Sino-Japanese relations: power, interdependence, and domestic politics

Hiroki Takeuchi*

Department of Political Science, Southern Methodist University, Dallas, TX 75275-0117, USA
*E-mail: htakeuch@smu.edu

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Abstract

China and Japan have been deepening economic interdependence over the last two decades, while China has recently shown territorial ambitions and initiated disputes with Japan. This runs contrary to the commercial liberal literature that argues that trade promotes peace. On the other hand, the realist theory also does not fully explain Sino-Japanese relations because Sino-Japanese relations are not always in conflict. The rise of China and the relative decline of Japan might explain increasing tensions in the rivalry relationship, but what drives Chinese leaders to initiate disputes? I address the importance of domestic politics to examine Sino-Japanese disputes. I argue that the recent deterioration of the bilateral relationship could be explained by the power struggle in the Chinese leadership. To support the logic of this argument, I use a game-theoretic model, which accounts for how the type of Chinese leadership influences foreign policy outcomes in Sino-Japanese relations.
Sino-Japanese relations pose a puzzle for international relations theory. Although China and Japan have been deepening economic interdependence over the last two decades, their relationship has been one of the tensest among the most important bilateral international relationships in the world, and the most recent territorial dispute between them has made it even worse. As a result, studies on Sino-Japanese relations often start their discussions by pointing out the perplexing deterioration of the bilateral relationship, despite the deepening economic interdependence between the two countries (e.g. Gries, 2005; Yahuda, 2006). This runs contrary to the commercial liberal theory of international relations that posits that economic interactions, such as international trade and foreign direct investment, should bring peace to a bilateral relationship through ‘harmony of interests’, because no one wants to fight a war with a nation with which it trades or in which many of its companies open their factories.

On the other hand, the realist theory also does not fully explain Sino-Japanese relations because the bilateral relationship has not always been in conflict. While the rise of China and the relative decline of Japan might explain increasing tensions in the rivalry relationship by focusing on Japan’s fear of China’s rise, what drives the tensions on the Chinese side? Along with the high-speed economic growth that has lasted for more than three decades, China has been confident in its power, which might have given China an incentive to show territorial ambitions and initiate disputes with Japan and other neighboring countries in the East and South China Seas. Moreover, for the last three decades, Japan has experienced the bubble economy, its burst, and the more than two decades of economic stagnation called the ‘lost decades’. The combination of Japan’s economic stagnation and China’s rapid growth has led to the rise of nationalism in both Japan and China (e.g. Gries, 2004). Realist international relations theory suggests that a rising challenger inevitably brings fear to the people in a declining power (e.g. Gilpin, 1988); the rise of nationalism in Japan and the fear of China among the Japanese people follow the path that the realist theory predicts. The geographic proximity between Japan and China does not alleviate this tension but often exacerbates it (e.g. Bush, 2010), and the historical experience of the Japanese invasion of China
during World War II of course complicates the bilateral relationship, if not forms the basis of the tension (e.g. He, 2009).

However, the fact that tension in this deeply interdependent bilateral relationship is at least economically very costly naturally raises a question: how do political leaders on both sides evaluate their economic and political benefits from cooperation and their costs from conflict? In this article, I develop a theoretical model to explain how leaders face the dilemma in this cost–benefit calculation by incorporating the factor of public opinion into the explanation. In particular, I focus on the nationalistic nature of the leadership in China, examine how the leadership’s tendency toward nationalism influences both China’s Japan policy and the Japanese perception of China’s public opinion toward Japan, and argue that whether the Chinese leadership can resist the temptation to use nationalism to appeal to the people is a key to explain the pattern of cooperation and conflict in Sino-Japanese relations.

This article has four parts. First, I introduce a theoretical discussion of the interactions between public opinion and the leadership’s decision-making in the context of China’s authoritarian regime. Second, I discuss previous work on Sino-Japanese relations and explore how it can be reinterpreted using theoretical frameworks of international relations, synthesizing the debate between realism and liberalism with my theoretical framework introduced in the previous section. Third, I present a simple game-theoretic model representing Sino-Japanese relations incorporating the nature of the political leadership in China in which the Japanese government has uncertainty over the Chinese leadership’s payoffs, and examine how the uncertainty influences each actor’s behavior at equilibrium. Fourth, I apply the model to the shift of Sino-Japanese relations at the time of the Senkaku Dispute in 2012.

1 Public opinion and Sino-Japanese relations

Even authoritarian governments need popular support for the regime’s survival, despite the fact that they are not necessarily exposed to the risk of being ousted from office by elections, and China is not an exception. Interestingly, on some occasions, foreign policy making has to be reactive to popular demands, especially public opinion revealed on the Internet. Bush points out: ‘ironically it is in nondemocratic but Internet-friendly China that a hard-edged, anti-Japanese nationalism is a vocal and
influential force’ (2010, p. 4). For example, in 2009, the US government’s decision to levy additional tariffs on tires from China led to nationalistic voices on the Internet in China. ‘All kinds of policymaking, not just trade policy, are increasingly reactive to Internet opinion’, a New York Times article concludes, on why China decided to retaliate against a US tire tariff in September 2009 (Bradsher, 2009). However, it remains surprising why the Chinese government is responsive to the nationalistic public opinion expressed on the Internet. The views expressed there often include extreme voices, such as: ‘The U.S. is shameless….Why did our government purchase so much U.S. government debt….We should get rid of all such U.S. investment’ (Bradsher, 2009). Perhaps public nationalism on the Internet is influential because of, not despite, authoritarianism where other channels of political participation are restricted. A democratic government would not necessarily be responsive to extreme voices because they usually are not influential on electoral outcomes. However, an authoritarian government would be responsive to extreme voices because they might lead to social uprisings and cause political instability. Therefore, the Chinese government has to be reactive to Internet opinions even if they are often extreme. Moreover, although the views on Japan among the policy elite are not always monolithically negative, the voices that try to balance the extreme views are often attacked by the voices of extreme nationalism on the Internet. As a result, for the Japanese public, Chinese public opinion always seems monolithically negative toward Japan.

Many studies on democratic politics have shown that in a democracy, leaders are not necessarily responsive to public opinion although they are influenced by it, but leaders are often able to lead public opinion in the direction that they desire (e.g. Page and Shapiro, 1992; Zaller, 1992). They argue that individual citizens, however well informed, find it very difficult to acquire policy information they need, and hence have to rely on elite cues in order to evaluate the information about policy, to form their political arguments, and to make decisions for voting or for using other channels of political participation. In sum, public opinion is not formed from scratch, but the public forms their opinions from the information given by the elite. As a result, leaders are able to guide public opinion in a democratic regime by persuading the policy elite, such as actors within the executive branch, politicians, experts from the media, academia, and research foundations, and leaders of organized interest groups. This argument implies that public dependence on elite cues should be more
remarkable for foreign policy because information about foreign policy should be less tangible for ordinary citizens. Therefore, one can surmise that leaders are even more easily able to lead public opinion on foreign policy issues.

By contrast, this theory of top-down elite cues on public information implies that it should be difficult for an authoritarian regime to introduce plural views on foreign policy to the public. It was constructed based on western democratic cases, but it may travel to an authoritarian case in the following way. In an authoritarian regime, even if plural views exist among the policy elite, the ruling party has to publicize a single official view instead of plural elite views. Public opinion relies on elite cues, but the public under an authoritarian regime will lack plural elite views and must rely on the publicized official view to evaluate the information about policy and to form their political arguments. Ironically, as a result, authoritarian rulers find it difficult to change public opinion, because they are unable to rely on persuading the public through elite cues but have to directly persuade the whole public if they want to change public opinion.

Moreover, the theory of top-down elite cues on public opinion formation assumes that citizens are empty vessels for the elite to fill in terms of information and ideas on policy and politics. This assumption may hold in a democracy as one can accept the idea that democratic governments do not socialize their citizens into particular views of the world. This does not mean that democratic leaders do not intend to make their views on foreign policy appealing to their constituents. They do, but are not able to ‘educate’ the public into a particular view, because various politicians send mixed statements on a certain foreign policy for various reasons. For example, in the United States, odd coalitions are formed on United States–China relations. On the one hand, ‘politicians, celebrities, and journalists on the left and right join together in China bashing’ (Gries, 2004, p. 3). On the other hand, ‘on the pro-China side, business conservatives often join liberal internationalists in advocating more friendly China policies’ (Gries et al., 2012, p. 2). Based on the studies by Gries and his coauthors that have shown how party affiliation and ideology may matter for public opinion formation on United States–China relations in the United States, one can see that it is very difficult, if not impossible, for US leaders to educate or manipulate the public to a particular view on China, and one can assume that the US public is an empty vessel for the elite to fill (Gries and Crowson, 2010; Gries et al., 2010a,b, 2012).
By contrast, the Chinese government certainly attempts to educate the public toward a particular view of China and the world, especially of Japan. Gries (2011) finds that in China, patriotism (love of or attachment to country) and nationalism (the belief in the superiority of one’s country over other countries) are empirically distinct, historical beliefs focusing on the ‘humiliation’ of the foreign invasion in the nineteenth and twentieth centuries are central to Chinese nationalism today, and it is not patriotism but nationalism that has a clear impact on public opinion formation on foreign policy. Therefore, once the government has enmeshed citizens into a particular nationalist ideology, it is hard for China’s authoritarian regime to change public opinion by sending elite cues.

Although it would theoretically be possible for an authoritarian regime to lead public opinion in another direction by replacing an official view on which the public might bandwagon, in reality it would be hard to imagine the Chinese government sending pro-Japanese elite cues clear enough to replace the monolithic anti-Japanese public opinion on Japan with monolithic pro-Japanese public opinion. Arguably, collectively moderate public opinion on Japan would be optimal for the Chinese government and perhaps for national interests. However, collectively moderate public opinion would not be achieved unless the Chinese government allowed the public to be exposed to the debates among the policy elite, so that the government could persuade the public by elite cues, but it would be difficult to make policy debates open to the public under the authoritarian regime. Now I turn to comparing this argument focusing on public opinion under the authoritarian regime with two major international theories: realism and liberalism.

2 International relations theory and Sino-Japanese relations

2.1 Realism and Sino-Japanese relations

Realism would explain the deterioration of Sino-Japanese relations as an inevitable consequence of the rise of China and the relative decline of Japan. The rise of China would lower Japanese relative power, and the Japanese would feel fear from the relative decline of its power. The spiral

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1 For the realist tendency seen in Japanese public opinion, see Midford (2011).
of fears occurs between a rising power and a declining power unless there is trust between them (Kydd, 2000), and realists argue that it is very difficult to create trust between states (Mearsheimer, 1994). The fear-based negative spirals of tension caused by defensive strategies taken as offensive are called the security dilemma, which might occur because ‘in an uncertain and anarchic international system, mistrust between two or more potential adversaries can lead each side to take precautionary and defensively motivated measures that are perceived as offensive threats’ (Christensen, 2003, p. 25). The security dilemma is problematic because ‘the steps that one side takes to promote its own security leave the other with a growing sense of vulnerability’ (Bush, 2010, p. 2). The security dilemma would most likely occur between a rising challenger (China) and a declining power (Japan).

To what extent does realist theory explain the deterioration of Sino-Japanese relations from 1998 to 2006? Bush explains the reason for the downturn of relations during this period as ‘forces…at play between the two countries that are immune to the good intentions of…leaders’ (2010, p. 22). He argues for the significance of the security dilemma because now ‘levers that they [China and Japan] were accustomed to using—Japan’s economic assistance and China’s history issue—no longer had much pull’ (Bush, 2010, p. 24). As China and Japan have lost the traditional ‘levers’ to influence the bilateral relationship, more ‘structural conditions’ persist and the two nations have to look for ways to mitigate the contradictions (Bush, 2010, p. 39).

One may argue that the Japanese fear of the rise of China exacerbated Sino-Japanese relations, if it did not create the tension between China and Japan. Bush argues that what is unique in the case of Sino-Japanese relations is that the ‘history issue’ is added to the typical security dilemma problem in a bilateral relationship when one nation rises and the other nation declines, saying that Japan’s aggression and militarism in the first half of the twentieth century have formed ‘a deep sense of victimization among the Chinese and [left] scars on the Chinese psyche’ (2010, p. 2). Indeed, Wan suggests, ‘the Chinese government often terms the attitude

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2 He argues that shelving the resolution of the history issue has hindered China and Japan from finding a ‘high degree of peacefulness between former adversaries’ (2009, p. 13). She asserts that unlike the relationship between Germany (then West Germany) and Poland, China and Japan both had a strong incentive to avoid the solution of this issue for deep inter-state reconciliation in the 1970s when they normalized their diplomatic relationship.
toward history as the political foundation of Sino-Japanese relations...and China’s concern for the history issue stands out in its overall foreign policy approach’ (2006, pp. 110–111). At the same time, the Chinese government has emphasized the history issue since the 1990s more than before. Wan argues that this new emphasis on the history issue is based on the reality that ‘China and Japan are changing from friends to rivals in the political and security realms and from friends to competitors in the economic realm’ (2006, p. 340). As a result, the history issue has created tension between China and Japan at the fundamental level of their relationship since the 1990s when Japan realized China’s rising power.

While the Japanese fear of the rise of China might exacerbate Sino-Japanese relations, the realist explanation is not sufficient, because historically a declining power’s fear of the emergence of a rising power does not always escalate the conflict between them. For example, during World War I, it was not Britain (a declining power) but Germany (a rising power) that initiated a preventive war. Germany started preparing for war with Russia because of its fear of the rise of Russian industrial and military power. At the same time, Germany started preparing a preemptive war with France to avoid fighting wars with Russia and France simultaneously. To fight a war with France, Germany invaded Belgium, which triggered British participation in World War I because Britain was a guarantor of the Belgian neutrality. In sum, Britain’s fear about Germany’s rise did not directly cause World War I, though Germany and Britain fought with each other.

What might mediate the mechanism for a declining power’s fear to escalate the existing conflict? The Japanese perception of the Chinese government’s manipulation of public opinion may be a factor which has worsened the tension between China and Japan. Based on her interviews with Japanese government officials and scholars, He finds that the vicious circle of mutual distrust between the Chinese and the Japanese can be seen in the Japanese perception among the elite, concluding: ‘Even those who admitted to Japanese aggression generally rejected China’s history bashing, [and] Japanese elites believed that China was developing a dangerous nationalist trend in seeking to shake off national humiliation through the resurrection of a “greater Chinese empire”’ (2009, p. 259). Moreover, ‘even they [the moderate elite] attributed the anti-Japanese popular nationalism in China to the Chinese government’s patriotic education…., [and they] worried that Chinese nationalism derived from history
could spin out of control and propel antagonistic Chinese actions toward Japan’ (He, 2009, pp. 260–261). Therefore, He concludes that ‘both sides [China and Japan] felt self-righteous about their own behavior without realizing that it might appear provocative and even threatening to the other country’ (He, 2009, p. 261). Furthermore, Lind (2009) even argues that the Chinese government’s emphasis on the history issue and Japan’s war responsibility could have a negative effect on solving the history issue. It worsens Sino-Japanese relations by strengthening the Japanese perception of the Chinese government’s manipulation of public opinion and, even worse, by provoking the Japanese nationalist argument to justify Japanese atrocities.

2.2 Liberalism and Sino-Japanese relations

While realism brings a pessimistic argument to the explanation of the deterioration of Sino-Japanese relations over the last two decades, liberalism brings an optimistic argument to the explanation of the improvement of relations from 2006 to 2012. However, I argue that in Sino-Japanese relations, the mutual benefits from economic interdependence do not automatically generate cooperation, after discussing how deepening economic interdependence may explain the improvement of the bilateral relationship.

To develop his liberal theory, McDonald (2009) argues that actors (including states and non-state actors) seek wealth before power in the international realm of politics. In other words, these actors work in economically interdependent ways to seek their own interests. When state and society interact in various economic institutions, such as the market system, war becomes costly and peace may emerge. Citing John Stuart Mill’s argument, McDonald asserts that ‘international trade facilitate[s] the emergence of an underlying harmony of interests among countries around the world by increasing communication across societies and encouraging individuals to reject nationalism’ (2009, p. 39). He further argues: ‘Although competitive elections expand political participation and force governments to be more responsive to the demands of its citizens, state and society interact in multiple institutional settings outside of elections’ (McDonald, 2009, pp. 23–24).

While the deterioration of Sino-Japanese relations during the deepening of economic interdependence for the last two decades is called ‘cold
politics and hot economy’ in both China (zhengleng jingre) and Japan (seirei keinetsu), why has the ‘hot economy’ not warmed up ‘cold politics’? What makes it hard for the Chinese government to take the initiative to improve Sino-Japanese political relations? I tentatively contend—and discuss more in later sections—that the process of warming up ‘cold politics’ with the ‘hot economy’ started with political initiatives from both China and Japan in 2006 under the Hu Jintao administration when Prime Minister Koizumi Junichirō stepped down in Japan. In particular, the Chinese government was able to lead public opinion in a more positive direction by sending a clearer signal that it would stop highlighting the history issue in joint statements between the two nations. However, this positive trend declined in 2010 when a Chinese fishing trawler rammed into a Japanese coast guard ship, and stopped in 2012 when Jiang Zemin rose in the power struggle in the Chinese Communist Party (CCP) over the transition of power and office from Hu Jintao to Xi Jinping.

In 2006, when Abe Shinzō became prime minister for the first time, succeeding Koizumi, he chose China as the country of his first foreign visit after assuming office and visited in October. He broke the custom that a Japanese prime minister chooses the United States as the first country he will visit. The Chinese government appreciated this signal from the Japanese government, and Chinese Premier Wen Jiabao called this visit the ‘ice-breaking trip’ (po bing zhi lü), after Sino-Japanese relations had deteriorated during the Koizumi administration. Abe’s China visit was followed by Wen’s visit to Japan in 2007, which he called the ‘ice-melting trip’ (rong bing zhi lü). These mutual visits by the leaders of these two nations were followed by Chinese President Hu Jintao’s visit in 2008, which the Chinese government called the ‘warm spring trip’ (nuan chun zhi lü). Throughout these summit meetings, the leaders of both nations emphasized common interests by defining their association as ‘mutually beneficial relations based on common strategic interests’ (senryakuteki gokei kankei).

Kokubun (2010, 2013b) argues that the most notable point of the joint press statement for Abe’s visit to China lies in what was not included in the statement. The 2006 statement, as well as the joint statements for the 2007 and 2008 summit meetings, barely mentioned the history issue or the Taiwan issue—which were included in almost every document announced by China and Japan since 1972 when they had normalized the diplomatic relationship—at all. Instead, starting in 2006, the joint statements focused more on the future and mentioned appreciation of Japan’s peaceful behavior.
since World War II. Moreover, in Wen’s speech at the Japanese Diet in 2007, he positively evaluated the Japanese government’s attitude toward the history issue by saying: ‘Since the normalization of Sino-Japanese diplomatic relations, the Japanese government and Japanese leaders repeatedly expressed their attitudes toward the past history, publicly admitted the invasion, and expressed the deep remorse and apology toward the victims, which the Chinese government and people have positively evaluated’ (Anami, 2012, p. 452). According to Kokubun’s interviews with Japanese officials, the Chinese government implicitly suggested to the Japanese government that this decision had been made by the top leadership headed by President Hu Jintao (Kokubun, 2010, pp. 39–40). Reilly (2012, p. 163) explains the improvement of Sino-Japanese relations after 2006 as a shift in China’s Japan policy, arguing that ‘negative public opinion toward Japan might spiral out of control’ after observing the largest ever anti-Japanese protests in 2005. Because of this concern, he argues, ‘after 2005 Chinese leaders oversaw a broad propaganda campaign aimed at ensuring public acquiescence, if not support, for China’s Japan policy [of improving relations]’ (Reilly, 2012, p. 205).

Reilly (2012, p. 201) argues that the Chinese government was far more effective in forming public opinion than the Japanese government when China and Japan sought the improvement of relations in 2006. By contrast, Takeuchi (2013) suggests that an authoritarian regime needs to send a clearer signal to influence public opinion on foreign policy than a democratic regime does. While a democratic regime can influence public opinion by persuading the policy-making elite (i.e. Page and Shapiro, 1992; Zaller, 1992), an authoritarian regime must persuade the public directly. Thus, an authoritarian regime is still able to influence public opinion. However, when intending to form public opinion, it will have to send a very strong signal in the direction to which it wants to guide public opinion. In other words, the signal the authoritarian regime sends must be unambiguous enough for the public to be able to understand.

Though we cannot go beyond speculation, it appears the Hu Jintao administration started sending a clear signal once the Japanese administration could respond to that signal. In 2006, when Koizumi stepped down and Abe decided to choose China as the country of his first foreign visit, the Chinese government judged that the Japanese government would be committed to responding to the signal for improving the bilateral relationship that the Chinese government would send. The Chinese government
needed a stronger sign of commitment to improve Sino-Japanese relations, so that the Chinese government would be sure that the Japanese government would accept the Chinese government’s signal. In this way, political initiatives from both sides were needed for interdependence to lead to the improvement of relations. At that time, the administrations of China and Japan were both ready to take political initiatives to move Sino-Japanese relations one step ahead.

In sum, the Chinese government had to send a clear signal of shifting its stance for improving Sino-Japanese relations, such as almost dropping the history issue altogether from official joint statements, because the authoritarian regime would find it difficult to persuade the public through elite cues but would have to persuade the public directly (Takeuchi, 2013). The Hu Jintao administration first attempted to improve Sino-Japanese relations in 2002–03. As Reilly points out, it was reluctant to take a hard-line approach to Japan even though Koizumi repeatedly visited the Yasukuni Shrine, and ‘only after Koizumi’s fourth visit to Yasukuni on January 1, 2004, did China’s leadership finally begin to give up on engaging him’ (italics in the original) (2012, p. 134). In the meantime, public opinion toward Japan further deteriorated as ‘from 2002 through 2005, China’s leading commercial newspapers provided far more negative, sensationalist coverage of Japan than the Party press’ (Reilly, 2012, p. 192). This suggests that sending a weak signal of not taking a hard-line approach was not sufficient to influence the public. The Chinese leadership learned the lesson and, ‘once the costs of tolerating public protests became clear by spring 2005, Chinese leaders and bureaucracies united around the strategy of diplomatic engagement and domestic propaganda’ (Reilly, 2012, p. 212). The changing content of joint statements de-emphasizing the history issue reflected the leadership’s decision to send a clearer signal for improving Sino-Japanese relations. Thus, the Chinese government was finally able to lead public opinion in the direction of improving the bilateral relationship.

However, in 2012, when China experienced the leadership transition from Hu Jintao to Xi Jinping, Sino-Japanese relations became more strained again. In April 2012, in his press conference in Washington, DC, Tokyo Governor Ishihara Shintarō—a right-wing politician—announced that he (i.e. Tokyo metropolitan government) would purchase the uninhabited Senkaku Islands (called ‘Diaoyu Island’ by China) and build at least a lighthouse and a pier, so that foreign countries would recognize it as Japanese
Having heard this radical idea, Japanese Prime Minister Noda Yoshihiko decided that the Japanese government would purchase the islands by arguing that the nationalization would be less provocative because the Japanese government would not build anything on the islands (Sunohara, 2013, ch. 3). Although China’s reaction to Ishihara’s move to purchase the islands was originally moderate and the Japanese government had taken China’s reaction as a message that the Chinese government also preferred the nationalization to Ishihara’s purchase, the tone of China’s reaction changed in August and since then the Hu administration has taken a firm stance, arguing that any attempt to change the status quo—including nationalization—is unacceptable (Sunohara, 2013, ch. 4).

In a sense, this shift in the tone in Sino-Japanese relations suggests how fragile this bilateral relationship is. A move by a local governor led to a chain reaction and made the Sino-Japanese relations much tenser. Realism would argue that Ishihara’s move triggered the deterioration of the relationship whose basis had been formed by China’s rise and Japan’s decline. It is extremely difficult for the elite debates in the Chinese government to keep focusing on the benefits of economic interdependence, and the Hu Jintao administration found it difficult to continue sending positive signals for Sino-Japanese relations. However, this realist explanation does not fully account for the deterioration of the relationship in 2012. Ishihara’s announcement in April did not immediately damage the relationship, but it was in August when China’s attitude on this issue shifted toward a firm and harsh direction. Thus, in this article, I argue that China’s domestic politics should be taken into consideration to explain the shift in China’s Japan policy, and the shift in 2012 was no exception. Before further discussing the deterioration of Sino-Japanese relations in 2012, I introduce a simple game-theoretic model, which provides a basis for my theoretical argument.

3 The signaling game in Sino-Japanese relations

3.1 The structure of the game

The improvement and deterioration of Sino-Japanese relations can be formalized in a simple incomplete information game, as shown in Fig. 1. There are two players: the Chinese government (China) and the Japanese government (Japan). The order of moves is as follows:

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3 The islands are controlled by Japan and claimed by China and Taiwan.
(i) The Chinese government chooses whether to challenge the status quo balance of power with Japan (Ch) or not to challenge it (NCh).

(ii) If the Chinese government does not challenge the status quo balance of power, the game will end, both China and Japan will keep enjoying the benefits from the status quo economic interdependence, and the payoffs are $SQ_C$ and $SQ_J$ respectively. However, if the Chinese
government decides to challenge, the Japanese government will choose whether to take an aggressive stance (Ag) or not (NAg).\(^4\)

(iii) If the Japanese government does not take an aggressive stance, the game will end, both China and Japan will keep enjoying the benefits from the status quo economic interdependence, and they enjoy the reward payoffs from the economic interdependence: i.e. \(R_C\) and \(R_J\), respectively.\(^5\) However, if the Japanese government decides to take an aggressive stance, the Chinese government will choose whether to escalate the conflict (Es) or not (NEs).

(iv) If the Chinese government escalates the conflict, both China and Japan will suffer from the consequences of the escalation, including the risk of the conflict escalating into war, and receive war payoffs: i.e. \(W_C\) and \(W_J\), respectively. If the Chinese government does not escalate, both China and Japan will enjoy the status quo economic interdependence, but the Chinese government may suffer from its decision to back down. And China and Japan will receive the back-down payoffs, i.e. \(B_C\) and \(B_J\), respectively.

Before the game starts, the types of leaders making decisions on each side of China and Japan are given at the nature node. The first nature node gives us the assumption of whether the Chinese leadership is nationalistic (Nationalist) or not (Not Nationalist). The crucial difference between the two types is that the nationalistic leadership prefers risking the escalation of the conflict to enjoying the status quo economic interdependence, whereas the non-nationalistic leadership prefers keeping the interdependence to the escalation of the conflict; that is, the nationalistic leadership’s payoff for the conflict escalation, \(W^*_C\) (for risk of ‘war’ due to the escalation), is higher than its payoff for the benefits of the interdependence, \(SQ_C\). For the non-nationalistic leadership, the payoff for the escalation, \(W_C\), is lower than enjoying the status quo benefits, \(SQ_C\).\(^6\)

\(^4\) An aggressive stance here includes responding to China’s challenge. Thus, it does not have to be an escalating act. I include mere response to China’s challenge as an aggressive stance, because China claims that it would take Japan’s response to China’s challenge as Japan’s aggressive stance. In other words, this assumption is based on China’s perception of Japan’s act, not on Japan’s intention of its own act.

\(^5\) In this scenario, the balance of power has changed in China’s favor, because Japan’s not taking an aggressive stance means that Japan does not respond to China’s challenge. Thus, Japan loses payoffs and China gains payoffs even though the benefits from economic interdependence remain the same. See fn. 4.

\(^6\) Thus, the game assumes \(R_C > W^*_C > SQ_C > B_C > W_C\).
The nature node shows the assumption that makes the Chinese leadership nationalistic with probability \( p \), on the left branch of the game tree, and non-nationalistic with probability \( 1-p \), on the right branch of the tree. As indicated by the information set linking Japan’s decision nodes, the Japanese government is not informed of what type of Chinese leadership it is facing. However, the probability that the Chinese leadership is nationalistic, \( p \), is known to the Japanese government. The greater \( p \) is, the more suspicious the Japanese government is of the Chinese leadership being nationalistic.

This prior level of suspicion can be a product of several things. When the Chinese government is concerned with people’s dissatisfaction, it may use nationalism to divert people’s dissatisfaction to acquire popular support. For instance, in April 2005, when the then-largest anti-Japanese demonstrations in over 30 years occurred in Beijing and other Chinese cities, a Japanese journalist reporting on the demonstrations told me: ‘I understand why many Chinese people have negative views on Japan. But I don’t understand why the Chinese public opinion on Japan is so monolithic. Is it because of the government’s ‘education’? Is it because the Chinese government manipulates public opinion? The Chinese government should be able to manipulate public opinion because China is not a democracy’. The prior level of suspicion could also be based on the reputation created by what politicians have spoken and written. For example, Jiang Zemin is considered anti-Japanese based on what he has said in interviews and what he said in the speeches he made during his visit to Japan (Kuhn, 2005; Eguchi, 2012). Finally, because China’s political regime is authoritarian, foreign governments cannot see the debates within the Chinese government. For example, in 2012, foreign governments wondered whether Jiang Zemin was influential in the decision-making of the new leadership. However, they could not reach any certain conclusion because the decision-making process within the CCP, especially the leadership selection, is not transparent (Sunohara, 2013, ch. 4).

Because Japan’s political regime is democratic, the Japanese public may influence the Japanese government’s nature and decisions. The second nature node gives us the assumption of whether the Japanese public is economically rationalist (Economic) or provoked nationalist (Provoked). The crucial difference between the two types is that the Japanese government with a provoked nationalist public prefers the escalation of the conflict to China’s backing down once China starts challenging, whereas the government with an economically rationalist public prefers the non-escalation to...
the escalation; that is, with a provoked nationalist public, the Japanese government’s payoff for the conflict escalation, $W_j$, is higher than the payoff for the case where China backs down, $B_j$. With an economically rationalist public, Japan’s payoff for the conflict escalation, $W_j$, is lower than its payoff for China’s backing down, $B_j$.7

The nature node shows the assumption of making the Japanese public economically rationalist with probability $q$, on the left branch of each second nature node, and provoked nationalist with probability $1-q$, on the right branch of each second nature node. As indicated by the information set linking China’s decision nodes, the Chinese government is not informed of what type of Japanese public it is facing. However, the probability that the Japanese public is economically rationalist, $q$, is known to the Chinese government. The greater $q$ is, the more certain the Japanese public focuses more on the benefits from economic interdependence with China.8

Moreover, this game assumes that the Japanese leadership is not certain about the nature of the Japanese public, either. This assumption means that the Japanese government is unable to control the nature of the Japanese public, and that the Japanese leadership’s preference is influenced by the Japanese public’s preference. Thus, as indicated by the information set linking Japan’s decision nodes, the Japanese government is informed of neither what type of Chinese leadership the Japanese government is facing nor what type of Japanese public it is facing.9 At the same time, the Japanese government also knows the probability that the Japanese public is economically rationalist, $q$.10

The prior level of belief in the nature of the Japanese public can also be a product of several things. Business leaders are believed to appreciate the benefits from economic interdependence with China and often demand the Japanese government take a soft attitude toward China (e.g. Katz, 2013). Moreover, when Ambassador Niwa Uichirō, then Japanese

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7 Thus, the game assumes $SQ_j > W_j > B_j > R_j > W_j$.
8 In short, $p$ is Japan’s initial belief in China’s type and $q$ is China’s initial belief in Japan’s type.
9 This assumption might be counterintuitive, as it implies that Japan does not know its own public’s type while it is intuitive that China is uncertain about it. However, it is far more difficult for the government to know about its own public’s type than for the democratic government to know about the leadership’s type in the autocracy.
10 Of course, strictly speaking, one should assign a different probability for Japan’s beliefs than for the probability for China’s beliefs. However, for the sake of simplicity, I assume that China and Japan share the same $q$ for their beliefs about the nature of the Japanese public.
ambassador to China, said in an interview with *Financial Times* that the implementation of the Tokyo governor’s purchase of Senkaku would lead to a big crisis for Sino-Japanese relations (*Financial Times*, 17 June 2012), politicians—regardless of their political standpoints or their attitudes toward Sino-Japanese relations—criticized Niwa’s statement as a too conciliatory message (*Sunohara, 2013, ch. 3*). A lawmaker even criticized Niwa as giving priority to commercial interests over national interests (*Sunohara, 2013, p. 133*). In the meantime, one can observe that at least a certain part of the Japanese public is provoked nationalist. For example, when Ishihara announced his idea of the Tokyo metropolitan government’s purchase of Senkaku Islands and called for donations for the purchase, he was able to raise ~1.5 billion yen (about 15 million dollars) (*Itō and Takahara, 2012*). From the Chinese perspective, the fact that Ishihara, known to be a right-wing nationalist politician, was elected Tokyo Governor three times suggests that a significant portion of the Japanese public supports his nationalistic ideas.

### 3.2 The solution of the game

I employ the perfect Bayesian equilibrium to solve this game, which requires that beliefs be updated on the equilibrium path according to Bayes’ rule.11

There are three perfect Bayesian equilibria in the game: i.e. one separating equilibrium, one pooling equilibrium, and one semi-separating equilibrium. Certain features hold across all three equilibria. Suppose that $p'$ is Japan’s perception of the updated probability that the Chinese leadership is nationalistic, once Japan has seen that China has challenged. Then, the Japanese government’s expected payoff from taking an aggressive stance is $p'qW_J + p'(1-q)W_J^* + (1-p')B_J$; whereas its expected payoff from not taking an aggressive stance is $R_J$.12 Thus, Japan will be aggressive if and only if $p' > (B_J - R_J) / (B_J - qW_J - (1-q)W_J^*) \equiv p^*$.13

In the separating equilibrium, China will challenge the status quo balance of power with Japan if and only if the Chinese leadership is

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11 For the perfect Bayesian equilibrium, see Morrow (1994, pp. 170–180).

12 China has a dominant strategy at the final node. The nationalistic China will choose to escalate (i.e. $W_C > B_C$), while the non-nationalistic China will choose not to escalate (i.e. $B_C > W_C$).

13 For this inequality to hold, the following condition must be satisfied: $q \geq (W_J^* - B_J) / (W_J^* - W_J) = q^*$. 

nationalistic, while it will not challenge if the leadership is not nationalistic. This means that in the separating equilibrium $p' = 1$, which is larger than $p^*$. Thus, the Japanese government will always take an aggressive stance in this equilibrium. This equilibrium is a perfect Bayesian equilibrium, because the nationalistic China does not have an incentive to deviate from challenging (i.e. $W_C > SQ_C$), while non-nationalistic China does not have an incentive to deviate from not challenging (i.e. $SQ_C > B_C$), given that Japan always takes an aggressive stance.

The separating equilibrium is important because it is where reassurance takes place by costly signaling.\textsuperscript{14} For the non-nationalistic Chinese leadership, the cost of challenging is too high, although it could still reach the highest payoff, $R_C$, if Japan does not take an aggressive stance after China has challenged. However, it would be too risky for the non-nationalistic Chinese leadership to challenge, because it might risk a war with Japan and it would be the worst outcome (i.e. $W_C$). By contrast, challenging the status quo balance of power against Japan would not be so risky for the nationalistic leadership, because such leadership could benefit from the escalation of conflict against Japan (i.e. $W_C^c$).

The separating equilibrium implies that the Chinese government with the nationalistic leadership always has an incentive to challenge the status quo balance of power against Japan regardless of the nature of the Japanese public, while that with the non-nationalistic leadership always has an incentive to maintain the status quo economic interdependence, as the separating equilibrium always exists regardless of the value of $p$ or $q$. In this equilibrium, Japan always takes an aggressive stance once China has challenged the status quo because China’s challenges assure Japan which type the Chinese leadership is, while China and Japan could enjoy the benefits of the status quo economic interdependence unless the Chinese leadership is nationalistic. In other words, whether Sino-Japanese relations will become tense totally depends on whether the Chinese leadership is nationalistic. This equilibrium suggests that President Hu Jintao could send a signal to Japan that China was interested in improving the relationship with Japan, and accounts for why Sino-Japanese relations were improved from 2006 to 2012.

In the pooling equilibrium, China will always challenge the status quo balance of power regardless of whether the Chinese leadership is nationalistic or not. This means that in the pooling equilibrium $p' = p$. Japan will

\textsuperscript{14} For theoretical discussions of reassurance and costly signaling, see Kydd (2000).
take an aggressive stance if $p$ is larger than $p^*$, and Japan will not take an aggressive stance if $p$ is smaller than $p^*$. This equilibrium is a Bayesian perfect equilibrium if and only if $p$ is smaller than $p^*/C_3$. If $p$ is larger than $p^*$, the non-nationalistic China has an incentive to deviate from challenging (i.e. $SQ_C > B_C$), given that Japan chooses to take an aggressive stance. If $p$ is smaller than $p^*$, neither the nationalistic China nor the non-nationalistic China has an incentive to deviate from challenging (i.e. $R_C > SQ_C$), given that Japan chooses not to take an aggressive stance.

The pooling equilibrium implies that if the Japanese government expects the Chinese leadership not to be nationalistic (i.e. the value of $p$ is low) and the Chinese government expects the Japanese public to be provoked nationalist (i.e. the value of $q$ is low), the Chinese government will have an incentive to challenge even without nationalistic leadership, as the pooling equilibrium exists as long as $p$ and $q$ are lower than certain thresholds. In other words, non-nationalistic China will not have an incentive to challenge the status quo power balance against Japan as long as it expects the Japanese public to be economically rationalist. This equilibrium might explain why the Chinese government reacted sensitively to Tokyo Governor Ishihara’s press conference in April 2012. Ishihara is known as a provoked (and provocative) nationalist, and Ishihara’s announcement of the Tokyo metropolitan government’s purchase of the Senkaku Islands might be a sufficient signal for China to perceive that provoked nationalists are increasing in Japan (i.e. $q$ decreases). Interestingly, in this equilibrium, the non-nationalistic China would challenge if China believes that Japan does not perceive the Chinese leadership to be nationalistic (i.e. the value of $p$ is low).

In the semi-separating equilibrium, both China and Japan randomize their strategy, taking a mixed strategy. Suppose that the nationalist China will challenge the balance of power with Japan, but that the non-nationalist China will challenge with probability $b$ ($0 < b < 1$) and will not challenge with probability $1-b$. Let $r$ be the probability that Japan takes an aggressive stance. The condition for the semi-separating equilibrium to hold with respect to $r$ is $rB_C + (1-r)R_C = SQ_C$. Thus, in the semi-separating equilibrium, $r = (R_C - SQ_C)/(R_C - B_C)$. The condition for the semi-separating equilibrium to hold with respect to $b$ is $p' = p^*$, which is: $p/(p + (1-p)b) = (B_J - R_J)/(B_J - qW_J - (1-q)W_J^*)$. Thus, in the semi-separating equilibrium, $b = p[R_J - qW_J - (1-q)W_J^*]/(B_J - R_J)$.

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15 In the semi-separating equilibrium, $p' = p/(p + (1-p)b)$. 

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Hiroki Takeuchi
The semi-separating equilibrium implies that if both China and Japan act strategically, the non-nationalistic China will challenge with the probability \( b \) and Japan will take an aggressive stance with the probability \( r \). The probability that Japan takes an aggressive stance depends on neither the Japanese perception of Chinese leadership’s type nor the nature of the Japanese public (i.e. \( r = \frac{R_C - SQ_C}{R_C - B_C} \)). By contrast, the probability that non-nationalist China challenges the status quo balance of power is positively associated with the probability that Japan perceives the Chinese leadership to be nationalistic, and positively associated with the likelihood that the Japanese public is economically rationalist (i.e. \( b = p\frac{R_J - qW_J - (1 - q)W^*_J}{(B_J - R_J)} \)). This equilibrium might explain why China has challenged Japan since 2012, as Japan has now perceived the Chinese leadership under Xi Jinping as more nationalistic than the Hu Jintao administration, and the Japanese public is more economically rationalist due to the deepened economic interdependence with China.

The three perfect Bayesian equilibria account for different aspects of Sino-Japanese relations. In a sense, the Chinese government would have an incentive to maintain a good relationship with Japan and strengthen economic interdependence unless the leadership is nationalistic. At the same time, even non-nationalistic China might challenge the status quo balance of power against Japan under certain conditions. When Japan does not perceive the Chinese leadership to be nationalistic, non-nationalistic China might challenge only if the Japanese public is provoked nationalist. When Japan perceives the Chinese leadership to be nationalistic, non-nationalistic China might be more likely to challenge as the Japanese public is less likely to be provoked nationalist and more likely to be economically rationalist. In the next section, I discuss how this implication could explain the recent dispute over the Senkaku Islands between China and Japan.

4 The Senkaku dispute in 2012

Why did Sino-Japanese relations turn tense in 2012, although they had improved in the period from 2006 to 2012 during the Hu Jintao administration? My goal here is not to provide new facts or a comprehensive analysis of Sino-Japanese relations, but to argue how China’s domestic politics have influenced the deterioration of Sino-Japanese relations since 2012 when Xi Jinping took over the presidency, discussing the implications of the game’s equilibria. To make this argument, I focus on what the ‘nationalistic’
leadership means in this context. I argue that political leaders have emphasized nationalism in the context of the power struggle in Chinese politics, and how nationalism has been used to strengthen the position against the leadership seeking a conciliatory relationship with Japan.

One possible explanation for why Sino-Japanese relations deteriorated in 2012 is that Tokyo Governor Ishihara Shintarō suddenly announced the purchase of the Senkaku Islands, followed by nationalization by the Japanese government, and hence China took this as a move by the Japanese to change the status quo over the dispute (Sunohara, 2013, chs. 2–3). However, this explanation is incomplete, because Ishihara’s announcement was in April while China’s attitude suddenly hardened in August (Kokubun, 2013a, p. 14). This timing gap coincides with the fact that the CCP convened a conference at Beidaihe in August to decide the leadership of the new administration led by Xi Jinping (Sunohara, 2013, ch. 4). During the conference, while leaders discussed the next Standing Committee (SC) members of the Politburo, apparently Jiang Zemin and his followers rose, and as a result we would later learn that six out of the seven SC members were followers of Jiang (including President Xi) (Fujita, 2012).

Kokubun argues that President Hu Jintao ‘did not fully control a strong enough power base for him to advance his own policies’ during his administration between 2002 and 2012 (2013a, p. 4). Although Hu tried to improve the economic and social inequality problem by advancing the slogan of ‘harmonious society’ (hexie shehui), inequality expanded during his administration. Hu’s predecessor, President Jiang Zemin, created a faction (together with Zeng Qinghong, Vice President in the first term of the Hu administration, 2003–08) and attempted to defend the vested interests of state capitalists from the reforms Hu (together with Premier Wen Jiabao) tried to advance (Kokubun, 2013a, p. 5). As I discussed in Section 2, Sino-Japanese relations improved from 2006 to 2012 under the Hu administration, and China and Japan agreed to ‘mutually beneficial relations based on common strategic interests’ after Prime Minister Koizumi Junichirō stepped down in 2006. While President Hu and Premier Wen focused on

16 Premier Li Keqiang is the only one who is not a follower of Jiang. The others, such as President Xi Jinping, Zhang Daqiang (Chair of the National People’s Congress), Yu Zhengsheng (Chair of the Chinese People’s Political Consultative Conference), Liu Yunshan (Secretary of the Central Secretariat of the CCP), Wang Qishan (Secretary of the Commission for Discipline Inspection), and Zhang Gaoli (Vice Premier), are all followers of Jiang.
improving Sino-Japanese relations for China to enjoy the benefits of economic interdependence, Jiang had a strong fixation on the history issue due to his personal views on Japan, as Jiang kept mentioning the history issue and took the stance of giving priority to the history issue over economic interdependence when he visited Japan in 1998 (Eguchi, 2012).

Apparently, when Jiang Zemin rose in the Beidaihe Conference, he criticized Hu Jintao’s Japan policy to strengthen his position in the decision-making process for the leadership’s next personnel, and as a response to Jiang’s rise Hu had to take a hard stance against Japan to defend his position in that process (Kokubun, 2013a, pp. 14–15; Sunohara, 2013, ch. 4). The separating equilibrium could explain this shift of China’s position for Sino-Japanese relations. Once a nationalistic leader (i.e. Jiang) emerges, China’s type would change from ‘non-nationalist’ to ‘nationalist’, and the ‘nationalist’-type China would challenge the balance of power against Japan —while the ‘non-nationalist’ China would not challenge. Moreover, other aspects of Sino-Japanese relations could be explained with other equilibria. The pooling equilibrium could explain why China did not want Ishihara Shintarō to purchase the island, because it would mean the rise of the ‘provoked nationalist’ Japanese public, and could explain why China’s reaction was initially low key when the Japanese national government tried to purchase the islands to prevent Ishihara from doing it. That changed in August, when Jiang rose. Finally, the semi-separating equilibrium suggests that once Japan perceives the Chinese leadership to be nationalistic, the non-nationalist China would challenge even if the Japanese public were economically rationalist. This equilibrium could explain why Sino-Japanese relations currently do not show signs of improvement even though Chinese and Japanese leaders both recognize the importance of the benefits of economic interdependence.

5 Conclusion

China and Japan have deepened economic interdependence over the last two decades, and Sino-Japanese relations significantly improved from 2006 to 2012. The discussion in this article implies that economic interdependence would indeed form a basis for the improvement of the bilateral relationship by providing an authoritarian leader with an environment to send a strong signal to change public opinion. However, Sino-Japanese relations have deteriorated since 2012 as China has more explicitly shown territorial ambitions and initiated disputes with Japan. The simple game-theoretic model
discussed in this article suggests the logic to account for this deterioration of the bilateral relationship, focusing on how the change in the leadership’s nature might influence China’s foreign policy stance.

Sino-Japanese relations deteriorated in 2012 when Jiang Zemin rose in the power struggle over the decision of the next leader under Xi Jinping. As the nature of China’s leadership turned from non-nationalistic to nationalistic, the equilibrium of Sino-Japanese relations shifted to one where China challenges the balance of power against Japan, rather than appreciating the benefits from economic interdependence. A vicious circle has started, and now Sino-Japanese relations are in the equilibrium where the Japanese government perceives the Chinese government to be nationalistic, and the Chinese government has a strong incentive to challenge Japan even if the nature of the Chinese government is turned back to non-nationalistic. Under such a condition, neither is able to appreciate the benefits of economic interdependence even though both recognize the importance of such benefits.

The empirical observation and the logic suggested by the game-theoretic model imply the importance of the influence of domestic politics on the bilateral relationship, and how fragile Sino-Japanese relations are because of the strong influence of domestic politics. The decision-making process of Chinese politics has been modernized and institutionalized for the last three decades. However, how Jiang Zemin’s rise influenced China’s foreign policy making suggests that China’s decision-making process is dependent on the nature of leaders, which reminds us of power-struggle-based politics during the Maoist era. Foreign governments need to pay attention to this anachronistic aspect of Chinese politics.

References


