

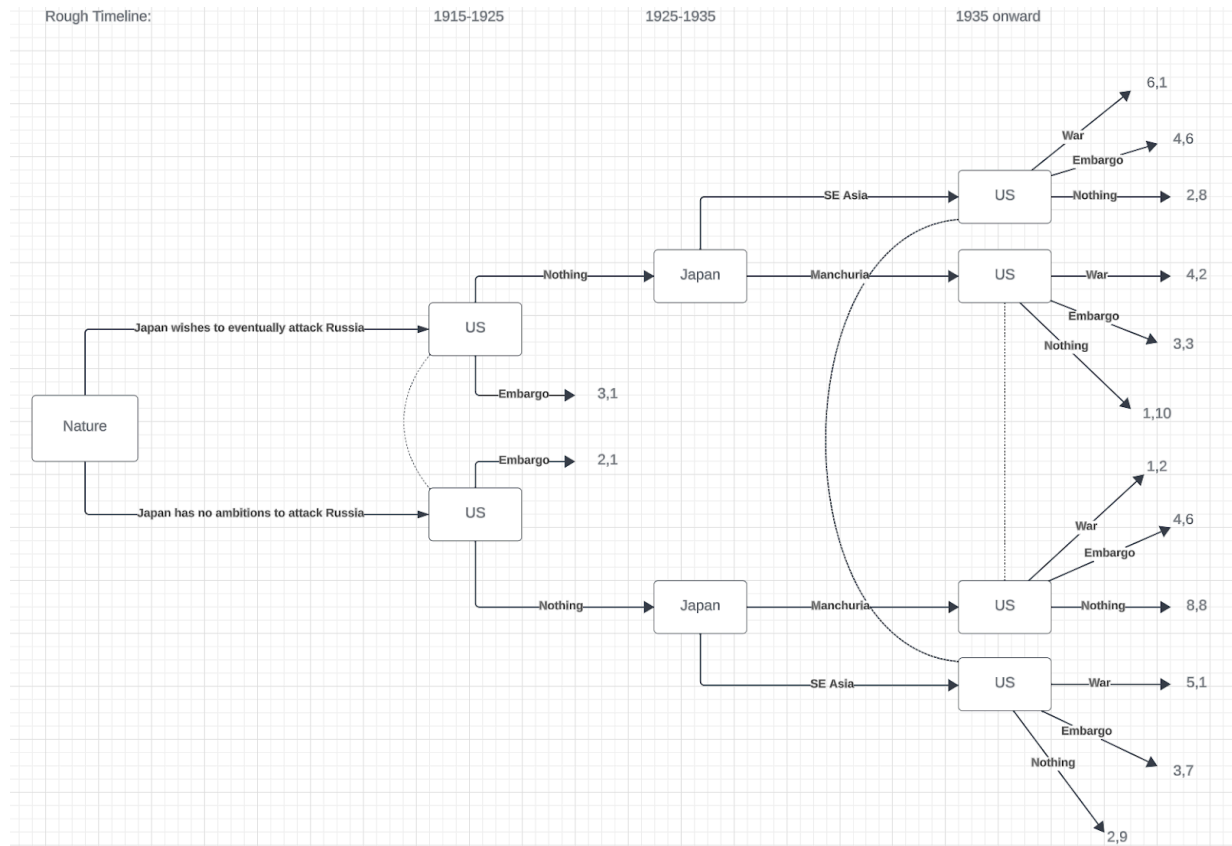
Despite the increasing cross-national economic interdependence that has defined the post-WWII neoliberal order, the integrated global economy is more and more facing scrutiny from the naysayers of multilateralism who argue that the current political climate is becoming a fertile ground for geoeconomic fragmentation. This argument can find its support in the theory that economic dependence could be “weaponized” for political ends, which opposes the conventional wisdom that the opportunity cost of war would deter trade partners from pursuing hostilities with each other. The Russian invasion of Ukraine was to a great extent, emboldened by Europe’s dependence on Russian energy, which led the German chancellor Olaf Scholz to declare, “Russia is no longer a reliable business partner,” prompting Germany to reassess the nation’s foreign trade. Protectionist economic policies are increasingly gaining traction, with national leaders reevaluating the question, with whom should we seek to develop trade? This paper studies the case of the US-Japan trade relationship in the early 20th century, and aims to show that a stable global economy indeed requires vital considerations regarding the ideological and political differences between trading partners, otherwise, impetuous trade has the potential to produce detrimental consequences.

In the immediate aftermath of WWI, the Siberian Intervention saw imperialist Japan occupy swaths of land in Siberia during the Russian Civil War. Japanese troops were intimidated into withdrawing under the growing pressure from the Bolsheviks to resolve this through military means, yet this incident made it clear to the Japanese leadership that it was not feasible to put their country into direct conflict with the Russians without a stronger Japanese empire and allied support. Therefore, it sought to seek alliances with nations that could not only supply Japan with the raw materials that the country so desperately needed, but also had natural grievances against the Russian Communists. One of these candidates was the United

States. Prior to the start of WWI, exports from the US to Japan were at 102 million yen in 1915. By the onset of WWII, this amount had expanded twelvefold to 1241 million yen in 1940. (*Hundred Year Statistic of the Japanese Economy*, 291-293) Critically, the US was supplying approximately 80 percent of Japan's oil needs and 75 percent of its scrap iron – key raw materials that sustained both Japanese civilian life as well as its military. (Copeland 178) The American ideal of free market economy and open trade meant that Washington welcomed the Japanese market and its dependence on US raw materials. However, it remained a key American objective to not see Japan conquer the vast lands of Siberia and place its empire adjacent to American Alaska, and this stayed true throughout the two World Wars.

At the conclusion of WWI, the US could have decided to reduce or even eliminate trade with an increasingly militant Japan. The greatest issue in question was the US belief on how likely Japan was going to again seek gains in Siberia at Russia's expense. If the US had deemed the probability of Japanese ambition to subjugate Russian territories to be high enough or the threat to be immediate enough, the US would have the incentive to not engage in a friendly trade relationship with Japan in fear of Japan taking advantage of the trade to expand its military. If the US had been under the impression that after the disastrous Siberian Intervention, the Japanese government would think twice before playing their hand against the Russians again, then the US would have been inclined to establish a friendly trading relationship with the rising Japanese power. Commercial peace theory dictates that this scenario would have best served American interests because the peaceful economic exchanges between the two nations would potentially allow the US to gain a powerful ally that would help secure the Asian markets. Due to the incomplete information of the US not knowing for certain whether Japan regarded Siberia as a part of their long-term imperial ambitions or not, this

game is best modeled as an uncertainty game, with Japan's type, whether it wishes to eventually attack Russia or not, incorporated in "Nature" as a third player. Therefore, this game can be presented as follows:



As shown in the game tree, if the US had decided to embargo Japan at node 1 which represents approximately the 1915 - 1925 time period, then both countries would receive a relatively low payoff. Both countries would have missed out on the economic returns that a healthy trading relationship could bring, though the US would never suffer more than Japan. The desperate Japanese demand for raw materials put the country in a position of vulnerability when negotiating trade with the US, and the Japanese industrialization and expansionist efforts would be obstructed by a disruption in trade. If the US had decided not to impose a commercial embargo on Japan at node 1, then Japan would have the military capability to expand its

Empire through either an attack on Southeast Asia (SE Asia) or Manchuria (region in modern Northeast China) as represented in node 2. A move directly into Russia would not be viable as shown in the painful lesson of the Siberian Intervention. If Japan had chosen to attack SE Asia, then regardless of its “nature” towards Russia, the US would always have the best response of declaring war on Japan. This is because even independent of the Russian question, the US had its own interests in SE Asia that would be greatly hindered by a Japanese invasion. The Philippines which was under US control would suffer as well as other colonies under the administration of America’s European allies. And of course, an embargo on Japan would be a preferred strategy over doing nothing as reflected in the payoffs.

The situation would look slightly more complicated if Japan attacked Manchuria at node 2. If the US knew for certain that they were on the branch where Japan’s central interest was to attack Russia, then America’s best response would be to go to war with Japan after its attack on Manchuria so that Russia wouldn’t have to face a two-front threat from both Nazi Germany in the west and Japan in the east. An embargo in this case would still be a preferred response compared with the option of the US not doing anything and leaving Russia to defend itself, which would be the worst-case scenario for the US. Conversely, if the US knew for certain that they were on the branch where Japan had no ambitions to attack Russia, then the US would choose to do nothing about Japan’s invasion of Manchuria because Manchuria itself held little significance to the US (Mughal). This would yield a relatively high payoff for both countries because both countries would have their needs satisfied. Japan would gain its precious empire status with the annexation of Manchuria, a region rich in raw materials and industrialization opportunities, and the US would gain a strong trading partner who could represent US interests in the entire continent of Asia. This is consistent with the rollback

equilibrium of this game if the game had no “Nature” as a third player and each node that the US played a strategy at is independent of each other.

Yet reality often falls short. In practice, the nodes at which the US played a strategy are not independent of each other because the US did not know for certain what Japan’s type was, and therefore had to make strategic choices based on the payoffs of the game and the perception on Japan’s hostility towards Russia. The US’s belief that Japan was the “belligerent” type at node 1, noted as \mathbf{p} , does not update at node 3, noted as \mathbf{q} . This is due to the fact that Japan has a dominant strategy at node 2 to attack Manchuria. Regardless of whether Japan wished to eventually attack Russia or not, it would receive a strictly higher payoff by attacking Manchuria at node 2, instead of receiving a payoff of 1 by attacking SE Asia at node 2 because the US would surely retaliate through war. Thus, the US cannot make more inferences about Japan’s type from the action that Japan took in attacking Manchuria – this means nothing to the Americans. In 1931, Japan realized its dominant strategy. It instigated the Mukden Incident in Manchuria which led to the full occupation of the region and the establishment of the Japanese puppet state of Manchuko.

The theoretical calculations show that at node 3, Washington would choose to embargo over war if \mathbf{q} was less than $\frac{3}{4}$ and embargo over doing nothing if \mathbf{q} was greater than $\frac{2}{3}$. Therefore, it has a best response to embargo if $\frac{2}{3} < \mathbf{q} < \frac{3}{4}$. This is consistent with American thinking in real life, which can be deduced from President Roosevelt’s remarks that “the Japanese are having a real drag-down...trying to decide which way they’re going to jump – attack Russia,...or whether they will sit on the fence and be more friendly with us. No one knows what the decision will be but it is terribly important for the control of the Atlantic for us to help to keep peace in the Pacific.” (Copeland 202) This piece of empirical evidence verifies

that Roosevelt's administration did not know for sure which branch of the game tree they were on, and a guess had to be made with regard to Japanese intentions. Lengthy negotiations revealed more about Japanese intentions as the Japanese prime minister, Konoe, was "unwilling to say that Japan would not go north," (Copeland 206) offering valid grounds for the Americans to believe that there existed a relatively high probability that Japan wished to eventually attack Russia. Even so, q still ought not to be 1 or close to 1, because the US, in response to the growing Japanese threat, made clear that Moscow had Washington's full support in the event of a Japanese invasion, which deterred some in Tokyo who had previously pledged their full support to an invasion of Russia. Also considering the failed Siberian Intervention of 1918, it can be said that throughout the first decades of the 20th century, Japan remained highly interested in an eventual attack on Russia, yet was never certain that this move would deliver the desired results. Modeling p and q as a probability between $\frac{2}{3}$ and $\frac{3}{4}$ is appropriate here.

Working through the game tree, it can be observed that since the US belief on Japan's type is not updated over time and that the US has the best response of embargo at node 3, then why didn't America embargo earlier at node 1? Theoretical calculations reveal that the US would only be indifferent to imposing an early embargo if they had been 100% certain that Japan wished to eventually attack Russia, which would have been a bold assumption to make, for the imperialist and expansionist faction of Japanese politics saw their influence hit frozen point as a consequence of the Siberian Intervention. (Dunscomb 213-216) The US still wished to reap the benefits of open bilateral trade between the two nations and without enough reason to believe that Japan would definitely try its hand in Russia again (p and q staying constant), Washington sought to develop a friendly trading relationship with Japan for the time being and

imposed an embargo later on when the payoffs of doing so was higher compared to the other strategies. Given that Japan's move at node 2 had no effect on the US belief in Japan's type, the US was essentially confronted with the question of whether to embargo Japan early on in the 1920s or later in the late 1930s. It can therefore be concluded that the theoretical game has Perfect Bayesian Equilibrium in $\{\text{Nothing War Embargo, Manchuria Manchuria}, \frac{2}{3} < p = q < \frac{3}{4}\}$. As the analysis above shows, this was realized in empirical settings.

However, what is not explicitly shown in the game tree is the calamitous consequences of such decision-making. After the US imposed the 1941 oil embargo on Japan, which was swiftly followed by other economic sanctions that saw export levels to Japan dropping to a meager 1 million yen by 1944 (*Hundred Year Statistics of the Japanese Economy* 293), Japan had to attack SE Asia to keep supplying invaluable raw materials to its war machine. In a preemptive strike against the US, for the Japanese knew that any Japanese move against SE Asia meant war with the US, Japanese aircraft attacked Pearl Harbor, causing one of the most bloody incidents in American history, and dragging Washington into WWII. This part of history could perhaps be added as an extension to the existing game tree to cover a broader timeline of events. Alternatively, events on and after node 3 could perhaps be modeled as a simultaneous game with mixed strategies. At this particular point, the US and Japan were not entirely sure who was going to make the decisive move first, and a mixed strategy has the effect of confusing the enemy, making it harder for them to make clear conclusive decisions with strong logical backing.

The analysis presented in this paper demonstrates how the nature of a trading partner, whether it be ideological or political (in this case a bit of both), could have severe long-term consequences that might not be so evident at first glance. As long as the belief that their trade

partner is the “belligerent” type doesn’t break a certain probability threshold, countries may still pursue a trading relationship with partners in hopes of both reaping the economic benefits and developing better diplomatic friendships with their begrudging counterparts, as outlined in the commercial peace theory. Nevertheless, if given little consideration to the political differences between trade partners, globalization suffers from great volatility as trade partners with fundamental differences are more likely to “betray” the trading relationship when the time is ripe. A necessary implication of this is how the US should handle its trade with China today. During the recent Biden-Xi Meeting, Xi posed the central question, “Are we adversaries, or are we partners?” And this is precisely the question that the US has every obligation to deliberate over – what is the nature of the Sino-American relationship? Recent developments saw President Biden restrict the export of computer chips to China citing national security concerns. Here is a striking parallel between current events and the historical background of the analysis above. Both current China and 20th century Japan are heavily dependent on the US for imports that are needed for military expansion, with the US hesitant to sacrifice its trading relationship with their counterparts yet worried that such trade could be used to realize dangerous ambitions. In Japan’s case, it was Siberia; in China’s case now, it is Taiwan. The results of this analysis offer justification for the Biden administration’s “chip embargo” on China as its growing appetite for “reunification” with Taiwan means that Sino-American hostilities could very much escalate in the future, so it might be wise to restrict trade with China now. This paper provides insight into how the US should approach the intricacies of its relationship with China.

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