

Sino-Japanese relations:

The role of the Chinese business community during Sino-Japanese tensions

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MA Thesis

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2015/2016

15-12-2016

Word count: 11135

Abstract

This thesis explored the role of the Chinese business community during two periods of heightened tension in Sino-Japanese relations, the 2005 history textbook controversy and the 2012 Diaoyu/Senkaku Islands dispute. Sino-Japanese relations are often described as having 'warm' economic relations, but 'cold' political relations. While some scholars argued these relations can coexist without influencing each other, recent studies show that political tensions between China and Japan can also impact economic relations. Because of this, this thesis expected the Chinese business community to attempt to influence the government during periods of heightened Sino-Japanese tension. After an analysis of the voice of governmental actors and the business community in government publications and media sources published around the time of the 2005 and 2012 anti-Japanese protests, this thesis concludes that 1) Chinese businesses attach considerable importance to Sino-Japanese political disputes and in some cases attach more importance to these disputes than financial gain, 2) There is no clear evidence that public attempts to influence the government were made during these two periods.

Introduction

Over the past decades, China and Japan have become very important trade partners and increasingly economically interdependent. However, Sino-Japanese relations are also subject to political tension (Yahuda, 2013). This is visible in both a persisting political tension and recurring disputes, leading to temporally increased political tension (Reilly, 2014). Sino-Japanese disputes usually flare up due to remaining issues with Sino-Japanese war history or territorial disputes, most notably over the Diaoyu/Senkaku Islands (Koo, 2009). A large amount of literature has been written on this unusual relationship, where economics thrive,

while political relations are tense. However, the role of the business community in Sino-Japanese relations has not yet adequately been discussed in the existing literature.

Since China's opening up and economic reforms, initiated by Deng Xiaoping in 1978, non-governmental actors have started playing an increasingly important role in foreign policy making (Kennedy, 2009; Yu, 2012). This trend still continues today and attention now needs to be paid to a wider range of actors, such as think tanks, the internet community, the business community and citizen movements (Jakobson & Knox, 2010; Lanteigne, 2015). Most of these have already received the necessary attention in Sino-Japanese relations literature, but research on the role of the business community lags behind. This thesis will attempt to start filling this gap in the literature by focusing on the role of the business community during two notable periods of heightened Sino-Japanese tension, the 2005 history textbook controversy and the 2012 Diaoyu/Senkaku Islands dispute.

This thesis will start by providing a general background on Sino-Japanese tensions, as well as the 2005 and 2012 anti-Japanese protests, after which it will engage in a literature review of the 'cold politics, hot economics' discussion. Subsequently, the Chinese business community and its role in Sino-Japanese relations will be discussed. In the following section, I state the hypothesis that it is likely the Chinese business community attempts to influence the government during heightened Sino-Japanese tension. Afterwards, the thesis engages in two case studies, where I assess the demands and actions of the Chinese business community during the periods surrounding the 2005 and 2012 anti-Japanese protests. This thesis concludes by showing that 1) Chinese businesses attach considerable importance to Sino-Japanese political disputes and in some cases attach more importance to this than financial gain, 2) There is no clear evidence that public attempts to influence the government were made during these two periods.

Literature Review

Tensions in Sino-Japanese relations

During the decades after the Mao-era, China has gone through a period of tremendous economic growth. This growth has led to China overtaking Japan's position of second economic power in the world in 2010 and Japan and China are now by far the largest economies in the East Asian region. Economically speaking, both countries are very dependent on each other. Japan is China's second largest trading partner and China is the largest trading partner for Japan. Even though business between both countries is thriving, Sino-Japanese relations are not as warm as one might infer from this. In fact, Sino-Japanese relations can be described as extremely tense, with both sides having a large amount of animosity towards each other. This tension and animosity on the Chinese side is mainly the result of, in their view, problems regarding Japan's attitude towards their war history and territorial disputes. Japan's negative view of China is largely a response to Chinese anti-Japanese sentiment and nationalism, but is also fuelled by the same territorial disputes and fear of China's military rise (Genron NPO and China Daily, 2015).

During the Mao-era and the first decade of Deng Xiaoping's reign, Sino-Japanese relations were significantly friendlier than they are now. Especially the first few years after China's opening up and reforms in 1978 looked promising, as both were actively developing closer economic relations for mutual benefit, during these years Japan even called their policy towards China a "friendship policy" (Yahuda, 2013). These years were greatly beneficial to both nations and Japan quickly became China's largest trading partner (Burns, 2000). China and Japan's relationship then looked promising during the early years of China's economic modernization and Sino-Japanese trade has since then shown a very large

increase (Koo, 2009). Nevertheless, political relations have been less positive. Several trends and events have been the cause of this, which I will briefly discuss below.

First of all, the shift in balance of power has led to a change in how China and Japan view each other. China, growing into a new superpower, became a more confident and independent player in foreign politics, while Japan's power was declining and became increasingly wary of China's intentions (Yahuda, 2013). Secondly, the 1989 Tiananmen Incident greatly impacted the way Japanese saw China, which changed from a mostly positive view to a mostly negative view (Koo, 2009). Nevertheless, Japan was one of the first countries to end sanctions towards China (Fewsmith, 2001). The 1989 Tiananmen protests were also a turning point for Chinese domestic politics, as patriotism now replaced Maoism as China's state ideology through the Patriotic Education Campaign (Zhao, 1998). Since patriotism in the Chinese context is strongly associated with anti-foreign sentiments, China's rise in patriotism was accompanied by a rise in anti-foreign sentiments as well, especially anti-Japanese sentiment (Gries, 2004). Next to these sources of persistent tension, there have been several disputes with Japan, leading to large anti-Japanese protests in China, the most recent one being the Diaoyu/Senkaku Islands dispute in 2012. After this dispute anti-Japanese/Chinese sentiment reached new highs in the 2013 Japan-China Joint Public Opinion Poll, with 92.8% of Chinese having an unfavorable impression of Japan and 93% of Japanese feeling the same way about China (Genron NPO and China Daily, 2015).

The 2005 and 2012 anti-Japanese protests

The two case studies in this thesis are focused on the periods surrounding the 2005 Japanese history textbook controversy and the 2012 Diaoyu/Senkaku Islands dispute. Both of these events triggered wide-scale protests in China. In this section, I will briefly discuss

the background for each event.

In 2005, anti-Japanese protests were triggered by two clear events: Japan's attempt to gain a permanent seat on the United Nations Security Council and the publication of a Japanese history textbook on 5 April 2005, which, according to the Chinese, downplayed Japan's war history (Khoo, 2014). Chinese discontent with how Japan addresses its war history finds its root in the 1980s, when a start was made by the Chinese government to promote patriotism as a new state-ideology, due to the Chinese Communist Party's decline in legitimacy after the Cultural Revolution (He, 2007). In 1982 China protested against the Japanese publication of a Sino-Japanese war history for the first time since the war (He, 2007). Furthermore, Chinese history textbooks now emphasized Japan's role as the aggressor and events such as the Nanjing Massacre were now used as icons of Japan's aggression (He, 2007). This new history education led to a large rise in anti-Japanese sentiment in China.

The publication of the Japanese history textbook was not the only cause for the protests, as prior to the outbreak of protests in April 2005, Sino-Japanese relations were already deteriorating. First, Japanese Premier Koizumi's yearly visits to the Yasukuni Shrine, which in China is seen as a place where Japanese war criminals are honored, contributed to a rise of anti-Japanese sentiment in China (Khoo, 2014). Furthermore, the presence of a Chinese submarine and drilling teams for gas and oil in Japan's Exclusive Economic Zone in November 2004, made Japan formally declare China as a national security threat (Khoo, 2014). Further adding to the increase of anti-Japanese sentiment was the mention of Taiwan as a common strategic objective by Japan in a bilateral meeting with the US in December 2014 (Cui, 2012). In March 2015, Chinese protests against Japan's attempt to gain a permanent seat in the UN security erupted, which were then intensified by the anger

about the 5 April 2005 publication of the Japanese history textbook (Khoo, 2014).

The 2012 anti-Japanese protest erupted due to the Japanese government's announcement that it would purchase the Diaoyu/Senkaku Islands from a private owner. According to the Japanese government, the purchase was made in an attempt to solve the dispute over the islands, which regularly caused tension between China and Japan during the past decades (Reilly, 2014). According to the Japanese, they discovered the islands in 1884, confirmed it was uninhabited, and made it part of Japanese territory in 1895 (Lee, 2002). The islands were placed under the administration of the US after the signing of the San Francisco Peace Treaty in 1951 and given back in 1971 after the signing of the Okinawa Reversion Treaty (Lee, 2002).

China did not protest about the Diaoyu/Senkaku Islands until 1970, when there were signs that the islands could be a source of oil (Lee, 2002). According to the Chinese, the Diaoyu/Senkaku Islands have been discovered by China in 1372 and have been part of Chinese territory since 1534 (Lee, 2002). Nevertheless, during meetings for the negotiation of normalization of Sino-Japanese relations in 1972, the Chinese government told Japan that the Diaoyu/Senkaku Islands "did not count as a problem compared to recovering normal diplomatic relations" (He, 2007). However, in 1978 the dispute flared up again, when a group of right-wing Japanese politicians demanded the Diaoyu/Senkaku Islands dispute to be resolved (Koo, 2009). The Chinese responded by sending more than a hundred fishing boats carrying Chinese flags to the disputed islands, escalating the dispute (Koo, 2009). Nonetheless, in 1979, the dispute was shelved, as Deng Xiaoping stated that China and Japan should set aside the dispute until joint development is possible (Lee, 2002). While the dispute was successfully shelved for over a decade, this could not prevent the dispute from

flaring up multiple times since the 1990s, most notably in 1990, 1996, 2004, 2010 and 2012 (Koo, 2009).

Cold politics, hot economics

Generally speaking, Sino-Japanese political relations are rocky, while at the same time economic relations show a positive trend. The Chinese then coined the phrase “cold politics, hot economics” (经热政冷, *jing re zheng leng* in Chinese, *seirei keinetsu* in Japanese) to describe this relationship with Japan. This type of relationship is odd, as most international relations theories, such as integration theory, would suggest that warm economic relations also lead to warm political relations (Teufel-Dreyer, 2014). However, this effect does not seem to be visible in Sino-Japanese relations. Teufel-Dreyer (2014) even argues that while both sides understand the benefit of cooperation, commercial and strategic rivalries have actually become stronger. Koo (2009), however, argues that while economic ties may not have led to warm political ties, they have been a key factor in de-escalating Sino-Japanese disputes. Koo (2009) shows a pattern in major Sino-Japanese disputes between 1972 and 2005, where nationalist sentiment is first used by both China and Japan, but later quelled in order to preserve economic ties.

A much debated question is the effect negative political relations have on trade relations. Many studies have been performed on this issue on the Sino-Japanese case, but also on other cases. A study by Guiso, Sapienza and Zingales (2009) of European countries showed that lower levels of trust between countries also had an important economic impact, causing less trade, investment and foreign direct investment (FDI). Research by Michaels and Zhi (2007) on the impact of political tensions between the US and France and growth of anti-US sentiment in France due to the Iraq War, showed that trade between the

two countries declined, together with a drop in tourism and business trips. Another study by Fuchs and Klann (2011) showed that countries that met with the Dalai Lama, would be met with animosity in China and a deteriorating trade relation as a result.

That negative political relations can have an impact on economic relations then seems to be clear. Nonetheless, there does not seem to be a clear consensus on the impact Sino-Japanese tensions have on trade relations. Davis and Meunier (2011) argued that during the 2005 Japanese history textbook protests, political tensions could at most be called a “cautious wind cooling optimism about the prospects for interdependence” and that no direct economic damage was done. Koo’s (2009) and Teufel-Dreyer’s (2014) research also suggest economic relations were barely affected. In contrast, Fisman, Hamao and Wang (2014) show through econometric analysis that during Sino-Japanese tensions in 2005 and 2010 both Chinese and Japanese firms were significantly affected.

Above-mentioned literature focused on disputes before 2010 and it seems that economic damage was limited till then. However, the 2012 Diaoyu/Senkaku Islands dispute, shows that the phrase ‘cold politics, hot economics’ may not be an accurate description of Sino-Japanese relations anymore. Research by Yang and Tang (2014) on car sales data showed that car sales were significantly affected by the 2012 Diaoyu/Senkaku Islands dispute. Furthermore, statistics from the Japan External Trade Organization (JETRO, 2013) show that this dispute had a negative effect on trade volume between China and Japan, which dropped 3.9% in 2012 and continued to drop 5.1% in 2013 (JETRO, 2013). However, Armstrong (2014) argues that other factors such as rising labour costs in China are the main reason for this and that there is no clear evidence that suggests political tensions caused this drop. Nonetheless, since Sino-Japanese trade was affected by the 2012 Diaoyu/Senkaku Islands dispute, this means that the ‘cold politics, hot economics’ phrase may need to be

rethought.

This thesis should be able to contribute to this discussion by highlighting the role of the business community. Due to the negative effect ‘cold’ politics can have on economic relations, it is likely the business community will try to influence politics. Despite this, the role of firms has so far mainly been researched through data analysis on trade volume or sales. However, insights into the stance and actions of the Chinese business community are also valuable for understanding what happens when Sino-Japanese tensions flare up. The “cold politics, hot economics” puzzle cannot be fully understood if the actual stance and actions of the Chinese business community is unclear. This thesis will attempt to gain a better understanding of this.

The Chinese business community

Before discussing the role of the Chinese business community in Sino-Japanese relations, the Chinese business community itself needs to be discussed. In this thesis, what is meant by the Chinese business community is mainly state-owned enterprises, Chinese business associations and any Chinese private businesses. State-owned enterprises are directly linked to the government and large state-owned enterprises have frequent meetings with officials about a broad range of issues (Kennedy, 2009). Business associations in China are many and are linked to the government in different ways. Some are financially dependent on the government, such as the Self-Employed Labourer’s Association (SELA), which could limit their autonomy. Others, such as the All-China Federation of Industry and Commerce (ACFIC), are financially independent, suggesting more autonomy. However, nearly all business associations in China are staffed with current or former government officials. Furthermore, they are all affiliated with a responsible government department (Kennedy, 2009).

The composition of the main influential actors of the Chinese business community has changed various times since the Mao-period (1949-1976). Before the Mao-period, hundreds of chambers of commerce and industry guilds existed, but these were closed down in the 1950s (Pearson, 1994). The remaining 'capitalists' during this period were organised into the AFCIF by the Chinese government, but this was mainly used by the government to secure the obedience of the business community to the state (Pearson, 1994). State-owned enterprises became the main actors during this period and some of the managers of these state-owned enterprises were recruited into the National People's Congress and Chinese People's Political Consultative Conference (CPPCC) systems (Kennedy, 2009). Their influence, however, was only limited (Pearson, 1994).

Following Deng Xiaoping's rule after 1978, more private businesses came into being, decreasing the relative importance of state-owned enterprises (Fewsmith, 2001). The influence of the business community during this period was generally still limited, as politics were still dominated by a small group of elites (Zhao, 1993). This was especially true during the years following the Tiananmen protests in 1989, where policy-making was dominated by a small group of 'Party elders' (Zhao, 1993). After the Tiananmen protests, private businesses were criticised as one of the causes of the protests, leading to a 15% decrease of private enterprises in 1989 (Fewsmith, 2001). However, after Deng Xiaoping's trip to the south and the government's decision to allow more forms of ownership in 1992, the amount of registered private enterprises soared from 139,633 in 1992 to 1,200,978 in 1998 (Fewsmith, 2001).

Despite the changed policy on private enterprises, private entrepreneurs were still not allowed to join the Chinese Communist Party (Dickson, 2003). This changed under Jiang Zemin's rule, who introduced the 'three represents' theory in 2000. One of the goals of the

'three represents' was to make the Party's rule more democratic, as they opened the party to a wider range of actors (Dickson, 2003). As a result, the ban on entrepreneurs joining the party was lifted on 1 July 2001, meaning the path from the business community to the government was now much more open than before (Dickson, 2003).

The business community in Sino-Japanese economic relations

Literature on the role of the business community in Sino-Japanese relations is limited as most research focuses on either governmental actors, citizens (protesters, consumers) or macro-economic data. Nonetheless, businesses can have a significant effect on foreign policy making as well (Moravcsik, 1997). Already during the Mao-period, where no formal diplomatic ties between China and Japan existed, the business community played an important role in Sino-Japanese relations, especially from the Japanese side (Hsiao, 1977; Yanaga, 1968). Furthermore, the importance of the Chinese business community is likely to only have increased since then.

At the start of Mao-period, trade between China and Japan was extremely low, only totalling US\$ 4.7 million in 1950 (Burns, 2000). This was in part due to Japan being pressured by the US to establish diplomatic ties with Taiwan, meaning it was unable to establish formal diplomatic ties with China (Burns, 2000). Nonetheless, trade agreements were still negotiated privately and trade was still able to grow to US\$ 151 million by 1956 (Burns, 2000). Soeya (1999) shows that this was largely possible due to efforts by the Japanese business community. One obvious reason the Japanese business community put effort into maintaining trade relations with mainland China was the possible loss of China as a lucrative market, which they hoped to retain by helping and investing in China. Other than the loss of mainland China as a lucrative market, many Japanese businessmen were motivated by

feelings of responsibility to help China, as they felt guilty over the war (Soeya, 1999).

Therefore, even though the US pushed Japan to break off relations with mainland China, it was largely due to efforts of Japanese business groups that trade continued in the 1950s (Yanaga, 1968).

During the 1950s, the Chinese and Japanese business community also played a significant role in cooling down at least one Sino-Japanese dispute. In 1958, two Japanese men ripped down a Chinese flag during a Chinese exhibition at a Japanese department store in Nagasaki. This occurred at a time when China and Japan were having trouble negotiating a new trade agreement and the incident was used by the Chinese government to discontinue economic relations, leading to a total standstill in Sino-Japanese trade (Hsiao, 1977). The Japanese government had no intention to apologize for the incident, but Japanese businessmen quickly apologized after the incident (Hsiao, 1977). It was also due to efforts of both the Japanese and Chinese business community that trade eventually continued. Chinese and Japanese business associations already have frequent contact during the 1950s and in 1959 the All-China Federation of Trade Unions and the Japanese General Council of Trade Unions agreed to continue trade with those business that relied on Sino-Japanese trade the most (Hsiao, 1977).

Starting from 1960, China started selecting 'friendly' Japanese companies, which were the only Japanese companies China would do business with during that time. The number of 'friendly' companies quickly grew from eleven in 1960 to 190 in 1962 (Burns, 2000). Moreover, a Sino-Japanese Friendship Association was formed in 1963, which aimed to stimulate political and economic ties ("China-Japan Friendship Association," n.d.). While Sino-Japanese trade relations stayed unofficial until the normalisation of Sino-Japanese relations in 1972, economic relations were then still able to develop.

Therefore, the influence of the business community played a significant role in keeping Sino-Japanese trade relations on track during the Mao-period. Nevertheless, economic interdependence at this time was relatively small compared to now and the business community may therefore not always been able to have a large impact. In 1968 the Diaoyu/Senkaku Islands dispute flared up for the first time. Koo (2009) argues that because mutual economic dependence between China and Japan was insignificant at this time, economic interests were not important enough to immediately de-escalate the dispute. Despite this, cases such as the Nagasaki incident show that the impact of the business community was still quite large. Furthermore, Teufel-Dreyer (2014) argues that organisations like the Sino-Japanese Friendship Association still have been successful in working out Sino-Japanese disputes. The Sino-Japanese Friendship Association also states on their website their network has made a considerable contribution to normalisation of Sino-Japanese diplomatic ties (“China-Japan Friendship Association,” n.d.).

After the normalisation of diplomatic ties, trade volume between the two countries rapidly grew. The Chinese and Japanese economies became increasingly interdependent, and economic interests now started to play a more important role in solving Sino-Japanese tensions (Koo, 2009). Furthermore, the Sino-Japanese Friendship Association expanded during this period and new Sino-Japanese associations to promote private trade relations were formed, such as the Japan-China Economic association (JCEA website). It is likely the business community then also started to play a more important role in Sino-Japanese relations during periods of tensions.

Besides the increasing importance of the business community due to increasing economic interdependence and the rise of Sino-Japanese cooperation groups, there was also a changing environment within China itself. Decision making in China had become a

more open process and non-governmental actors now have more influence than before (Jakobson & Knox, 2010; Lanteigne, 2015). Kennedy (2009) shows that business lobbying is now very common in China as the government and business groups are in a “constant tug of war over policy advantages”. Furthermore, Yu (2012) shows that Chinese companies are playing an increasingly important role in Chinese foreign policy due to their large increase in overseas activities. Yu (2012) further points out that many of these firms are closely tied to the Chinese government. On the one hand this helps increasing the influence of firms, as this close connection with the government provides easy access to decision makers and monetary and political support. On the other hand this in some cases also limits their influence, as they have to adhere to the priorities of the Chinese government (Yu, 2012).

Considering the arguments above, it is then likely that the business community has an impact in Sino-Japanese relations now. The role of the business community became more important due to a growing economic interdependence between China and Japan and a more open political environment in China. Nonetheless, research on the actions and influence attempts made by the Chinese business community during Sino-Japanese tensions has not yet been adequately done. In this thesis I hope to make a start on filling this gap in the literature.

Hypothesis

Based on above literature, I expect the Chinese business community to have a considerable impact during periods of Sino-Japanese tension. During Sino-Japanese tensions, the Chinese government is usually under pressure by nationalist demands of the Chinese people (Reilly, 2014). During periods of heightened Sino-Japanese tensions, the Chinese government often tolerates anti-Japanese protests for a certain period of time, before they are cooled down

for the sake of preserving economic ties (Koo, 2009). As said, the role the Chinese business community has during these tensions is not well researched yet. However, much recent research suggests it is likely the business community has a significant impact on foreign policy making (Lanteigne, 2015; Kennedy, 2009; Yu, 2012). Since Sino-Japanese tensions can have a negative impact on the operations of Chinese businesses, it is possible they will use their lobbying power to influence policy makers. My hypothesis can then be formulated as follows: *During periods of Sino-Japanese tension, the Chinese business community will try to influence policy makers to cool down the tensions in order to protect their business.*

Method

Measuring influence is difficult, the influence of the business community perhaps even more so. Further adding to this difficulty is the opaqueness of Chinese domestic policy-making. Indeed, lobbying in China is much more likely to be done through direct lobbying, than outside lobbying (Kennedy, 2009). Direct lobbying is done through direct contact with policymakers, while outside lobbying is done by pressuring policymakers through public relations methods. In this thesis I will only be able to examine outside lobbying and present clues on potential acts of direct lobbying. Therefore, I may not be able to fully uncover the influence the Chinese business community has (or does not have) in Sino-Japanese relations. Nonetheless, this study may still be able to identify possible cases of business influence. The purpose of this study is then not to fully uncover the influence of the business community, but to show these possible cases of influence and provide a discussion as starting point for further research. Since the role of the Chinese business community in Sino-Japanese relations is still a relatively understudied subject, I believe this will then be a valuable contribution.

In order to research this question, I will conduct two cases studies, focused on two events that flared up tensions between China and Japan. The first case study will be on the period surrounding the 2005 Japanese history textbook controversy, which led to wide-scale anti-Japanese protests and boycotts in China. The second case study will focus on the period surrounding the 2012 Diaoyu/Senkaku Islands dispute, which also involved wide-scale anti-Japanese protests and boycotts. These two cases were picked because of the large amount of media attention they received and the seriousness of the disputes and thereby the likelihood of the business community attempting to influence decision-making during these periods.

The research method I will use is inspired by Dur's (2008) research on the influence the business community in the European Union (EU) has on the decision-making process of the EU government on trade policy. This means I will use a mixture of two methods used to measure influence of interest groups in policy-making: process tracing and assessing the degree of preference attainment. While these methods are unable to provide ground-breaking evidence, they should be able to provide a clear image of where the business community was standing at what time during periods of tension and if their demands were in line with those of the government. The 'processes' examined here will then be the periods of tension surrounding the 2005 and 2012 anti-Japanese protests. While the protests in these cases erupted due to different issues, the response to both cases show the same characteristics. Both cases featured wide-scale anti-Japanese protests and boycotts, as well as a surge in anti-Japanese sentiment.

Since I am unable to conduct fieldwork, I will rely on official government sources and media sources to examine my question. In these two case studies, I will try to determine the preference the government and the business community present towards dealing with the

tensions. Then, I will examine what the business community was saying at what point in time during these tensions. Did they attempt to influence the government's actions? Did they voice their opinion during these tensions? If this was the case, how did the government then respond to this? Or, how did businesses respond to the demands of the government?

The stance of the government was identified by analysing official government publications and comments made by government leaders in both foreign and Chinese media (newspapers, magazines, etc.) during the periods of heightened tension. The stance of the business community was identified through analysing publications on websites of Chinese business associations and comments made by members of the business community in both foreign and Chinese media.

While answering these questions will only solve a small part of the puzzle and cannot provide evidence for any influence, it may be able to serve as a starting point for the further examination of the role of the Chinese business community during Sino-Japanese tensions.

Case study 1: The 2005 Japanese history textbook protests

On 9 April 2005, anti-Japanese protests erupted in Beijing. The Japanese embassy in Beijing was surrounded by protesters and attacked with rocks, while at the same time Japanese businesses were vandalized in other parts of the city. Anti-Japanese protests not only emerged in Beijing, but soon expanded to other major Chinese cities such as Shanghai, Shenzhen and Chongqing. Besides protests, Chinese citizens and certain Chinese businesses initiated a boycott of Japanese goods. The cause of these protests was the dissatisfaction of the Chinese people with the approval by the Japanese Ministry of Education of a Japanese history textbook, which they felt downplayed the Japanese war atrocities. The protesters wanted Japan to apologize and face up to their war history, but Japan instead requested an

apology from China for the anti-Japanese protests. Not only did China then not apologize, but it also announced its opposition to Japan's candidacy for a seat on the UN Security Council on 12 April 2005, further heightening Sino-Japanese tensions. While a Chinese apology was not made, the Chinese government did put a stop to the anti-Chinese protests on 19 April 2005.

After initially tolerating the protests, the outcome of this period of anti-Japanese protests was then a government initiated halt, aimed at stabilizing Sino-Japanese relations and preventing further damage. This was done by censorship of anti-Japanese media coverage and internet content and a ban on anti-Japanese protests (Reilly, 2014). Besides this, Bo Xilai, the Minister of Commerce at that time, stated on 22 April 2005 that Japanese businesses in China are good for China's economic growth and urged Chinese citizens to stop boycotting Japanese goods. He further stated that China would continue to stimulate economic cooperation between the two countries (Cheng, 2005). This outcome is in line with what I expect to be the desired result for the Chinese business community. How does this outcome then compare to the demands voiced by the business community during this period?

While I expected to find evidence of the Chinese business community supporting this outcome, a more complicated result was observed instead. First of all, the voice of the Chinese business community is not very visible in the media during the 2005 anti-Japanese protests. In contrast, the Japanese business community openly criticized their government's actions and asked their government to, among others, apologize to China and stop visits of Japanese government leaders to the Yasukuni Shrine (Curtin, 2005; Yahuda, 2013). Furthermore, Japanese business associations made efforts to ensure a continuation of smooth Sino-Japanese trade. For example, a representative group for the Japanese

Association for the Promotion of International Trade led by former Japanese Prime Minister Ryutaro Hashimoto visited the Chinese Ministry of Commerce on 5 April 2005, which assured them it would continue stimulating economic cooperation between the two countries (Fu, 2005).

In the Chinese case, not only do we not see efforts like these, but we actually see that the businesses covered in the media actually seem to be more in favour of anti-Japanese sanctions. To illustrate, several large business groups joined in on the boycotts of Japanese goods. Already on 1 April 2005, before the protests erupted, the China Chain Store and Franchise Association (accounting for 11% of retail sales in China) advised its members to stop selling Japanese products, such as Asahi beer (Bezlova, 2005). This move was then joined by Nongunshan Jituan, a chain of 1200 supermarkets, which also stated it would stop selling the products of Japanese companies deemed to support the controversial history textbooks (Watts, 2005). While these boycotts would almost certainly hurt business, it seems that for some, their anti-Japanese/nationalist sentiment is more important than their financial losses. Xinmeng, a supermarket chain in Shenyang also boycotting certain Japanese goods, stated that: “while they are prepared for a significant financial loss, this is a small price to pay for protecting the Chinese people’s self-respect” (Tang, 2005). Evidence by China Daily (6 April) shows that these boycotts were indeed held (“Shops called to,” 2005). Nevertheless, support for these boycotts also quickly waned after Bo Xilai urged to stop them on 22 April 2005, suggesting their impact was limited (Reilly, 2014).

Looking at above mentioned sources, it seems my hypothesis of the business community acting as a ‘counter’ to popular nationalism does not hold up. Instead of promoting economic cooperation between China and Japan, they joined the public in their anti-Japanese actions and are willing to suffer financial losses as a result. However, while

some of the above mentioned business are indeed quite large and can therefore not be called exceptions, I believe they may not be representative for the Chinese business community as a whole. It may well be possible that Chinese business groups in favour of mending Sino-Japanese relations are not speaking in public out of fear of being seen as pro-Japanese. Perhaps they did not feel the need to speak out, since the government was already doing what they wanted it to do. It is also possible they did try to influence policy, but did this solely through direct lobbying, which is also the most common way of lobbying in China (Kennedy, 2009). Nevertheless, certain remarks by government officials and scholars during this period provide some support that it is likely that not all Chinese businesses possessed the same attitude as those in the above-mentioned examples. First of all, government officials stressed on many occasions that anti-Japanese boycotts and sanctions were not in China's favour. In response to the anti-Japanese boycotts Liu Jianchao, the spokesman for the Chinese Ministry of Foreign Affairs, said that Sino-Japanese trade relations are beneficial to both countries and China does not wish to see the trade relations being impacted by politics ("Wai jiao bu," 2005). On 22 April 2005, the former spokesman of the Chinese Ministry of Foreign Affairs, Wu Jianmin, also stated in an interview on CCTV that he was concerned about the negative impact the anti-Japanese protests would have on the Chinese economy and believed that in case of deteriorating Sino-Japanese relations China would be the biggest loser ("Wu Jianmin," 2005). The strongest example of the Chinese government showing its disapproval of the anti-Japanese actions, is the already mentioned statement by Minister of Commerce Bo Xilai on 22 April 2005. Not only did he advise against anti-Japanese actions, he also stated the Chinese government would protect Japanese businesses in China and wished to deepen Sino-Japanese economic cooperation (Cheng, 2005).

Besides these clear concerns of damage to trade relations if anti-Japanese measures continue, there is another clue that most businesses may in fact not be willing to take these losses for the sake of showing their dissatisfaction in this political issue. During the North East Asia Investment Exhibition, Wei Jianguo, the vice-minister of the Ministry of Commerce at the time, said that while he worried about political issues impacting economic cooperation, Sino-Japanese trade relations still did not show anything abnormal, despite the boycotts (“Shang wu bu,” 2005). Statistical evidence shows that Sino-Japanese trade relations indeed continued showing a steady growth, with Japanese exports to China growing by 8.8% and Japanese imports from China growing by 15.8% (JETRO, 2006). If that is the case, that suggests most businesses continued operating ‘as normal’ and were probably not in favour of anti-Japanese sanctions.

Nevertheless, it seems my hypothesis is questionable here. The government’s position during the 2005 anti-Japanese protests was clear: calm down the anti-Japanese protest in order to preserve stability in Sino-Japanese relations. In this case study there is little to no evidence of an impact of the Chinese business community on this decision by the Chinese government. Furthermore, it is even difficult to determine the demands of the business community during the studied period. Most media coverage of Chinese businesses focuses on those endorsing and participating in anti-Japanese boycotts, which suggests they are supportive of the popular anti-Japanese sentiment. However, since business continued as normal, it seems unlikely that these businesses highlighted in the media represent the majority of Chinese businesses. Therefore, while the sources in this study are too limited to draw any firm conclusions, the available media sources suggest that at least some Chinese businesses were more willing to use sanctions against Japan than the Chinese government in 2005. However, this stance quickly faded after the government spoke out against anti-

Japanese sanctions, suggesting these businesses did not attempt to further influence policy during this period.

Case study 2: The 2012 Diaoyu/Senkaku Islands dispute

On September 10, 2012, the Japanese government announced it decided to purchase the Diaoyu/Senkaku Islands from a private Japanese owner, claiming they hoped this would calm down territorial tensions. Rather than diffusing territorial tensions, this action triggered the largest anti-Japanese protests since 1972 and led to an enormous rise of anti-Japanese sentiment in China. As in the 2005 case, protesters started protesting at the Japanese embassy in Beijing on September 15, 2012. The next day protests spread to many more cities in China and quickly went from peaceful protesting to violent attack on Japanese businesses, cars, etc. Several Japanese companies even had to temporarily close their offices in China out of concern for the safety of their staff. Furthermore, just as in 2005, Chinese citizens started to call for boycotts of Japanese products. The circumstances in this case study then looks very similar to those in the 2005 case. However, the responses by the government and business community show some significant differences.

During the 2012 Diaoyu/Senkaku Islands dispute, the Chinese government took a much harder line than it did in 2005. On September 14, 2012, one day before the anti-Japanese protests erupted, assistant Foreign Minister Le Yucheng condemned the Japanese purchase of the islands, stating the purchase is a “gross violation of China’s territorial sovereignty”. Le Yucheng finished his speech saying that China’s position on this will be shaken by any force and that the direction of Sino-Japanese relations now lie completely in the hands of Japan (Le, 2012). In 2005, the Chinese government stopped the anti-Japanese protests after a few days and urged Chinese citizens and businesses to refrain from boycotts

of Japanese goods. In 2012, the Chinese government actually stated it encouraged people to protest “rationally”, condemning violent protest, but supporting peaceful protest and boycotts (“Japan’s ‘purchase’,” 2012).

The reason the Chinese Ministry of Commerce spoke out to stop the anti-Japanese protests and boycotts in 2005, was mainly due to concerns for damages to Sino-Japanese trade relations, which would be unfavourable to China as well. What seems to have changed in 2012 is that the Chinese government is now willing to accept this damage. On 19 September 2012, Shen Danyang, the spokesman of the Chinese Ministry of Commerce, said that the Diaoyu/Senkaku Islands dispute will certainly affect and damage Sino-Japanese trade relations. He further said that it is fully Japan’s responsibility to solve this issue and that rational patriotic activity is justified till then (“Japan’s ‘purchase’,” 2012). On 17 September 2012, a researcher affiliated with the Chinese Ministry of Commerce, Baisong Jin, even suggested to push economic sanctions on Japan, claiming this would hurt the Japanese economy far more than the Chinese (Jin, 2012).

China blaming Japan and China’s determination not to budge is a common sight in the Chinese media during the 2012 anti-Japanese protests. Nevertheless, around one month after the dispute, Chinese and Japanese Foreign Ministry officials were also meeting to negotiate a pact to solve the dispute (“Negotiation best,” 2012). China’s willingness to negotiate could still have to do with economic damage, which already became visible shortly after the dispute. Indeed, while business seemed to go on as usual in 2005, this was not the case in 2012. Statistics from the Japan External Trade Organization (JETRO, 2013) show that trade volume between China and Japan dropped 3.9% in 2012 and continued to drop 5.1% in 2013. While trade was already slowing in the months preceding the Japanese purchase of the Diaoyu/Senkaku Islands, Sino-Japanese tensions seem to have played a

significant role in this decrease (JETRO, 2013).

However, when on 27 October 2012 China's Vice Foreign Minister, Zhang Zhijun, gave a briefing to Chinese and foreign journalists about the dispute, his response to questions about the progress of consultations between the two Foreign Ministries shows that this was limited. Zhang Zhijun said that during these meetings China once again "pointed out its steely resolve to uphold China's territorial sovereignty". He further said that only Japan "correcting its mistake through concrete action" can put relations back on track and that till then China will "watch and see whose interests their move would eventually damage" (Zhang, 2012). It indeed seems China was not willing to budge as even several months later trade relations did not fully recover. In a Bloomberg article published 8 January 2013, Dreyer pointed out that this time "it [was] not a blip" and that "China [would] continue to push its claims to sovereignty until Beijing get what it wants." ("China-Japan Dispute", 2013).

With trade relations being hurt and the Chinese government seemingly attaching more importance to the territorial dispute than economic relations, how did the Chinese business community then respond during this period? First of all, it is worth pointing out that it does not look like many Chinese businesses joined in on the boycotting of Japanese goods in 2012. While some businessmen such as Deng Huajin on September 12, 2012, the CEO of Qijiawang, a large home decor retailer in China, did call on the Chinese people to no longer buy Japanese products or travel to Japan until the Diaoyu islands dispute is resolved, it does not seem that as many large Chinese business chains boycotting Japanese goods as in 2005, but there are no numbers available to prove this claim (Zhao, 2005).

However, this does not mean most Chinese businesses in 2012 were now opposed to anti-Japanese sanctions, let alone attempting to soften the hard line the Chinese

government took against Japan. In fact, most sources suggest that Chinese businesses were also attaching more value to China's territorial dispute with Japan, rather than financial gain. On 17 September, 2012, two days after the anti-Japanese protests erupted, the All-China Federation Of Industry and Commerce (ACFIC), representing 45,000 Chambers of Commerce and over 4 million members of the non-public economic sector, spoke out and condemned Japan's purchase of the Diaoyu/Senkaku Islands. Furthermore, they stated to fully support the Chinese government's decision and "will support all moves necessary to safeguard Chinese territory" ("ACFIC Condemns," 2012). Since ACFIC represents such a large part of the Chinese business community, this gives us a good assumption of where the Chinese business community was standing in this case.

Nevertheless, concerns of what the heightened Sino-Japanese tensions would do to trade relations were also visible. Hu Shuli, an influential Chinese economic journalist, spoke out and said that using economic sanctions to punish Japan would be unrealistic, since the damages to China and the huge job losses due to this would be disastrous to China's already weakening economy (Hu, 2012). Furthermore, claims of Japan hurting more than China are also questionable. One of the sectors suffering most economic damages during this period was the automobile sector. Toyota, Nissan and Honda all closed their factories for a few days due to safety concerns, furthermore, production was dropped due to an expected lower demand. This expectation turned out to be correct as Japanese car sales were indeed less for at least several months following the dispute (Yang and Tang, 2014).

While this looks more damaging to Japan than China, the opposite may in fact be true. As Anderson (2012) argues on 21 September 2012, most Japanese automakers in China are joint-ventures, all having state-owned Chinese partners, meaning sales will hurt both sides equally. However, China may even suffer more than Japan, since Japan can still

depend on other markets, while China loses a large part of their domestic sales (Anderson, 2012). This was reflected in the sales of Chinese automaker Dongfeng, who operates as a joint venture with Nissan and Honda, which saw a drop of 22% in sales in September 2012 (Yu, 2012). Despite these losses, it does not seem the Chinese automobile industry did much to change the situation. While the Chinese Association of Automobile Manufactures did publish an article on expected losses due to Sino-Japanese tensions, there are no signs they took any action to influence policy in this period (“Zhong ri guanxi,” 2012).

Another sector that suffered a lot both on the Japanese and Chinese side is the travel industry. Ryosei Nomura of All Nippon Airways Co., the largest airline company in Japan, said that 46,000 seats had been cancelled between September and November due to the islands dispute (“China-Japan Dispute,” 2013). Ctrip.com, accounting for 40% of China’s online travel industry, said on 21 September 2012 that more than half of their group bookings for Japan during the ‘Golden Week’ (a yearly Chinese public holiday, starting on October 1, usually lasting seven days) were cancelled (Aredy, Chiu and Kachi, 2012). Since travels to Japan account for 20% of Ctrip.com’s international business, this is significant damage. However, also in this case we do not see any evidence of Chinese travel associations or travel companies attempting to influence the direction of the dispute.

Interestingly enough, these responses are in stark contrast to the responses of the Japanese business community. After the anti-Japanese protests broke out in China, Japanese business leaders quickly spoke out and urged their government to solve the dispute. On 19 September 2012, Yonekura Hiromasa, the leader of *Keidanren*, Japan’s biggest business association, told reporters of the necessity of “getting economic relations back on track” (Fackler and Johnson, 2012). In contrast to the Chinese business community, it then seems that Japanese business community attaches more value to economics, rather

than the territorial dispute. As Yuwaka Kazuo, professor at Asia University in Tokyo said: “They want to defend their territory, but few would do so at the expense of business.” (Fackler and Johnson, 2012)

The findings in this case study then suggest that the Chinese business community did not attempt to influence China’s policy towards Japan following the Diaoyu/Senkaku Islands dispute. The ACFIC, representing a large part of the Chinese business community, declared to fully support the Chinese government’s position and any moves necessary to safeguard Chinese territory. The Chinese government proved not to be afraid of economic sanctions and it seems the Chinese business community may also be able to accept this as a ‘necessity’. Even the two sectors most hurt by the dispute do not seem to have spoken out or tried to influence policy towards Japan. However, if most of China’s business community indeed supported the idea presented in the ACFIC’s statement, then their demands would already be in line with the Chinese government’s demands and there would be no need for action.

Discussion

Attitude of the business community and “cold politics, hot economics”

While the sources in above case studies are limited and do not provide clear evidence, the results of both case studies suggest that my hypothesis does not hold up. Nevertheless, both case studies do provide some interesting findings. I expected the Chinese business community to respond in a similar way to the Japanese business community, who in both cases urged their government to resolve the dispute, so as to preserve economic ties. I assumed popular nationalism and anti-Japanese sentiment would be a thorn in the eye of the Chinese business community, as this would hurt business. However, in 2005 at least

some Chinese businesses even participated in the anti-Japanese boycotts, seemingly possessing the same attitude as the citizens protesting in the street. Also in 2012, the Chinese business community was not 'balancing' against the negative anti-Japanese sentiment, as the Chinese business community seems willing to accept losses when Sino-Japanese disputes occur.

The results of this study could be valuable in the 'cold politics, hot economics' discussion. As discussed earlier in this paper, it is questioned by scholars whether or not 'cold politics, hot economics' is still an accurate description of Sino-Japanese relations. In this discussion, relatively little attention has been paid to the attitude and action of the business communities in both countries. This study, focusing on the Chinese business community, suggests that when Sino-Japanese political relations turn 'cold', the Chinese business community attitude towards Japan also becomes 'colder'. While no numbers are available, in 2005, at least some large Chinese businesses participated in anti-Japanese boycotts. The Chinese government then urged them to stop these boycotts, afraid this would hurt economic relations. The Chinese businesses participating in these boycotts were well aware of the damage these could cause, but still proved willing to do this. The results of the 2012 case also suggests that 'cold politics, hot economics' may not be a correct description of Sino-Japanese relations, as large representatives of the Chinese business community were in agreement with the government's hard line against Japan.

I expected the Chinese business community to try to mend the relations between China and Japan in both cases. In 2005, the Chinese economy was still for a large part dependent on Sino-Japanese trade (Yahuda, 2013). For that reason, I would expect the business community to attempt to influence the government more in 2005, than in 2012, where China was significantly less dependent on Japan (Yahuda, 2013). However, economic

damage was larger in 2012 than in 2005, which should also be a reason for the business community to attempt to influence the government during this period. Nevertheless, the observed public response by the business community was in both cases not in line with what this thesis expected.

While data showed a slump in Sino-Japanese trade growth in 2012, some scholars still suggest there is no clear evidence that heightened Sino-Japanese tensions impact trade relations. For example, Shiro Armstrong (2014) cites data from the 2012 Japan Bank for International Cooperation (JBIC) survey arguing that Japanese businesses were more concerned with other factors, such as rising labour costs, and that this was the main reason for the fall. While this may indeed be an important factor, the same survey shows that 65.1% of Japanese businesses said that their business operations in China were negatively affected (JBIC, 2012). Moreover, 63.3% of Japanese businesses said they would rethink their business their operations in China due to what happened as a result of the 2012 Diaoyu/Senkaku Islands dispute (JBIC, 2012).

While the wide-scale consumer boycott in 2012 is an important factor, I believe above responses of Japanese businesses could also be influenced by the 'cold' position the Chinese business community takes towards Japan during tensions. The Japanese business community urged their government to warm relations with China multiple times during the Diaoyu/Senkaku Islands dispute, but the Chinese business community responded in the opposite way. However, it is possible the Chinese business community did not feel the need to pressure their government, because the Japanese business community was already doing this. Nevertheless, the 'cold' stance of the Chinese business community, where disputes with Japan seem to trump business relations in importance, could be an important factor in Japanese businesses seeing China as an increasingly risky place to do business.

Problems with public statements

Both case studies suggest that the Chinese business community did not actively try to influence policy during the two Sino-Japanese disputes. In 2005, some Chinese businesses were arguably more in favour of anti-Japanese sanctions than the Chinese government, who urged them to calm down. Nonetheless, there is no evidence they tried to influence the government's position here. In the 2012 case, the demands of the Chinese government and business community seemed to be in line and no action was observed here as well.

However, the fact we do not see any attempts to influence the government made in public, does not necessarily mean these did not take place. This research focused on public statements and there are several reasons to doubt the public statements by both the Chinese government and business community accurately reflect their stances in both cases.

First, the Chinese government may be required to take on a hard line towards Japan, so as to satisfy the Chinese nationalist or anti-Japanese sentiment. If the Chinese government does not take a tough stance towards Japan, this could make the Chinese government seem weak or provoke anger towards the Chinese government. Newspapers such as China Daily, run by the Publicity Department of the Communist Party of China, keep blaming Japan and present China's hard line towards Japan. Nevertheless, some bilateral meetings were also held, but were either kept relatively quiet or presented as initiated by Japan.

This problem the Chinese government faces, could also be an issue for Chinese businesses. In both case studies, there have been no cases of Chinese businesses speaking out in favour of mending Sino-Japanese relations. When Chinese consumers are boycotting Japanese goods and even vandalizing shops selling Japanese products, businesses may want to avoid being associated with Japan, as the risk of this impacting their business is there. A

clear example of this can be found in 2012, where Japanese car dealers tried to distance themselves from Japan by hanging Chinese flags and banners showing support for China in their shops (Tian, 2012). Financial damage to Japanese car dealers was severe, but them publicly speaking out in favour of mending Sino-Japanese relations, may then have had an even worse effect. Various studies have shown that anti-Japanese sentiments in China can have a significant impact on the willingness of the Chinese consumer to buy from Japanese shops and buy Japanese products (Klein, Ettenson & Morris, 1998; Tian & Pasadeos, 2012). Therefore, it may be better for Japanese business or Chinese businesses selling Japanese products to distance themselves from Japan and show their support for China during periods of heightened tensions.

Lobbying in China and further research

This study shows that public influence attempts by the business community, as observed on the Japanese side, did not take place in China. Nevertheless, this study far from rules out that attempts to influence the government took place. China is sometimes still seen as an authoritarian state where other interest groups have limited influence on policy, but this influence seems to be growing. Studies, most notably by Kennedy (2009), have shown that lobbying in China is now a common activity and can be quite successful. However, if lobbying takes place in China, it is usually done through inside lobbying and is therefore not visible to public (Deng & Kennedy, 2010). Therefore, it is plausible that influence attempts were made during this period, but are unable to be observed in public sources. Nonetheless, the public sources in this study did provide valuable pointers of possible attempts to influence the government, which can be further researched.

While most literature suggests attempts to influence politics by the business

community are likely during periods of Sino-Japanese tension, there are also sources that suggest that Chinese and Japanese businesses may in fact have trouble lobbying during these periods. For example, Takegami ("Rising Tensions," 2012) points out that Japan-China trade and business groups do not have strong connections or channels to get in contact with Chinese top officials during disputes. This lack of lobbying power is also mentioned by Feng (2006), who points out that Chinese business representatives do not travel with their government during interstate meetings and therefore have little influence during Sino-Japanese tensions. This suggests access to decision-makers during Sino-Japanese tensions may be limited.

To truly uncover the position and action of the Chinese business community, further research would need to be conducted. The best way to do this seems to be interviewing a wide range of leaders of Chinese businesses and business associations such as the ACFIC. Furthermore, business could be surveyed and self-assess their influence during Sino-Japanese tensions.

Conclusion

This thesis attempted to shed light on the role of the Chinese business community during periods of Sino-Japanese tensions by assessing their actions and demands during the period surrounding the 2005 Japanese history textbook issue and 2012 Diaoyu/Senkaku Islands dispute. This thesis provides two interesting findings: 1) Chinese businesses attach considerable importance to Sino-Japanese political disputes. In 2005, some businesses joined in on anti-Japanese boycotts and proved willing to suffer financial losses in the process. In 2012, large representative bodies of the Chinese business community proclaimed to do whatever necessary to safeguard Chinese territory. 2) Clear public

attempts to influence the government by the Chinese business community were not observed during periods of heightened tensions in 2005 and 2012. Despite this, I doubt no attempts to influence the government were made during these periods, as these are usually not publicly made in China. Further research through interviews or surveys would then be necessary to gain a better understanding of the position and action of the Chinese business community during periods of heightened Sino-Japanese tensions.

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