Understanding Sino-Japanese Trade Relations

Can History and Realism Explain Bilateral Trade?

Ritgerð til BA-prófs í Kínverskum fræðum

Bjarni Mikael Baldursson
Kt.:110686-2189

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Abstract: Sino-Japanese trade relations are among the largest in the world, involving the world’s second and third largest economies. Bilateral trade relations are stable but political relations are rife with conflict. Much of the political discourse is riddled with references to the past, alluding to unsettled scores. China and Japan share a difficult history involving war, nationalism and third. The Japanese empire had since the late nineteenth century annexed parts of China along with Western colonial powers, taking advantage of the crumbling Chinese empire. Imperialist expansion aspirations led Japan to invade China, in which Japanese forces committed multiple war crimes. Since then, each country has constructed a narrative of their history which glorifies its own deeds during that time, while antagonizing the other. The Japanese narrative is especially troublesome, the consequences of which have often led to violent protests in China, and halted bilateral trade. But in the long term, trade relations are mostly unaffected by politics. Conversely, Realism is a theory of International Relations which focuses on the inherent need to seek out power as the primary driver for interstate relations. It can be useful in explaining Sino-Japanese relations.
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Introduction

China and Japan each have a long history, comparable cultures, and a significant economic relationship; they are the largest economies in East Asia. But when news of Sino-Japanese relations pop up in news media, usually it concerns political disputes over World War Two legacies, a war in which Japan was the aggressor and committed several war crimes (Kaneko, 2016) (Kim, 2015) (Watts, 2005). The political disputes seem particularly harsh, with China accusing Japan of not having fully acknowledged its wartime legacy, and Japan claiming the Chinese are overhyping and demanding unfair deference on the issue. Comparisons to German-Polish relations invariably arise; Germany and Poland are neighbors who were in a similar situation after WW2 as Japan and China, but have since developed an amicable and prosperous relationship. But Chinese and Japanese authorities have since the war constructed a different historical narratives that affect each country’s perception of the war, causing clashes and mutual animosity. But in light of significant bilateral trade, how consequential is the animosity?

This paper attempts to analyse if and how historical animosity affects Sino-Japanese trade. Historical animosity has been used extensively to explain the security situation in East Asia, but less so in explaining bilateral trade. As a comparison, the relationship will also be analysed through the lens of Realist Theory, a standard theory of International Relations (IR), in an attempt to illustrate whether standard IR theory is sufficient in explaining Sino-Japanese trade.

This paper begins with an outline of bilateral trade between 2011 and 2015, and a light overview on bilateral trade from the 1990’s onwards, to illustrate the growth in trade. The next section delves into the shared history of Japan and China, focusing mostly on the time period from the mid nineteenth century until the mid twentieth, as this period was most consequential in shaping the current relationship. Since history is paramount in shaping the current shape of the Sino-Japanese relationship, the author feels it is important to delve deep into the subject. This will be followed by an analysis on how each country has shaped their own view on shared history, and how it affects bilateral trade. Next there will be a summary on Realist theory. Realism is one of the most common theories in International Relations. It is often useful in explaining the existence or absence of conflict. Hegemonic Stability Theory (HST) is an offshoot of Realism, it focuses on how powerful state can bring stability to an otherwise politically unstable region. An attempt will be made to analyse Sino-Japanese trade through the lense ofRealism and HST. Finally, a comparison will be made between Realism and history.
## Economic Trade in the Present

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<td><strong>Import f.</strong></td>
<td>$\sim$161 Billion (27%)</td>
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<td><strong>Export to</strong></td>
<td>$\sim$116 Billion (17%)</td>
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Source: (Japan, 2010-2017)

In 2015, Japan imported roughly $161 billion worth of goods from China (Japan: Trade Statistics, 1994-2017). China is by far Japan’s top import partner, with approximately 27% of all imported goods coming from China. By comparison, The United States is Japan’s second largest import partner with approximately 11% of imports coming from there. China has been has been Japan’s no. 1 import partner since at least 2011 (Japan, 2010-2017). Japanese exports to China in 2015 was worth over $116 billion (Japan, 2010-2017), which accounted for 18.6% of total japanese export goods. China was the second largest export destination for Japanese goods in 2015 after the United States, having been the top destination in the previous four years (Japan, 2010-2017).

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<td><strong>Import f.</strong></td>
<td>$\sim$116 Billion (9.1%)</td>
<td>$\sim$131 Billion (8.5%)</td>
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<td><strong>Export to</strong></td>
<td>$\sim$153 Billion (6.4%)</td>
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Source: (China, 2010-2017)

In 2015, China imported approximately $116 billion worth of goods from Japan (China, 2010-2017). Japan is China’s fourth largest import partner, with approximately 9.1% of all imported goods coming from Japan. China imports a similar worth of goods from The United States (19%) and South Korea (10%) (China, 2010-2017). In the years 2014 and 2013 Japan was China’s third largest import partner, and from 2011 to 2012 Japan was the top import partner (China, 2010-2017). Chinese exports to Japan amounted to almost $153 billion in the year 2015 which accounted for 6.4% of total exports (China, 2010-2017). Japan is the third largest export
destination for chinese goods, after the United States and Hong Kong (China, 2010-2017), and has been so since 2011. It may seem that trade is decreasing since annual worth of exports is lowering, this is due to the changing nature of the Chinese economy. Whereas before China was heavily dependent on cheap labour for producing and exporting goods, rising labour wages and increased buying power are transforming China into a consumer market (Aoyama, 2015).

Shiro Patrick Armstrong (Armstrong S. P., 2015) contends in his research that in the period from 1990 to 2006, on average 59% of China’s potential trade with Japan and 57% of Japan’s potential trade with China was realized, and that these values only grew during the period. He defines potential trade as “the achievement of potential trade, with potential trade being estimated as the maximum amount of trade achievable given the characteristics of the trading relationship, which are benchmarked by the characteristics of all other trade relationships” (Armstrong S. P., 2015). Furthermore, potential trade between the countries was significantly higher than the world average of 50% (Armstrong S. P., 2015). Japan has invested heavily in China, and many Japanese businesses run manufacturing plants in major cities, manufacturing products for the Japanese market (Armstrong S., 2015). Japan was one of the first countries to invest in China when it opened up to foreign investments in the late 1970’s; Japanese state officials state that over 23,000 Japanese firms had set up in China by the end of 2012, and that Japan’s accumulated investment in the country had reached over $100 billion by May 2015, the first country to surpass $100 billion (Aoyama, 2015). The two countries represent the two largest economies within the highly integrated East Asia economic region. Their interdependence is illustrated in other forms of transactions: Chinese students comprised around half of all foreign students in Japan in 2015, a similar proportion as the average for the preceding decade, and China is the second-largest destination for Japanese students studying abroad (Armstrong S., 2015). It is fair to speculate that such high quantities of student exchanges would not be the case without a close trade relationship. Bilateral trade is strong, but relations between China and Japan is more complicated than just trade.

A brief Overview of Historical Relations Between China and Japan

Relations between China and Japan go back centuries. For a long time, the Chinese empire was the dominant state in Eastern Asia (the direct translation for the local name of China is The Central Kingdom). It was the oldest state, and had the largest economy. Chinese
influence on Japanese civilization has been immense ever since the beginning of its written history in the late sixth century A.D.. For instance, Bureaucratic organization of the early Japanese state was heavily dependent on Chinese customs. According to Schirokauer, Lurie, and Gay (Conrad Schirokauer, 2006), „State building in both Korea and Japan depended on (Chinese) writing and the adoption of Chinese political titles, rituals, bureaucratic nomenclature, music, and dress as well as, at least on paper, systems of taxation, conscription, and land allocation“ (p. 30). Chinese influence was also prominent in religion and philosophy, as Japan adopted Confucianism and Buddhism early on. These influences ensured a cultural link between the two countries, and a shared view, but not identical, on how to conduct affairs. Many of these influences can still be seen today.

Prior to the nineteenth century, China considered itself the preeminent state in the region due to its cultural stature and, but Chinese domination in the region waned in the nineteenth century as the central government in Beijing – at this point in serious decline on all fronts - struggled to maintain control of the vast empire. At the same time, China’s insistence on limiting trade with European countries was at loggerheads with the West’s policy to greatly expand its trade in the orient. This inconsistency came to a head when Great Britain forced upon China the so called unfair treaties after it was victorious in the Opium Wars in the mid nineteenth century. These trade agreements were most unfavourable to China: stipulations included legalization and unrestricted sale of Opium (which the Chinese had vehemently opposed), and the establishment of several treaty ports. But most importantly they contained the „most favored nation clause“, which stipulated that if China should later make a trade agreement with a third country, then the treaty with Britain should be updated to be at least equal to the new agreement (Spence, 1999). The favorable contents of the treaty did not go unnoticed by other European powers, who soon afterward were pressuring Beijing for similar treaties. With domestic turmoil on its hand, and having seen the technological superiority of the West in battle, Beijing reluctantly granted other Western countries similar treaties. These events along with domestic turmoil within China led to the fall of the last Chinese dynasty in 1911, and the beginning of the republican era which lasted until 1949. The Republican era was an era of weak central government, with warlords controlling large parts of the country. European powers took advantage of turmoil within China, as did Japan (Spence, 1999).

The relative ease at which the European powers were able to bend Chinese authorities to their will was in no small part due to the technological and material inferiority of the
chinese state. Japan was similarly underdeveloped in the 1800s compared to Europe, and the japanese government’s long standing policy of national seclusion from foreign influences and trade only seems to have buttressed that fact. Prior to the 1850’s this did not constitute a grave concern for the japanese, but in 1844 the king of Holland sent a letter to the shogun (at that time the title of the japanese head of government) informing him that the „development of steam navigation enabled western countries to penetrate the most distant waters of the world“ (Varley, 2000). It went on to state that the fate of the chinese in the Opium Wars With Great Britain illustrated that Japan’s policy of national seclusion was neither advisable nor tenable in current times. This came to ahead in 1853 when Commodore Matthew Perry of the United States landed upon japanese shores with a squadron of ships. He had been dispatched by President Millard Fillmore to ostensibly force diplomatic relations between the two countries. Subsequently, the first American consul in Japan procured a trade pact which included many of the same unfair stipulations that other western countries had force upon China. Other western powers soon followed the United States in setting up similar commercial treaties with Japan. Western expansion deeply frustrated japanese leaders, but it also laid forth a new path for Japan to follow. As Paul Varley (Varley, 2000) puts it:

They may have continued to harbor personal animosities toward the West, particularly for forcing Japan to accede to the unequal treaties; but the Meiji leaders were by and large pragmatic men who respected the material superiority of the West and wished to emulate it by undertaking modernization. Sharing an overriding concern for Japanese territorial independence, they believed that, quite apart from the obvious benefits and enjoyments it would bring, modernization was essential if Japan was to be protected against possible future threats from the outside. (p. 237)

From the 1850’s to the 1890’s the Japanese government enacted sweeping reforms in order to modernize the country (Moore, 2010), which in actuality meant it became more westernized. To that end, numerous delegations were dispatched to the West in order to study their ways. Arguably the most important one was the Iwakura Mission of 1871, a delegation of approximately hundred members. The mission toured twelve western countries over the course of almost two years, and the main takeaway from the excursion was profound. As Varley (Varley, 2000) state:

The members of the Iwakura Mission clearly perceived that the Western countries had achieved modernization not through mutual cooperation but through a constant struggle for wealth and power that entailed fierce and sometimes violent national
rivalries. Of all the ideologies that accompanied the scientific and industrial resolutions and the West’s rush into modernity, none exceeded the force of nationalism, and the Iwakura Mission’s leaders did not for a moment hesitate to conceive and plan for their own modernization in terms, first and foremost, of Japan’s national interests. They understood that, in the age of progress, Japan had to join in its advance quickly and vigorously, lest it be left in the West’s historical dust.

In its pursuit to modernize, Japan adopted Western customs left and right, even switching to the Western style solar calendar in 1872, from the Chinese lunar calendar, which Japan had used for centuries. But despite infatuation with all things western, fundamental western ideals such as democracy and individualism were not to be embraced by the Japanese government. Instead, it would advocate for Confucian ideals that focused on filial piety and absolute loyalty to the state. After all, the ultimate goal of modernization in the eyes of Japanese leaders was to strengthen the country militarily in order to gain leverage for revising the trade pacts with the West, and even compete with the West for empire building in the Pacific (Varley, 2000).

By 1910, roughly sixty years since the first trade agreements with the West, Japan had established itself as a modernized world power on par with Europe and the United States (Varley, 2000). Several events emphasized this feat. Japan successfully securing revisions of the aforementioned trade agreements was one, another one was the the Sino-Japanese War of 1894 and its aftermath. The War centered on Korea which, like Japan, had for centuries been a vassal state of China, and at the time was a Chinese protectorate of a kind regarding foreign affairs. Japan won the war within a year, receiving Taiwan and the Pescadores Islands as war spoils. The victory set off a chain of events that led to Japan later acquiring Korea and the Liaotung Peninsula, as well as Western powers becoming more brazen in their dealings with China. It also led to a shift in Japanese perception of China. For centuries, China was seen by Japanese as an abundant source of higher culture and innovation; many cultural concepts that are today regarded as Japanese were actually adopted from China. After the war however, long held prestige toward China diminished significantly. The Chinese militaries’ poor performance in battle convinced Japanese leaders that the high esteem traditionally afforded to China was no longer deserved. Popular sentiment was along similar lines: victory over the Chinese coupled with Japan’s remarkable advancement to modernity fostered an immense sense of national pride, and some expressed views that it was Japan’s responsibility, as an enlightened nation, to spread the fruits of modernity to the backward-thinking people of the rest of East Asia (Varley, 2000). Land acquisitions along the Chinese seaboard continued in the
following years, which in turn bolstered further aggressive nationalism and imperialist sentiment. In 1932 the Japanese military annexed the northeastern region of Manchuria in China, and created the puppet state of Manchukuo with the former Chinese emperor acting as a (powerless) figurehead so as to lend credibility. The action emboldened ultra-nationalists in Japan; the early 1930’s saw democracy disintegrate and Japan effectively becoming a police state (Varley, 2000). The military became the most revered institution in Japan (besides the emperor), and a primary tool for expanding Japanese influence outside the country.

In 1937, Japan invaded the rest of East China, starting a war which would quickly be engulfed by the larger Second World War and would last until the allied defeat of Japan in 1945. Japanese forces quickly occupied most of the Chinese eastern seaboard, not least because Chinese forces were badly trained and incoordinated. After a speedy capture of Shanghai, Japanese forces marched towards the Chinese capital of Nanjing, forcing Chinese forces to retreat inland. In 1938 Japan proclaimed the Whole of China as an integral part of Japan’s sphere of influence, a precursor to Japan’s aspirations for incorporating all of East and Southeast Asia into its emerging empire. Japan’s imperial hopes came to an end when Japan surrendered to the Allies in the wake of the nuclear bombings on the Japanese homeland. Subsequently, Japan relinquished all of its land holdings in China (Varley, 2000).

Japan and China went in different directions after World War Two. the American occupation of Japan brought with it democratic rule and a capitalistic economy, ushering economic prosperity never before seen by the Japanese. In China on the other hand, the Communists, led by Mao Zedong, won control of China in 1949, ushering in a struggling Soviet style economy and isolation from the world. Relations between the countries were minimal in the two decades following the communist takeover of China, partly due to Japan recognizing the Taiwanese government as the legitimate government of all of China. In 1972, China and Japan established diplomatic relations; Japan formally recognized the communist government in Beijing as the sole government of China, and Beijing renounced any demands for war reparations from Japan. Economic activity between the countries grew considerably afterwards, with Japan investing in China. By the 1990’s, bilateral trade between the two countries was considerable, but the situation of the two countries had somewhat reversed from the period right after World War Two, what with Japan’s economic bubble bursting, leading to a decade of economic stagnation, and the Chinese economy soaring after economic reforms in the 1980’s (Moore, 2010). Both countries have done fairly well economically.
speaking in the new millennium, especially China which has had a yearly economic growth of over five percent for over two decades, and recently replaced Japan as the second largest economy on Earth (Chung, 2012).

The biggest war-related issues today concern war crimes perpetrated by the Japanese in China. Arguably the most notorious instance has been labeled the Rape of Nanjing. Japanese forces captured Nanjing, then the capital of China, in 1937 as part of the larger operation of conquering the east coast. The government and top military brass had already fled the city, leaving only a small garrison with the impossible task of defending it. In the six weeks that followed the city’s capture, the Japanese unleashed a fury of violence and destruction upon defeated Chinese and civilians that has been described as among the worst atrocities in the history of modern warfare (Spence, 1999). Along with arson and senseless destruction, thousands of defeated soldiers and civilians were murdered and raped. Foreigners living in Nanjing at the time estimated that 20,000 women were raped by Japanese soldiers and over 30,000 Chinese murdered; Chinese estimates are far higher (Spence, 1999). Another war crime issue regards so called comfort women; the Japanese military units routinely abducted Chinese women (and Korean and other Asians to a lesser degree) from their homes by the thousands to be used as sex slaves for troops stationed in foreign lands under Japanese occupation. A third issue concerns brutal human experiments conducted in Northeast China. There, a Japanese military science unit known as unit 731 "kept Chinese prisoners and performed horrifying edperiments on them, from the study of the Bubonic Plague, to vivisections, to the study of the freezing of human flesh wherein Chinese civilians were tied to posts outside in winter conditions and left to freeze to death so the poricess of frostbite and eventual death by freezing could be studied” (Moore, 2010).

Two things, more than any other, sum up sentiments regarding the war as the textbook issue and Yasukuni shrine visits. The textbook issue revolves around history textbooks meant for Japanese public schools – books that must be approved by the Japanese government - that whitewash Japan’s actions in World War Two, and downplay or even leave out reprehensible behaviour such as the Rape of Nanjing or the use of comfort women. Whitewashed textbooks have been published since at least the 1960’s, much to the chagrin of the Chinese. The Yasukuni shrine in Japan commemorates military personnel killed during armed conflicts, including Class A war criminals that fought in China (Moore, 2010) Japanese
leaders and officials have periodically visited the shrine to pay their respects, knowing that the visits would anger Beijing.

The wartime history of Japan and China is important as it permeates all levels of Sino-Japanese relations. Both Chinese and Japanese tend to think of the passage of time in a longer context than in the West; current events are therefore viewed on the context of what has happened in the past.

The Role of History in Present Relations

In September 2012, large scale anti-Japan protests occurred in several major Chinese cities; calls for boycotts of Japanese products were emphatic, and Japanese cars and retail outlets were vandalized. A manufacturing plant owned by Japanese electronics firm Panasonic was set on fire by Chinese workers (McCurry, 2012). Many Japanese firms, including major automobile manufactures, electronics companies and retail chains shut down operations temporarily due to the demonstrations. The reason for the protest was the latest development in a territorial dispute over the Senkaku Islands, known as Diaoyu in Chinese, a series of tiny uninhabited islands east of Taiwan that may contain oil reserves. Dispute over the islands are a holdover from when Japan annexed Taiwan in 1894; Japan de facto controls the islands, but both countries claim sovereignty; they have been arguing over the islands since the 1970’s. Further incensing the protests was that they happened close to the anniversary of the Manchurian incident, a false flag operation pulled by Japanese forces as a pretext for annexing Manchuria in 1931 (Conrad Schirokauer, 2006). Similar protests, albeit on a smaller scale, occurred in 2005 over the publication of a textbook that whitewashed Japanese crimes in World War Two. Chinese protesters marched on the Japanese embassy. In 2010, a Chinese trawler collided with a Japanese patrol boat in the contested waters surrounding the Senkaku Islands. When news spread that the skipper of the trawler was detained, the chinese government canceled official meetings between Chinese and Japanese officials, temporarily halted rare earth exports to Japan, and delayed the processing of Japanese imports in Chinese customs (Chung, 2012). Anti-Japanese protests proceeded in several Chinese cities, resulting in increased security around Japanese establishments. Anti-Chinese protests were held in various cities in Japan. These incidents are but some of few that illustrate how history has politicized the nature of Sino-Japanese relations.
It is clear that history affects Sino-Japanese relations a great deal, but each country’s collective memory has a profound effect on how historical events are perceived. Collective memory can be defined as the “an image of the past collectively constructed by a social group in the present” (He, 2011, bls. 1160). Collective memories can therefore play a significant role in creating, or preserving, group identity. Collective memories can form independently of an agenda, but often they are constructed to fit a specific narrative, a process which has been called mythmaking. Both China and Japan’s collective memories of their wartime history seem to be at least partially constructed to fit a narrative. This is understandable, given that both Chinese and Japanese culture put a large emphasis on “face”, or the self revealed to others (Moore, 2010). Maintaining face involves keeping up at least a facade of well being in relation to an other, projecting power outward, and in a national context, bolstering a sense of pride and preserving a preferred identity. Therefore, “…face can be negative, leading to “cock fights” over loss of face, and at the same time it can be positive, requiring a high level of civility, politeness and propriety to maintain in human relations” (Moore, 2010, bls. 297).

In the Chinese context, China lost face when Japan conquered large parts of its land in the Second World War and subjected a large portion of the population to humiliation and terror. Furthermore, the Communist Party lost face because of its handling of the Tiananmen square incident, which uncovered for at least some of the Chinese public various failings in Communist rule (Moore, 2010). In the Japanese context, Japan lost face when it surrendered to the Allies in World War 2, was subsequently occupied by the Americans, and faced widespread condemnations for its war crimes. A way to save face, at least domestically, was to alter collective memory.

The Chinese Communist Party has often utilized patriotic education campaigns domestically to influence public perception. The message of these campaigns varied depending on the needs and wants of the government at any given time, but by the 1990’s and onwards the message promulgated the glory of the Chinese state and antagonized Japan as an unapologetic aggressor (Gustavson, 2014). In promoting national pride the the party emphasized the hundred or so years from the mid nineteenth century until 1949, known as the century of humiliation. The party espouses a narrative wherein this time was a dark blemish on China’s long and glorious history, a time when China fell from grace to be ravaged and torn apart by foreign powers, and was ended when the Communist Party liberated China from foreign agression and opened a path to greatness (Gustavson, 2014). Communist officials argued for the need to defend the Chinese population from foreign ideology, so part of the
patriotic education campaign was to antagonize Japan - then already a major trade partner – by emphasizing Japan’s dastardly deeds in school textbooks and war museums (Gustavson, 2014), and by hyping anti-Japanese sentiment in state run media (Moore, 2010). The campaign can be said to have been successful; Chinese nationalism has surged since the 1990’s, and with it disdain for the Japanese. A study from 2008 finds that 90% of Chinese respondents do not feel close to Japan, citing history issues as the main reason (Moore, 2010). Such disdain can explain the intense fervour of the anti-Japanese protests in 2005 and 2012.

China (as well other Asian countries attacked by Japan in World war Two) maintains that the Japanese government has not adequately addressed their war crimes, nor formally and publicly apologized to its victims for said crimes. In fact, Japanese government officials have apologized several times, most notably in 1995 and 2005 (Moore, 2010). But within the Japanese government is a hesitation to defer to China regarding their shared wartime history. Japan was devastated after the war, partly because their defeat unraveled the ultra-nationalist notion espoused prior to the war that Japan was unique (align wwith history part, find citation), partly because there was now a foreign occupier on Japanese soil in the form of the American military, but also because the Japanese people now had to come to terms with atrocities perpetrated by its wartime government (Moore, 2010) (He, 2011). In other words, Japan had lost face. In order to regain face and condition the Japanese to a new reality, Japanese elites constructed three historical myths. As Yinan He (2011) describes it:

The ‘myth of the military clique’ blamed a small group of military leaders for launching the war and asserted that the Japanese people were innocent victims of the war. The ‘Western-Centric myth’ held Japan responsible for opening hostilities against the Western Allies but evaded taking responsibility for its aggression and atrocities in Asia. The ‘heroic sacrifice’ myth, finally, honoured imperial soldiers for having sacrificed themselves for the nation but did not discuss the fundamental mistakes of war policy or the atrocities committed by the military (p. 1177).

Japanese politicians emphatically took to this interpretation, evidenced by the government approving school textbooks that whitewashed or omitted atrocious acts of Japanese wartime aggression towards the Chinese, and by Japanese Prime ministers visiting the Yasukuni shrine, “which suggested Japan’s refusal to accept the inglorious acts of its soldiers” (He, 2011, bls. 1179). By the 1990’s, any attempts at officially acknowledging or apologising for Japanese aggression was stymied by conservatives. In 1995 the Prime minister officially apologised on behalf of Japan during a visit to China, but as the minister was a socialist, the apology was not
taken seriously by the Chinese nor seen by Japanese as representative of Japan (Moore, 2010). Official historical revisions in textbooks continued despite Chinese protests. These events can be partially explained by Japanese fears of the economic rise of China, allowing its government to be more assertive and confident in the region, demanding apologies from Japan when Japan felt that unnecessary (Moore, 2010). This fear was coupled with economic struggles at home, leaving many to long for the ‘glory’ days of the Japanese empire (Moore, 2010). Such sentiments have conjured up bullish reactions from Japanese politicians and conservatives in general to Chinese demands that they deem unfair, and to China’s version of history that they deem unjust. In the 2000’s, many Japanese politicians have taken a keen interest in Chinese war museums and war memorial that are situated all over China, feeling that they are detrimental to Japanese interest (Gustavson, 2014). Many worry that the Chinese government is fanning anti-Japanese hatred through its depiction of the Japanese via these sites, and one politician claimed that a continuation of such sentiment could destroy Sino-Japanese relations (Gustavson, 2014). On a wider note, these matters can be thought of as examples of Japan trying to save face in the advent of a more outspoken Chinese government.

Historical animosity and constructions of collective memory affect many aspects of Sino-Japanese relations, but they fail to adequately account for behaviour in business. 2012 saw, as noted before, large scale anti-Japanese protests all over China prompted panic among Japanese firms operating in China. The dispute that instigated those protests has been highly politicized in both countries, and was incensed even further by a wartime incident that occurred eighty years prior. Despite that that dispute has still not been resolved, many of the firms that had to temporarily shut down operations reported great sales in 2013, and that their business is growing (Aoyama, 2015). Overall, Chinese exports did not change radically, as evidenced by Japan exporting roughly 18% of its exports to China from 2011 to 2015. The protests of 2010 also did not alter trade in the long term; the rare earths shipment that had been halted was shipped to Japan a week after it had been halted. Anti-Japanese sentiment in China flares up in the wake of Japanese actions interpreted as controversial but they quickly subside and do not have a lasting effect on trade. A prime example of this is Junichiro Koizumi’s tenure as Japanese Prime minister. An ardent nationalist, Koizumi was unapologetic about visiting the Yasukuni shrine annually to honor Japanese wardead, despite the the friction it caused with the Chinese government and anger it bestowed in the Chinese people, culminating in widespread anti-Japanese protests in 2005. During his tenure between 2001 and 2006 China suspended official meetings between high
ranking Chinese and Japanese officials, in part due to Koizumi’s insistence on visiting Yasukuni. This time has been described as the lowest point in Sino-Japanese relations since World War Two, but the economic partnership did not change during this time (Chung, 2012). In fact, during this time 62% of potential trade from Japan to China and 64% between China and Japan was realized (Armstrong S. P., 2015). Relations healed considerably after Koizumi’s departure, as Koizumi’s successor refrained from visiting the shrine. But in 2012 when another political dispute erupted; again trade was not affected. Nationalism and the preservation of face plays a large factor Sino-Japanese relations. But both countries realize that bilateral trade is crucial for the economic well being of both, therefore Chinese and Japanese authorities set aside political and historical disputes in order to maintain economics ties.

An Outline of Realism

In order to outline how Realism explains Sino-Japanese trade relations the theoretical underpinnings must first be clarified. Within International Relations (IR), Realism is arguably the most popular theory used to explain interactions between sovereign states. It emerged in the 1920’s and 1930’s following The Great War, and later rose to prominence in the aftermath of World War Two; indeed it is a theory born out of war. It became the dominant IR theory at the time in part because many scholars believed it best explained how sovereign states of the world could let the planet plunge into such devastating warfare. Realism is heavily influenced by the work of Thomas Hobbes (1588 -1683), who in his work *Leviathan* laid out several concepts on human and political interaction considered fundamental to Realist theories. According to Hobbes, humans care not for the wealth and well-being of the group but rather to fulfill their individual needs and desires, and are therefore in “a perpetual and restless desire for power after power, that ceases only in death” (Hobbes, 1660). This notion ran counter to the prevailing ideas of his time, which claimed among other things that humans were rational and moral, and naturally social. One of the more popular concepts which Hobbes conceived is the one on the anarchic state of nature. within the state of nature there is no government nor another domineering entity which is able to constrain men or force them to behave a certain way. Neither is there a systematic method in place to distribute finite resources. In such a state individuals are granted absolute freedom to do as they choose, but the same freedoms are afforded to all individuals, and individuals must compete for resources.
A man can use force against another man; if a man covets another man´s resource, there are no laws nor common morals that prohibit that man from taking the resource by force, only the resolution of the owner of the resource to keep it paired with a will to counter force with force. Due to the ego of the individual, the state of nature is a state of war, and „such a war as is of every man against every man“ (Hobbes, 1660). The anarchic state of nature will encourage individuals to create a sovereign to which they trade in some of their liberties for protection. But the selfishness of man will be projected unto the sovereign (read: state) and in a world full of sovereigns, they will “for their own security enlarge their dominions upon all pretenses of danger and fear of invasion or assistance that may be given to invaders, [and] endeavour as much as they can, to subdue and weaken their neighbors” (Hobbes, 1660). Such a view of the world can easily be regarded as pessimistic, but to a Realist it is a pragmatic one, and indeed forms the backbone of their theories.

Several basic tenets of Realism can be ascertained through readings of Realist theory. First of all, the theory assumes that states behave in a selfish manner. Essentially that means that states - or perhaps more aptly the leaders of states – behave in such a manner that best protects or promotes their own interests, regardless of the interests or well-being of other states. A pertinent example is a lake abundant with resources resting on the border of the two states which both states lay claim to. In a true realist fashion, the states would forego the historical usage of said lake and send their armies to guard the lake from the other. Eventually the domineering state would gain control of the lake. However, the two states could also share the resources of the lake, if it is beneficial to both parties. Another tenet is that which pertains to international anarchy. This does not mean that there is absolute chaos in the world as the popular definition of the term alludes to, but rather that there is no higher authority in the world than the individual state; there is no world government. Realists, for instance, do not believe in the supremacy of institutions such as the United Nations or the International Court of Justice, partly because decrees of such institutions can be considered nonbinding by states if they do not serve their individual interest. Since there is no overarching world government to look to, then individual states are central actors in international politics. If two states are in disagreement then it is up to them to resolve it; they can so by adhering to norms or rules that both parties agree to, by having a third entity (another state, international organization etc.) act as a mediator, even by armed conflict, But there is no authority that can force a resolution. A third tenet is that states are sovereign, meaning that they have the right to engage in international affairs in order to further their interest.
Since it is in the nature of sovereign states, according to Realists, to selfishly further their individual interests within international anarchy, the world should be a conflict prone place. With that in mind it is important to note that realist theory was conceptualised in the wake of the Great war, which itself succeeded almost a century of disputes and hostility between European states. Theorist were therefore surprised that major military conflict did not erupt in the aftermath of World War Two; indeed the post WW2 era proved to be relatively peaceful and saw states working together in tandem with international institutions solve collective problems. Realists found their theory to be lacking in tools to explain his seemingly newfound cooperation between states. Neo-Realists, who differ from traditional Realists in that they focus more on the structure of ´anarchic international system´ rather than on states as actors (Haynes, Hough, Malik, & Pettiford, 2011), have an explanation for post war peace in what they call Hegemonic stability theory (HST). Essentially, the theory lays out that interstate conflict is probable, even imminent, due to differing interests and competition for resources and power, but conflict can be mitigated and even averted by way of a hegemon. A hegemon can be defined as a state far greater than other states militarily and economically, to a degree that it is able to influence or force other states to follow a certain set of rules and norms regarding international relations. Noted scholar of International Relations Suzan Strange lists four elements of power that a state must possess in order to be a hegemon: The ability to threaten or protect other countries’ physical security by resorting to arms (security element); the ability to control the global system of production of goods and services (production element); the ability to shape the international capital market of finance and credit (economic element); the ability to direct the development, accumulation and transfer of knowledge (knowledge element) (Strange, 1987). The key point in the Theory of Hegemonic Stability is that there must be a hegemonic power, i.e. a single dominant power in the international system to ensure international economic and political stability (Kindleberger, 1981). „Neo-Realists believe that states aim to maximise wealth and that this is best achieved by securing a broadly Liberal, free-market international economy“ (Haynes, Hough, Malik, & Pettiford, 2011).

Analysis of Sino-Japanese Trade From a Realist Viewpoint
A Realist would not focus on historical legacies in order to understand trade between Japan and China, he would rather take a look at the power structure in the East Asia region. In the 1990’s Japan’s status as the economic hub of East Asia was threatened by the rise of China. As its economy was stuck in what was to become a decade and a half long slump, Japan needed its trade with China more than before; it has been said that China’s growth in that period resculptured the Japanese economy (Chung, 2012). But this turn of events revealed China as a viable competitor to become the stalwart economy in the region. Although Japan’s economy rebounded in the 2000’s, it did not regain its former status as the regional economic power, that title now belongs to China (Chung, 2012). However, bilateral trade between the two is still crucial to both (Chung, 2012). China’s economic growth benefits Japan in the form of increased trade, but a stronger China is at the same time detrimental to Japan’s wider economic interests.

Alongside its economic growth, China has greatly increased military expenditures. Reportedly, China increased defense spending by 15.3% in 2004, 11.4% in 2007 and 15% in 2009 (Moore, 2010). Much energy has gone into updating military equipment and developing new technology; recently, China launched its first aircraft carrier (BBC News, 2017). China’s heightened military capabilities have worried Japan and its other neighbors because it enables China to be more assertive (Chung, 2012). The 2010 trawler incident is a good example: it demonstrated that China is prepared to use trade as leverage in unrelated territorial disputes, thus jeopardizing trade stability and trust. The dispute over the Senkaku Islands illustrates how China uses its military to further its goals. For a while now, China has been sending coastguard ships and fishing vessels around the islands, with ships occasionally entering in and out of island territory, in order to bully Japanese fishermen and egg on the Japanese coastguard (Chung, 2012) (Graham-Harrison, 2017). The message is clear: China will play hardball. The territorial dispute may have started as a result of bad history, but Realists would argue that the current state of the dispute is a classic fight for resources; potential oil reserves and a strategic location close to Taiwan, the Japanese island prefecture of Okinawa, and major shipping lanes make capturing them a logical maneuver for China. Japan, meanwhile, must weigh the options of aggressively defending its territory at the risk of further upsetting relations with China, or take a more passive stance in order to secure trade.

Point 3: US role of hegemon insures trade relations; Tiðnabil Koizumi sýnir að þrátt fyrir illdeilur halda viðskipti áfram; The hegemon sets the playing rules; China joined the WTO
China expanding its military and trying to assail more territory is a clear example of selfishly promoting self-interest; a basic tenet of Realism. But why does China simply not annex the islands? What stops them from engaging the Japanese? After all, Japan is not a great military power; its post-WW2 constitution bars it from keeping a standing military, save for a small self defense force. The answer, in line with Realist thought, is the United States. The US is a staunch ally of Japan and a major military power in the region, keeping military bases in Japan, South Korea. US military power balances out Chinese military power, since the US has a security pact with Japan (Chung, 2012). It is also the world’s hegemon (Haynes, Hough, Malik, & Pettiford, 2011), the dominant state in the world which, according to Realist theory, is able to maintain stability. Any aggression by the Chinese toward Japan would likely be met by US intervention. But what keeps them trading? Again, the United States. As the world’s hegemon, the US is the backbone of the international economy, which incentivizes other countries to follow international rules, rules that mostly conform to the US’s. China must fully participate in order to further its own goals. In short, the US’s role as hegemon and a Japan ally deters Japan and China’s disputes from boiling over, and induces bilateral trade.

Conclusion

This paper has attempted to frame Sino-Japanese trade relations in the context of two paradigms: one where shared history is a significant factor in current relations, and that of Realism, in which historical legacies take a back seat to naked power seeking. Political relations frequently vary from being cordial to downright contentious; the low points are reached invariably due to varying interpretations of historical legacies. Constructed historical narratives have solidified these interpretations in each country, making any kind of resolution difficult to fathom, at least for the time being. These disputes can affect trade relations in the short term, but surprisingly, they do not seem to have a long term effect on trade relations. China and Japan have so far managed to separate politics from trade. That is not say that their political dispute over historical legacy will not adversely their trade relations in the future, various commentators throughout the years have asserted that that will happen (Aoyama, 2015) (Chung, 2012) (Moore, 2010). In the framework of Realism, Sino-Japanese relations are viewed from the notion of power. China has seen massive economic growth in the last thirty or so years, and alongside that it has gained prestige and political clout. China has been trying to
widen its influence, but Japan’s security allegiance with the United States hampers it. Amicable bilateral trade relations between China and Japan is induced by the US in its role as world hegemon. Although historical legacies are not a reliable indicator of bilateral trade relations, they should by no means be ignored, since the overall relationship between Japan and China can be subject to change.

Bibliography


