2012). Standoff in the South China Sea. Retrieved 01.06.2015, from <http://yaleglobal.yale.edu/content/standoff-south-china-sea>
- The Mansfield Foundation. (2010). Yomiuri Shimbun October 2010 Telephone Public Opinion Poll. Retrieved 01.06.2015, from <http://www.mansfieldfdn.org/backup/polls/2010/poll-10-31.htm>
- The Page. (23.03.2015). 【アーカイブ動画】 「尖閣諸島の領有権問題に関する調査結果」 原田義昭・片山さつき両自民党議員が会見 [video]. Retrieved from http://thepage.jp/detail/20150323-00000010-wordleaf?pattern=1&utm_expid=90590930-30.KeL6QkgIRn2Y7iUrccBgkg.1&utm_referrer=http%3A%2F%2Fnews.yahoo.co.jp%2F
- Tiezzi, S. (07.11.2014). A China-Japan Breakthrough: A Primer on Their 4 Point Consensus. *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2014/11/a-china-japan-breakthrough-a-primer-on-their-4-point-consensus/>
- Tiglao, R. D. (12.08.2014). World Bank: Fix your China ties. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/world-bank-fix-china-ties/118539/>
- TravelChinaGuide.com. (2015). Tourism. Retrieved 01.06.2015, from <http://www.travelchinaguide.com/tourism/2013statistics/inbound.htm>
- Twain, M. (1907). Chapters from My Autobiography. Retrieved from <http://www.gutenberg.org/files/19987/19987-h/19987-h.htm>
- UN Comtrade. (2010). Read Me First (Disclaimer). Retrieved 01.06.2015, from <http://comtrade.un.org/db/help/uReadMeFirst.aspx>
- UN Comtrade. (2015a). Historical Publication Notes. Retrieved 01.06.2015, from <http://comtrade.un.org/db/mr/daPubNoteDetailHist.aspx?y=2010&r=156>

- UN Comtrade. (2015b). UN Monthly Comtrade, Detailed monthly commodity trade statistics, free of charge. Retrieved 01.06.2015, from <http://comtrade.un.org/monthly/Main/Data.aspx>
- UNCLOS (1982). *United Nations Convention on the Law of the Sea of 10 December 1982* (Vol. PART V, pp. 7-208): United Nations.
- UNCTAD. (2014). *Commodities at a glance: Special issue on rare earths*. (Vol. 5, pp. 1-48). New York & Geneva: United Nations
- Valente, C. S. (22.07.2013). Presidential promises: Hits and misses. *The Manila Times*. Retrieved 01.06.2015, from <http://www.manilatimes.net/presidential-promises-hits-and-misses/27067/>
- Van Evera, S. (1997). *Guide to methods for students of political science*: Cornell University Press.
- Venzon, C. (21.04.2015). Philippines, Vietnam to ally against China. *Nikkei Asian Review*. Retrieved 01.06.2015, from <http://asia.nikkei.com/Politics-Economy/International-Relations/Philippines-Vietnam-to-ally-against-China>
- Visconti, K. (23.05.2012). How dependent is the Philippine economy on China? *The Rappler*. Retrieved 01.06.2015, from <http://www.rappler.com/business/5808-ph-growth-linked-to-east-asia-particularly-china-says-world-bank>
- Wall Street Journal. (25.01.2013). Manila Takes a stand. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://www.wsj.com/articles/SB10001424127887323539804578261140985134254>
- Wall Street Journal. (29.12.2010). China Cuts Export Quota on Rare-Earth Metals. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://www.wsj.com/articles/SB10001424052970203513204576047041493111426>
- Walt, S. M. (1987). *The origins of alliances*. Ithaca: Cornell University Press.
- Waltz, K. N. (2000). Structural realism after the Cold War. *International security*, 25(1), 5-41.
- Wang, R., Cang, W., Song, W. & Li, W. (15.09.2012). Shadow cast over Japan tourism. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/business/2012-09/15/content_15760065.htm
- Watt, N., Lewis, P., & Branigan, T. (13.03.2015). US anger at Britain joining Chinese-led investment bank AIIB. *The Guardian*. Retrieved 01.06.2015, from <http://www.theguardian.com/us-news/2015/mar/13/white-house-pointedly-asks-uk-to-use-its-voice-as-part-of-chinese-led-bank>
- Weiss, J. C. (2014). *Powerful patriots: nationalist protest in China's foreign relations*. Oxford: Oxford University Press.
- Womack, B. (2014). Beyond win-win: rethinking China's International relationships in an era of economic uncertainty. In Hua, S. & Hu, R. (Eds.), *East Asian Development Model: Twenty-first century perspectives*: Routledge.
- World Bank. (2013). *Global Economic Prospects Assuring growth over the medium term* (Vol. 6, January 2013, pp. 1 - 155). Washington, DC: The World Bank. Doi: 10.1596/978-0-8213-9882-1 License: Creative Commons Attribution CC BY 3.0
- World Bank (2014). *Philippine Economic Update. Investing in the Future, Sharing Growth and Job Opportunities for All*. (Report No. 89605-PH): The World Bank
- WTO. (2014). Dispute Settlement: dispute DS433 China — Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum. Retrieved 01.06.2015, from https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds433_e.htm
- Wu, F., & Wei, K. D. (2014). From Financial Assets to Financial Statecraft: the case of China and emerging economies of Africa and Latin America. *Journal of Contemporary China*, 23(89), 781-803.

- X-rates. (2015). Monthly Average. Retrieved 01.06.2015, from <http://www.x-rates.com/average/?from=JPY&to=USD&amount=1&year=2014>
- Xinhua. (01.07.2014). China urges Japan not to harm its sovereignty, security interests. *Xinhuanet*. Retrieved 01.06.2015, from http://news.xinhuanet.com/english/china/2014-07/01/c_133452808.htm
- Xinhua. (01.10.2010). China issues Japan travel warning after tourists attacked. *People's Daily Online* Retrieved 01.06.2015, from <http://en.people.cn/90001/90776/90883/7155838.html>
- Xinhua. (03.06.2015). China dismisses Aquino's remarks on sea disputes as ridiculous, unreasonable. *Xinhuanet*. Retrieved 10.06.2015, from http://news.xinhuanet.com/english/2015-06/03/c_134294959.htm
- Xinhua. (05.02.2015). China rejects Philippine protest over ship ramming. *China Daily*. Retrieved 01.06.2015, from http://africa.chinadaily.com.cn/china/2015-02/05/content_19501711.htm
- Xinhua. (07.11.2014). China, Japan reach four-point agreement on ties. *Xinhuanet*. Retrieved 01.06.2015, from http://news.xinhuanet.com/english/china/2014-11/07/c_133772952.htm
- Xinhua. (08.05.2012). China is prepared for escalation of Huangyan Island incident. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7811025.html>
- Xinhua. (09.05.2012). China urges Philippines not to further damage bilateral ties. Retrieved 01.06.2015, from http://www.gov.cn/misc/2012-05/09/content_2133398.htm
- Xinhua. (11.04.2012a). China urges Philippines to stop illegal poaching. *China Daily*. Retrieved 01.06.2015, from http://usa.chinadaily.com.cn/china/2012-04/11/content_15024162.htm
- Xinhua. (11.04.2012b). Chinese embassy urges Philippines to stop illegal activities in China's territory. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7783688.html>
- Xinhua. (13.09.2012). Japan's islands move to impact on trade ties. Retrieved 01.06.2015, from http://www.china.org.cn/business/2012-09/13/content_26515805.htm
- Xinhua. (14.05.2012). Most Chinese tour groups to return from Philippines by May 16. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7815253.html>
- Xinhua. (15.05.2012). China airline cuts flights to Philippines. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7817394.html>
- Xinhua. (16.05.2012). Xinhua Insight: Tourism hit as Huangyan dispute escalates. *Xinhuanet*. Retrieved 01.06.2015, from http://news.xinhuanet.com/english/indepth/2012-05/16/c_131591904.htm
- Xinhua. (22.09.2012). China cancels plan to attend travel fair in Japan. *China Daily*. Retrieved 01.06.2015, from http://www.chinadaily.com.cn/business/2012-09/22/content_15775321.htm
- Xinhua. (24.04.2012). Chinese embassy urges Philippines to stop illegal activities in China's territory. *People's Daily Online*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7797368.html>
- Yamada, K. (25.09.2014). Chilled Sino-Japan business relations taking time to thaw. *Nikkei Asian Review*. Retrieved 01.06.2015, from <http://asia.nikkei.com/Politics-Economy/International-Relations/Chilled-Sino-Japan-business-relations-taking-time-to-thaw>
- Yamaguchi, N. (2013). *A Japanese perspective on the Senkaku/Diaoyu Islands crisis*. Paper presented at the international workshop organised by the Lowy Institute for international policy. Sydney, June 2013.

- Yap, C. W. (05.01.2015). China Ends Rare-Earth Minerals Export Quotas. *The Wall Street Journal*. Retrieved 01.06.2015, from <http://www.wsj.com/articles/china-ends-rare-earth-minerals-export-quotas-1420441285>
- Yellen, J. A. (12.06.2014). Shinzo Abe's Constitutional Ambitions. *The Diplomat*. Retrieved 01.06.2015, from <http://thediplomat.com/2014/06/shinzo-abes-constitutional-ambitions/>
- Yoshida, R. & Mie, A. (02.12.2012). Abe's rightism: Campaign ploy or governance plan? *The Japan Times*. Retrieved 01.06.2015, from http://www.japantimes.co.jp/news/2012/12/02/national/abes-rightism-campaign-ploy-or-governance-plan/#.VS5VI_msXmg
- Zhang, Y. (09.05.2012). Philippines warned over island dispute. *China Daily*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7811668.html>
- Zhou, Y. (10.07.2012). China holding back strength over Diaoyu Islands, for now. *Global Times*. Retrieved 01.06.2015, from <http://en.people.cn/90883/7869884.html>