

Sino-japanese territorial dispute

Business



Relations between China and Japan are suffering as a direct result of the recent territorial dispute over a chain of islands in the East China Sea.

Sovereignty over the seven squared kilometers' worth of land, called the Diaoyu islands in China and the Senkaku in Japan, would yield valuable gases, pools of fish, and strategic territory. With the rate of economic growth decreasing in China and stagnant in Japan, such a resource would be very valuable to both countries. However, this controversy is more than simply a matter of economic gain; the showdown between the two countries is a political problem at its core. Each government has its own reasons not to back down, but also faces risk of great consequences if the issue does not go its way. When Japan's governor announced the purchase of the pinnacle islands, China responded furiously, cancelling the 40 year anniversary of Sino-Japanese relations.

To this, Japan announced the nationalization of the islands. These seemingly immature actions of the two governments are products of carefully calculated political motives. Japan is characterized by strong competition among the different political groups, which harks back to the feudal ages when Japanese society was ruled by local daimyo. With the general elections coming up, Ishihara's move to buy the islands at question was a deliberate show of nationalism, which was then matched by Noda's nationalization of the islands. China, on the other hand, is particularly threatened by this issue because of the recent U. S.

support of the Philippines and Vietnam in their territory disputes with China - viewed by many as attempts of the United States and its allies to contain

communism. Losing claim to the Diaoyu/Senkaku islands could potentially cause a domino effect of China losing all the other controversial territory; for China, this is a matter that bridges beyond territorial sovereignty and into national security. Also, there is still a lingering resentment of imperialist Japan's colonialism among the Chinese people - a sentiment that is not restrained but encouraged by the government. Using Japan as a scapegoat to release the public's pent-up feelings about the slowing economy is a political tactic on the part of the Chinese government to smooth the transition of power that will take place this November. Tensions have escalated to such a degree that it seems inevitable that at least one country would walk away from this confrontation internationally humiliated.

Neither country wishes to take this to full-blown war, but they are driving each other into a corner. This dispute is an ongoing one, and it had been temporarily shelved two years ago with Japan releasing a captured Chinese captain. This time, there is no such negotiating factor. If a solution is not found soon - and none seems to be in sight - Japan will suffer severe economic repercussions. The Chinese government has issued sanctions on imports of Japanese products and exports of rare earths in the past, and threatens to do so again.

There have already been several attacks on Japanese factories and businesses located in China, and reports of falling sales are coming in. But the economic relationship between China and Japan is too convoluted for China to emerge unscathed from a Japanese economic downturn. China and Japan share a long history, and this is not the first time the two countries engaged in serious disagreements. But the reality now is that the two

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countries are inextricably connected by trade relations. Despite their differences, modern day businesses and corporations of China and Japan, which harbor the world's second and third largest economies respectively, have formed a huge bilateral trading partnership worth \$340 billion - one of the largest between any two countries of the world.

China is Japan's largest trading partner, and Japanese investment in China has increased significantly during a time when China is losing foreign investments. China imports huge quantities of Japanese high-tech parts and components for its massive product assembly lines. Japan relies heavily on rare earth imports from China to sustain its electronic industries. The two countries have even been negotiating a trilateral free trade policy with Korea. Though China can boycott Japanese goods and services and stop its exports, this is harming China as well; responding to diplomatic problems with economic threats will damage China's soft power and induce reluctance in foreign corporations and individuals to invest in China.

At a time when the European economic crisis is decreasing product demand and taking its toll on all the Asian countries, neither Japan nor China can afford to lose the other in trade. The Sino-Japanese relationship is rooted in age-old rivalries but complicated by modern economic necessities. The latest dispute over territorial sovereignty only highlights the reality that the two nations must quickly learn to coexist and continue their mutually beneficial friendly relationship. China holds the power to significantly cripple the Japanese economy, yet the United States' declaration that its security treaty with Japan covers the pinnacle islands gives leverage to Japan should this dispute escalate to armed conflict. Since neither country wants economic

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devastation or war, the dispute is at a stalemate; the two Asian powers need a mutually respected third party mediator to help them out of the mess. But no such institution exists at the time - only time will tell how this argument would end.