

Senkaku/Diaoyu Islands Dispute (2010–2012)

International affairs and trade are deeply intertwined. Geopolitical disputes frequently trigger retaliatory trade measures and shift economic ties. Beyond government policy, these conflicts can also inflame public sentiment, leading to consumer boycotts against products from the opposing nation. Such a case presented during the Senkaku/Diaoyu Islands dispute from 2010 to 2012 between the People’s Republic of China and Japan. A significant point of contention in Sino-Japanese relations since normalization in 1970s has been the territorial dispute over eight small islands in the East China Sea, called “Senkaku” in Japan and “Diaoyu” in China (see Exhibit 1).

These tensions reached a tipping point on 7 September 2010 when a Chinese trawler collided with two Japanese Coast Guard vessels. This set off a cold war of trade, diplomatic sanctions and protests that left an imprint on the economies of both countries, the global market and the geopolitics of East Asian states. In China, there was an unofficial embargo on the export of rare earth minerals to Japan, widespread protests against Japan, calls for boycott of Japanese goods, and vandalism of Japanese factories, supermarkets and brands. The revenues of Japanese companies plummeted, export-import share between Japan and China declined, while trade with alternate countries as a countermeasure increased.

Exhibit 1: Map of the Senkaku/Diaoyu Islands



Source: Ministry of Foreign Affairs, Government of Japan, “The Senkaku Islands”, November 2012, https://www.cz.emb-japan.go.jp/cz/documents/senkaku_en.pdf

Background

The dispute over Senkaku/Diaoyu Islands can be traced back to the first Sino-Japanese war in 1895 when China ceded Taiwan and surrounding islands to Japan under the Treaty of Shimonoseki. In 1945, after Japan’s surrender in World War II, Chinese territories such as Manchuria were returned under the Cairo and Potsdam Declaration while the U.S military gained control of the Nansei Shoto islands, including Senkaku/Diaoyu Islands. In 1951, the Treaty of Peace was signed and Japan was granted residual sovereignty over the nearby Ryukyu Islands.

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Conflicts over the disputed islands gained traction after the UN Economic Commission for Asia and the Far East in 1969 reported that the seabed between Japan and Taiwan was a hotspot for oil reservoirs, which began the contentious territorial claims by China. In 1971, the Okinawa Reversion Treaty was signed between the US and Japan, passing full control of the Ryukyu and Daito islands (including Senkaku/Diaoyu Islands) to Japan.

In 1996, Japan established an Exclusive Economic Zone (EEZ) extending 200 nautical miles (approximately 370 km) around the Senkaku/Diaoyu Islands. Following this declaration, incursions by Chinese vessels involved in oil exploration, naval operations, and oceanographic research increased. From 2004 onwards, Japan's claims over the territory, attempts by Chinese activists to enter the islands and explorations into its reserves increased (see Appendix).

The 2010 Chinese Trawler Collision Incident

In September 2010, a Chinese trawler travelling 12 km north-west of the Senkaku/Diaoyu Islands within disputed waters, clashed with two Japanese Coast Guard vessels. The incident subsequently unfolded as follows.

- 7 September 2010: A Chinese trawler travelling 12 km north-west of the Senkaku/Diaoyu Islands within disputed waters, refused to stop for inspection and clashed with two Japanese Coast Guard vessels. The captain and crew were arrested and taken to the Ishigaki island of Japan.¹
- 7-11 September 2010: Talks between Japan and China on joint exploration of the oil resources in East China Sea were suspended, while the Japanese ambassador was summoned six times to meet Chinese officials. Anti-Japanese protests erupted across different parts of China.
- 13 September 2010: 14 of the crew members, except the captain Zhan Qixiong, were released on 19 September 2010. China launched diplomatic protests and cancelled Vice Chairman of the Standing Committee of the National People's Congress, Li Jianguo's five-day visit to Japan.
- 20 September 2010: Four Japanese employees of the Fujita Corporation were arrested in China for trespassing and filming military targets.
- 21 September 2010: China unofficially placed an embargo on export of rare earth elements (REE) to Japan.
- 24 September 2010: Chinese trawler captain Zhan Qixiong was released.
- 25-27 September 2010: China condemned Japan's detention of the captain and demanded compensation, which was rejected by Japan. Japan counterclaimed compensation for its damaged Coast Guard patrol boats.
- 2 October 2010: Protests emerged in Japan against China as well as Japan Prime Minister Naoto Kan for mishandling the incident.
- 9-28 October 2010: Arrested Fujita employees were released while anti-Japan protests continued in China.
- 4 November 2010: Video of the collision incident surfaced on YouTube.
- 29 November 2010: REE shipments to Japan resumed.

¹ E. Levera, "The 2010 Senkaku Crisis", *NATO Strategic Communications Centre of Excellence*, n.d.

China's Export Controls on Rare Earth Elements to Japan

Days after the collision incident, media reports surfaced that China had placed an unofficial embargo on Japan, although this was never officially announced² and some have questioned if Japan was indeed singled out.³ It was alleged that Chinese customs officials refused to process new orders for Japan, notified companies to refrain from shipping any rare earth oxides, salts or pure metals, and blocked loading of shipments which were already processed.⁴ Surveys conducted by Japan's Ministry of Economy, Trade and Industry indicated a significant decline and disruption in the supply of Chinese REE from late September to late November 2010.⁵

Diplomatic sanctions, statements of embargo by Chinese-controlled media and the fear of running out of supplies that were the lifeline for many Japanese companies led to panic buying and hoarding. The major application of REE is in the manufacturing of neodymium-iron-boron (NdFeB) permanent magnets, used extensively in electric drives installed in 90% of electric vehicles sold worldwide at the time. Japanese companies like Toyota Motor Corporation, Hitachi Metals, and TDK Corporation, which were heavily dependent on REE decided to relocate part of their operations to China. Japan, which previously dominated the NdFeB magnet industry with a market share exceeding 50%, lost its leading position.⁶

Japanese companies eventually sought out alternative sources of supply such as Australia and India, and launched diversification projects such as REE recycling and deep-sea mining, backed by US\$650 million funding from the Japanese government in 2011.⁷ The Japanese government's investments into new rare earth projects and exploration of unconventional deposits led to increase in company stockpiles, recycling or substituting other minerals for rare earths.⁸

Anti-Japan Consumer Boycotts in China

Another source of losses for Japanese companies was associated with large-scale anti-Japan protests which spread in China in September 2012. These protests followed the Japanese government's decision to purchase three of the five disputed Senkaku/Diaoyu Islands from their Japanese private owner for approximately US\$26 million. The purchase heightened tensions surrounding the territorial dispute and

² Just two months before the collision incident in September 2010, China had announced a massive 72% reduction of REE export quotas worldwide affecting materials used in hybrid cars and televisions around the world and capping shipments at 7,976 metric tons in the second half of the year. According to the Chinese Ministry of Commerce, this policy was introduced due to concerns over "declining reserves" and "over-exploitation", and was in line with strategic, environmental and economic considerations in China. See "China Reduces Rare Earth Export Quota by 72%", *SMM*, July 9, 2010, <https://news.metal.com/newscontent/100010835/China-Reduces-Rare-Earth-Export-Quota-by-72>; and Zhang Qi and Ding Qingfen, "China to reduce rare earth export quotas", *China Daily*, October 19, 2010. https://www.chinadaily.com.cn/business/2010-10/19/content_11427356.htm.

³ Simon Evenett and Johannes Fritz, "Revisiting the China–Japan Rare Earths dispute of 2010", *VoxEU*, July 19, 2023, <https://cepr.org/voxeu/columns/revisiting-china-japan-rare-earths-dispute-2010>.

⁴ Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan", *The New York Times*, September 22, 2010. <https://www.nytimes.com/2010/09/23/business/global/23rare.html?pagewanted=all&r=0>.

⁵ Keisuke Iida, "Japan's Security and Economic Dependence on China and the United States: Cool Politics, Lukewarm Economics", Abingdon: Taylor & Francis, 2017.

⁶ Marc Schmid, "Rare Earths in the Trade Dispute Between the US and China: A Deja Vu," *Intereconomics*, n.d., <https://www.intereconomics.eu/contents/year/2019/number/6/article/rare-earths-in-the-trade-dispute-between-the-us-and-china-a-deja-vu.html>.

⁷ "Japan budgets \$650 mln for rare earths, resources", *Reuters*, January 5, 2011, <https://www.reuters.com/article/markets/factbox-japan-budgets-650-mln-for-rare-earths-resources-idUSTOE704042/>.

⁸ M. Schmid, "Rare Earths in the Trade Dispute Between the US and China: A Deja Vu," *Intereconomics*, n.d., <https://www.intereconomics.eu/contents/year/2019/number/6/article/rare-earths-in-the-trade-dispute-between-the-us-and-china-a-deja-vu.html>.

contributed to public opposition within China, triggering “consumer ethnocentrism” where consumer behaviour became influenced by national interests and Japanese products were perceived as “treasonous”.⁹

Many protest signs and banners urged people to boycott Japanese products. Some demonstrators distributed leaflets naming Japanese brands to avoid and a local newspaper released a similar list. Although the Chinese government never formally supported the boycott, state-run media prominently highlighted both the anti-Japanese demonstrations and the calls for consumer action. The protests took a violent turn in some instances with vandalism of Japanese cars, automobile dealerships and restaurants. Consequently, apparel retailer UNIQLO closed 42 stores in China, retail group AEON shut down 30 out of its 35 locations, companies such as Nissan Motor, Canon, Sony, Panasonic and Hitachi also suspended operations at their plants. However, by November 2012, sales by Japanese companies slowly started rising again.¹⁰

Unlike between 1990 and 2004 when political tensions between the two countries had little effect on economic relations between the countries,¹¹ studies found a stark one-year decrease in Chinese imports of Japanese cars and cameras after the 2012 boycott.^{12,13} Japanese car brands manufactured in China saw a sharp decline in market share right after the boycott, with the impact especially pronounced in cities that experienced anti-Japanese demonstrations. In total, the losses were significant: from August 2012 through the end of 2013, sales of Japanese-made vehicles produced in China dropped by 1.1 million units, representing an estimated revenue loss of nearly 200 billion yuan.¹⁴ Japanese-made car companies saw a fall in their sales by 2% year-on-year, while cars produced by Germany, US, South Korea and France increased by 25%, 19%, 12%, and 4% year-on-year, respectively.¹⁵ Mitsubishi Motors Corp reported that its China sales decreased by 63% in the same month, Mazda Motor Co fell by 36%, while Honda’s decreased by 40.5%.¹⁶

Consumer boycotts expanded to the tourism sector with reduced air travel between the two countries. All Nippon Airways, one of Japan’s largest airline companies, saw 40,000 seat cancellations from September to November 2012, a majority of which were on flights from China.¹⁷ From October till December 2012, a 40% decrease in monthly arrivals from China was recorded in Japan, with prefectures more dependent on Chinese visitors suffering disproportionate losses due to the consumer boycott.^{18,19}

⁹ Terence A. Shimp and Subhash Sharma, “Consumer Ethnocentrism: Construction and Validation of the CETSCALE,” *Journal of Marketing Research* 24, no. 3 (August 1, 1987): 280, <https://doi.org/10.2307/3151638>.

¹⁰ “Uniqlo, Aeon Shut China Stores as Island Spat Escalates,” *Bloomberg News*, September 18, 2012, www.bloomberg.com/news/2012-09-17/china-japan-dispute-over-islands-risks-340-billion-trade.html.

¹¹ Christina L. Davis and Sophie Meunier, “Business as Usual? Economic Responses to Political Tensions,” *American Journal of Political Science* 55, no. 3 (February 8, 2011): 628–46, <https://doi.org/10.1111/j.1540-5907.2010.00507.x>.

¹² Kilian Heilmann, “Does Political Conflict Hurt Trade? Evidence From Consumer Boycotts,” *Journal of International Economics* 99 (December 4, 2015): 179–91, <https://doi.org/10.1016/j.jinteco.2015.11.008>.

¹³ Xiaojun Li and Adam Y Liu, “Business as Usual? Economic Responses to Political Tensions Between China and Japan,” *International Relations of the Asia-Pacific* 19, no. 2 (November 14, 2017): 213–36, <https://doi.org/10.1093/irap/lcx020>.

¹⁴ Panle Jia Barwick et al., “Commercial Casualties: Political Boycotts and International Disputes,” *SSRN Electronic Journal*, January 1, 2019, <https://doi.org/10.2139/ssrn.3417194>

¹⁵ Stephen Nagy, “Territorial Disputes, Trade and Diplomacy: Examining the Repercussions of the Sino-Japanese Territorial Dispute on Bilateral Trade,” *China Perspectives* 2013, no. 4 (December 1, 2013): 49–57, <https://doi.org/10.4000/chinaperspectives.6321>.

¹⁶ He Wei, “Japanese car sales ‘back on track’ as customers return,” *China Daily*, November 27, 2012. https://www.chinadaily.com.cn/china/2012-11/27/content_15960797.htm.

¹⁷ Linda Blachly, “ANA: 40,000 seat cancellations on China routes,” *Aviation Week*, September 27, 2012, <https://aviationweek.com/air-transport/airports-routes/ana-40000-seat-cancellations-china-routes>.

¹⁸ Cheng, Mingming, Anthony IpKin Wong, and Bruce Prideaux. “Political Travel Constraint: The Role of Chinese Popular Nationalism.” *Journal of Travel & Tourism Marketing* 34, no. 3 (May 26, 2016): 383–97. <https://doi.org/10.1080/10548408.2016.1182456>.

¹⁹ Greaney, Theresa M., and Kozo Kiyota. “Regional Impacts of International Tourism Boycott: A China—Japan Conflict.” *Economic Inquiry*, December 3, 2025. <https://doi.org/10.1111/ecin.70036>.

These consumer boycotts significantly dampened Japanese Foreign Direct Investments (FDI) in China which had been touted as the most promising FDI destination for Japan.²⁰ Japanese FDI in China dropped from roughly US\$13.5 billion in 2012 to US\$9.1 billion in 2013; in comparison, FDI to Thailand rose sharply during the same period from US\$547 million in 2012 to US\$10.1 billion in 2013.²¹

WTO Dispute Settlement

Changes in export duties, reduction in export quotas, restraints on minimum export price requirements, licensing and other requirements for REE as well as other minerals from China in the past years had artificially raised China's prices and created imbalances in the global market.²² Japan, along with the European Union (EU) and the US, filed a complaint at World Trade Organisation (WTO) as follows.

- March 2012: Japan, as well as EU and US, filed a WTO dispute settlement case in March 2012 against China for restrictions on export of REE as well as tungsten and molybdenum. They alleged that China was in breach of the accession treaty signed in 2001 which disallowed export duties and quotas, except for goods specifically listed. REE was not included in the list.
- July 2012: The WTO panel for the case was set up in July 2012.²³ China defended itself by claiming that the restrictions were justified under GATT Article XX(g) for conservation and protection of the environment.
- March 2014: The WTO panel report was issued on 26 March 2014 in favour of Japan, EU and US by rejecting China's claim of environmental protection as there were no restrictions on production and use of rare earths by domestic companies within the country.²⁴
- April-September 2014: China appealed the findings but failed. China agreed to accept the recommendations of the WTO Dispute Settlement Body on 26 September 2014.
- January-June 2015: China dropped its REE export restrictions in January 2015.

Conclusion

The Senkaku/Diaoyu Islands dispute is an example of how geographical and historical grievances can affect bilateral trade relations. The 2010 collision incident triggered a rapid escalation of diplomatic measures, including the suspension of bilateral talks, informal restrictions on REE exports, and political protests, which exposed Japan's vulnerability to supply chain concentration in critical minerals. China's unofficial embargo on REE exports affected Japan's production, forcing some Japanese companies to shift their operations to China. Widespread anti-Japanese sentiments in the wake of the Japanese government's purchase of the disputed islands fuelled violent protests and consumer boycotts which led to a slowdown in sales of Japanese-made cars and retail brands as well as tourist arrivals from China. On the other hand, Japan expanded its trade channels with other countries, launched projects to diversify its REE sources, and reduced its FDI in China.

²⁰ Meredith Cuilik, "Effects of the Senkaku/Diaoyu Island Dispute on Sino-Japanese Relations," 2017. https://egrove.olemiss.edu/cgi/viewcontent.cgi?article=1699&context=hon_thesis.

²¹ Japan External Trade Organization (JETRO), "Japanese Trade and Investment Statistics", 1987-2015.

²² "2010 Report to Congress On China's WTO Compliance", *United States Trade Representative*, December 2010, <https://ustr.gov/sites/default/files/uploads/gsp/speeches/reports/2010/2010%20Report%20to%20Congress%20-%20Dec%2023%20Final.pdf>.

²³ European Commission, "WT/DS432 - China - Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum," October 23, 2025. https://policy.trade.ec.europa.eu/enforcement-and-protection/dispute-settlement/wto-dispute-settlement/wto-disputes-cases-involving-eu/wtds432-china-measures-related-exportation-rare-earth-tungsten-and-molybdenum_en.

²⁴ "China Scraps Quotas on Rare Earths After WTO Complaint," *The Guardian*, November 30, 2017, <https://www.theguardian.com/world/2015/jan/05/china-scraps-quotas-rare-earth-wto-complaint>.

China's export restrictions worldwide on REE and other minerals prompted a WTO dispute in 2012, which found the country in violation of its WTO accession commitments. While China eventually removed its export restrictions in 2015, regularised maritime patrols and nationalist politics have kept tensions simmering around the Senkaku/Diaoyu Islands although open conflict has been avoided so far. Although high-level diplomatic engagement and security talks between officials of both countries have helped to manage bilateral tensions, the dispute remains unresolved.

Appendix: Historical Timeline of the Senkaku/Diaoyu Islands Dispute

1895: First Sino-Japanese war, fought over the control of Korea, came to an end with the signing of Treaty of Shimonoseki. China ceded Taiwan and surrounding islands to Japan under the Treaty, however, Senkaku/Diaoyu Islands were not mentioned in the treaty. Japan claimed they were already annexed few months before they gained control of Taiwan formally.²⁵

1945: After Japan's surrender in World War II, Chinese territories such as Manchuria were returned under the Cairo and Potsdam Declaration. U.S military gained control of the Nansei Shoto islands, including Senkaku/Diaoyu islands.²⁶

1951: Treaty of Peace was signed which officially ended the war. Japan was granted residual sovereignty over the Ryukyu Islands while the US received permission to open military bases in Okinawa.²⁷

1969: UN Economic Commission for Asia and the Far East reported that the seabed between Japan and Taiwan is a hotspot for oil reservoirs, which begun the contentious territorial claims by China.²⁸

1971-72: Okinawa Reversion Treaty signed between the US and Japan, reverting full control of the Ryukyu and Daito islands (including Senkaku/Diaoyu Islands) back to the latter, while the US maintained neutral stance on its sovereignty. The US still retained the right to maintain military bases in Okinawa and the Ryukyu islands.

1978-1995: The Senkaku/Diaoyu Islands controversy died down as China re-established bilateral relations with Japan owing to the failure of the Great Leap Forward, while Japan boomed as a fast-developing economy.

1996: Japan established an Exclusive Economic Zone (EEZ) extending 200 miles (approximately 370 km) around the Senkaku/Diaoyu Islands. Following this declaration, incursions by Chinese vessels involved in oil exploration, naval operations, and oceanographic research increased. In July 1996, the Japanese Youth Association members built a lighthouse in Senkaku/Diaoyu Islands, prompting massive protests in Taiwan, mainland China and Hong Kong. A Hong Kong activist drowned after jumping into the waters in protest when Japanese patrol boats blocked his ship from landing at the disputed islands. Thousands of people gathered for a candlelight vigil to honour his death and protest Japan's claim on the islands.^{29,30}

2003: China and Taiwan intensified their assertions of sovereignty over the Japanese-administered Senkaku/Diaoyu Islands with media attention and protests. On 22 June 2003, a group of protesters from China and Hong Kong attempted to land on the islands using a small fishing boat but failed. China also started operations at the Chunxiao/Shirakaba gas field located 5 km west of the median line claimed by Japan, leading to worries about whether China would start siphoning hydrocarbons from the EEZ.

²⁵ Beina Xu, "China's Maritime Disputes," *Council on Foreign Relations*, May 22, 2024, <https://www.cfr.org/timeline/chinas-maritime-disputes>.

²⁶ Donatello Osti, "The Historical Background to the Territorial Dispute over the Senkaku/Diaoyu Islands", *Analysis* No. 183 (2013).

²⁷ Gisela Grieger, "Sino-Japanese controversy over the Senkaku/Diaoyu/Diaoyutai Islands," *European Parliamentary Research Service* (2021).

²⁸ Voice of America. "Timeline of Japan-China Dispute Over East China Sea Islands," September 5, 2012. <https://www.voanews.com/a/timeline-of-japan-china-dispute-over-east-china-sea-islands/1502528.html>.

²⁹ John Pike, "Senkaku / Diaoyutai Islands," n.d., <https://www.globalsecurity.org/military/world/war/senkaku-chronology.htm>.

³⁰ Jon Lunn, "The territorial dispute over the Senkaku/Diaoyu Islands", *Timeline* 4 (2012): 4.

2004: Chinese activists landed on the Diaoyu island successfully but were arrested by Japanese police for violating the Immigration Control and Refugee Recognition Law. Japan started its natural gas explorations which prompted protests in front of the Japan embassy in Beijing for its “illegal” oil exploration activities in a disputed area of the East China Sea. On 10 November 2004, a suspected Han-class nuclear-powered submarine entered Japan’s waters near Taiwan. Japan’s maritime forces and a patrol aircraft pursued the vessel as it navigated underwater. China admitted that the submarine was its own.

2005: Japan Petroleum Exploration Co. and Teikoku Oil Co. discussed plans with the Japanese government to drill for natural gas in the East China Sea, near areas claimed by both countries. In February 2005, the lighthouse constructed in 1988 was placed under Japanese state control and protection, prompting the Chinese foreign ministry to label the move as a provocation and violation of Chinese territorial sovereignty.

2009: Both China and Japan reaffirmed their claims over the islands in public statements. Japanese Prime Minister Taro Aso and Foreign Minister Hirofumi Nakasone asserted the Senkaku/Diaoyu Islands were Japan's territory and were recognised as such by the US, while the Chinese Foreign Ministry spokesman condemned the statement and urged the US to clarify.

2010: In July 2010, the US asserted their interests for open access in the South China Sea but maintained neutrality over its sovereignty. This response upset China further at a time when military talks between the two countries were suspended. China maintained its rights to the islands and condemned outside interference. Later that year, a Chinese trawler travelling 12 km north-west of the Senkaku/Diaoyu Islands within disputed waters, clashed with two Japanese Coast Guard vessels on 7 September 2010.

Events following the 2010 collision incident

March 2012: Japan, along with EU and US, officially filed a dispute settlement case with WTO regarding China’s REE export practices.

August 2012: Activists from Hong Kong reached the contested islands by sea. Few days later, ten Japanese activists also reached and raised Japanese flags on the island.

September 2012: To mark its claims over the islands, the Japanese government signed a US\$26 million purchase contract for three of the five disputed Senkaku/Diaoyu islands from their Japanese private owner. In response to this news, one of the largest anti-Japan protests erupted across China, turning violent in some instances as protesters attacked Japanese cars and restaurants. Major Japanese companies like Toyota and Honda had to shut down factories temporarily, incurring economic losses. Air travel between the two countries also plunged.

November 2012: Boycotts of Japanese companies in China affected trade while Chinese government vessels made forays in waters close to the islands bought by the Japanese government.

January 2013: Two Japanese F-15s aircraft were deployed to intercept a Chinese reconnaissance aircraft approaching the disputed islands. China sent out two J-10 fighters in response.

June 2013: China began unilateral development of gas resources in the disputed parts of the EEZ in the East China Sea.

March 2014: WTO ruled against China for their REE shipment practices.

January 2015: China dropped its REE export restrictions in January 2015.