

ANALYTICAL ESSAY

The Concept of “Hedging” Revisited: The Case of Japan’s Foreign Policy Strategy in East Asia’s Power Shift

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This article argues that the concept of “hedging” should be understood in the context of the “balancing-bandwagoning” spectrum within the “balance of power” theory, in which hedging is located between balancing and bandwagoning as the state’s third strategic choice. Although polarity—unipolar, bipolar, and multipolar—largely determines the likelihood of hedging behavior, during a period of power shift, strategic uncertainty emerges. States, particularly secondary powers, attempt to calculate the risk of balancing, bandwagoning, and hedging, adopting an optimal strategy. To identify states’ strategic behavior, it is important to first examine their economic and military capabilities, and if these indicators are not decisive enough to identify balancing, bandwagoning, or hedging behavior, diplomatic factors should be taken into account, although those are a relatively weaker indicator.

The use of this conceptual framework reveals that Japan’s foreign policy behavior has not involved “hedging” vis-à-vis China; instead, Japan’s behavior is consistently associated with “balancing” against the risks of China’s rise. In addition, while Japan’s behavior vis-à-vis the United States is considered to be bandwagoning, Japan made political efforts to strengthen its own military capabilities—internal balancing—which began in the 2010s when Japan relaxed its political constraints on use of its military. This behavior also aimed both to illustrate Japan’s efforts related to alliance burden-sharing and to enhance its external balancing with the United States. Yet, the periods from 1997 to 2005 and from 2010 on represent an aberration because Japan engaged one type of hedging—security hedging—vis-à-vis the risk of US commitment reduction to East Asia. In this sense, while concurring with the realists’ argument that Japan’s current behavior is characterized as balancing, the argument differs from that of realists who believe that Japan’s policy shift to balancing toward China only began with China’s rise in the late 2000s or 2010s.

Keywords: Hedging, power shift, Japanese foreign policy

Introduction

Ongoing global power shifts have made the balance of power theory the cynosure of international relations (IR) scholarship. The rise of China, the relative decline of the United States, Russia’s rising geopolitical assertiveness, and the

European Union's political and economic confusion all contribute to the increased importance of an in-depth understanding of inter-state relations in each region and the world. Shifts in the distribution of power among great powers are among the most significant events in international security, given that both realism and power-transition theories anticipate an increase in the probability of war during such times (Thucydides 1984; Morgenthau 2006; Gilpin 1981; Mearsheimer 2006; Little 2007; Organski 1968; Tammen *et al.* 2000; Tammen 2006).

Recent scholarship has also focused on the behavior of secondary powers. Due to the increase in their number and political influence, secondary powers' strategic behavior—alignment and realignment—has a significant impact on the balance of power. Traditionally, the most parsimonious explanation of secondary powers' behavior in times of power shifts is to “flock to the weaker side, for it is the stronger [rising] side that threatens them” (Waltz 1979, 127). This behavior, which is called “balancing,” is considered the optimal strategy through which secondary powers can ensure autonomy and security. This proposition, however, has been challenged both theoretically and empirically.

The most fundamental criticism of traditional balance of power theory is directed toward its dichotomist view of state behavior—balancing and bandwagoning—in which balancing is state behavior that politically and militarily prevents a rising state from becoming a hegemon, whereas bandwagoning is state behavior allying with a source of threat. In traditional “balance of power” theory, these two types of behavior dictate state behavior, which is often difficult to identify because of the more complex state behavior that exists in reality. Scholars have therefore proposed alternative concepts to articulate this behavior, including “accommodation,” “buck-passing,” “soft-balancing,” “institutional-balancing,” and “hedging” (e.g., Lake 1996; Kang 2003/4; Pape 2005; He 2008).

Among these concepts, “hedging” has drawn particular policy and scholarly attention in the literature because this concept seems to effectively explain secondary powers' behavior. Generally, hedging refers to “an insurance policy against opportunism” (Lake 1996, 15). More specifically, through hedging, the state conducts a counteracting policy—strengthening economic cooperation while preparing for diplomatic and military confrontation by increasing military capabilities—to temporarily avoid an explicit confrontation with a potentially adversarial state. However, despite the recent plethora of studies on hedging, scholars have yet to reach a consensus on the concept, including its definitions, motivations, conditions, patterns, and identification. Without these clarifications, the concept suffers from a low analytical utility because it will be difficult to distinguish from the concept of “waiting for balancing,” pursuant to which states wait for a “more propitious moment” to balance against a threat (Liber and Alexander 2005, 109; Mearsheimer 2014, 36).

In this context, there are three major analytical benefits to clarifying the concept of hedging. First, the clarification provides a more rigid conceptual foundation of hedging as the third strategy. Because hedging generally aims to leave strategic options open without the need to choose balancing or bandwagoning, this concept contributes to explaining variations in state behavior, particularly among secondary powers, thus honing the analytical edge of the balance of power theory. Second, the conceptual clarification contributes to identifying the potential geographical area of intensive great power competition. Although hedging states do not clarify their strategies, considering great powers' expectations that such states will eventually shift their strategy and take sides, the geographical areas in which hedging states are concentrated are susceptible to competition among the great powers. Great powers exert diplomatic pressure on hedging states to clarify their political stance, particularly during periods of intense competition. The corollary is that strategically unstable geographical areas can be found where numerous hedging states are concentrated. Accordingly, clarification helps to identify potentially unstable regions.

Third, it becomes counterproductive to misclassify hedging states because some great powers mistakenly attempt to place diplomatic pressures on the perceived “hedging states” to clarify their political positions. Such pressure creates unnecessary tensions with secondary powers. Clarification thus helps policymakers articulate the dynamics of international security.

Japan provides an illustrative case study to clarify the concept of hedging. This is because contemporary Japan is likely to engage in hedging given that it is experiencing multiple strategic dilemmas; namely limited military capabilities, a rigid alliance with the United States, and strong economic ties with China. Japan has limited its own military capabilities by maintaining Article 9 of its constitution, which prohibits the use of force “as a means of settling international disputes” (*Prime Minister of Japan and His Cabinet* 1946). During the Cold War period, however, these constraints were not necessarily a negative arrangement for Japan. Since the 1952 San Francisco Peace Treaty, Japan has aligned with the United States and relied on the US military for its defense. These political situations allowed Japan to justify concentrating its major national efforts on economic development rather than military development.

Nevertheless, Japan is now confronted by a strategic dilemma in face of an ongoing power shift in East Asia. On the one hand, although Japan considers the US–Japan alliance to be vital for its defense and regional stability, it is concerned about the future of the US security commitment to East Asia. On the other hand, China has been Japan’s largest trading partner since 2007. Japan considers this trade relationship important for its own economic prosperity, yet Sino–Japanese relations have been tense and have often deteriorated over historical controversies and disputes centered on the East China Sea.

Japan’s management of these two bilateral relations has become more complicated due to evolving Sino–US relations. China has rapidly strengthened its material capabilities of projecting power beyond its borders and has been narrowing its capability gap with the United States, resulting in the gradual emergence of a Sino–US rivalry. The United States under the Obama administration declared its strong comprehensive commitment to East Asia through its “rebalancing” policy, yet it needed to continuously focus its strategic attention on regions other than East Asia, such as the Middle East.

Given this complexity, there are different interpretations of Japan’s strategic posture. Many observers note that Japan has formulated a “hedging” strategy by continuously pursuing economic engagement with China while strengthening security ties with the United States. Some believe that Japan has been hedging against the risks of China’s regional domination through the US–Japan alliance in the hope of integrating China into the current international order through economic engagement (e.g., *Mochizuki* 2007; *Hornung* 2014). Others suggest that Japan has been hedging against the risks of US abandonment in the post–Cold War era by increasing its own economic and military capabilities, thereby securing its autonomy and balancing capability against China (e.g., *Heginbotham and Samuels* 2002; *Samuels* 2007; *Mastanduno* 2011; *Wallance* 2013). Alternatively, given China’s rising “assertiveness” from the late 2000s, particularly with respect to the East China Sea and the South China Sea, the argument that Japan has moved from “softer” approaches, such as “hedging,” “soft-balancing,” or “cautious-balancing,” has gained traction (e.g., *Koga* 2016; *Hughes* 2016). In this sense, Japan’s problem stems largely from the unclear conceptualization of “hedging.”

This article argues that the concept of “hedging” should be understood in the context of the “balancing–bandwagoning” spectrum within the “balance of power” theory, in which hedging is located between balancing and bandwagoning as the state’s third strategic choice. Although polarity—unipolar, bipolar, and multipolar—largely determines the likelihood of hedging behavior, strategic uncertainty emerges during a period of power shift. States, particularly secondary

powers, then attempt to calculate the risk of balancing, bandwagoning, and hedging, adopting an optimal strategy. To identify states' strategic behavior, it is important to first examine their economic and military capabilities; if these indicators are not decisive enough to identify balancing, bandwagoning, or hedging behavior, diplomatic factors should be taken into account, although those are a relatively weaker indicator.

The use of this conceptual framework reveals that Japan's foreign policy behavior has not involved "hedging" vis-à-vis China; instead, Japan's behavior is consistently associated with "balancing" against the risks of China's rise. In addition, while Japan's behavior vis-à-vis the United States can be theoretically considered to be bandwagoning, Japan made political efforts to strengthen its own military capabilities—internal balancing—which began in the 2010s when Japan relaxed its political constraints on the use of its military. This behavior also aimed both to illustrate Japan's efforts related to alliance burden-sharing and to enhance its external balancing with the United States. The periods from 1997 to 2005 and from 2010 on represent an aberration. During the former period, Japan engaged in one type of hedging—security hedging—vis-à-vis the risk of US political, security, and economic commitment reduction to East Asia, although that attempt was still nascent. During the latter period, Japan again engaged in security hedging against the risk of the US military commitment to Asia by relaxing Japan's political constraints on military capabilities and enhancing diplomatic ties with regional states, such as Australia. In this sense, while concurring with the realists' argument that Japan's current behavior is characterized as balancing, the argument differs from that of realists who believe that Japan's policy shift to balancing toward China only began with China's rise in the late 2000s or 2010s.

This article is structured in three parts. The first section discusses and refines the concept of "hedging" from the perspective of its definitions, motivations, conditions, patterns, and identification. The second section briefly reviews the existing literature regarding Japan's hedging behavior; it also examines the development of Japan's politico-military, economic, and diplomatic relations, primarily with the United States and China, from 1990 to 2014. The third section analyzes how the evolution of Japanese foreign policy behavior fits into the concept and patterns of "hedging."

Deconstructing "Hedging": Definition, Motivation, Condition, and Patterns/Identification

The term "hedging" is used extensively in the academic and policy literature. However, its casual usage has created conceptual confusion because its meanings differ extensively. Too often, practitioners and policy researchers equate the term to "balancing," considering it to be an antonym of "engagement," which refers to an attempt to create a cooperative relationship through political, military, economic, or social means (USA International Business Publication 2000, 172–73; Campbell 2005, 23–28; Medeiros 2005, 145; Shambaugh 2007; Swaine 2011, 338; Kim and Cha 2016, 104). This "engagement-hedging" spectrum illustrates one's political position: engagement emphasizes cooperation as a primary objective, whereas hedging is an insurance policy in the event engagement fails.

Theoretically, this definition does not provide much analytical insight because its political stance of counterbalancing a potential adversary has been already determined, and the concept cannot be differentiated from a "balancing" act. The only difference that can be inferred is its method of balancing. While explicit balancing provokes a target state, this usage of hedging aims to avoid heightening tension or causing conflict with a target state by maintaining a cooperative posture. Although this usage has long existed, it has become more extensive since the US Quadrennial

Defense Review (QDR) was published in 2006 (DOD 2006). In this report, the US Department of Defense described its strategic relations with a rising power, presumably China, stating that the United States would “hedge against the possibility that a major or emerging power could choose a hostile path in the future” (DOD 2006, 28). Following the 2006 QDR, the 2006 US National Security Strategy also noted that the United States would engage with China to ensure China’s “international commitment” while it “hedge[s] against other possibilities” (White House 2006, 42). In other words, “hedging,” as used by policymakers and policy-oriented scholars, is founded on US policy perspectives; this use of the term was later adopted by other states, including Japan (e.g., Jimbo *et al.* 2011, 6; Yamamoto 2012, 1–9; Watanabe 2014).

However, other scholars define “hedging” as a theoretical term to illustrate actors’ strategy, policy, or behavior. The IR literature embeds the concept into “balance of power” theory and introduces it as an alternative to “balancing” and “bandwagoning” (Roy 2005, 306; Goh 2005, 2; Kang 2007, 54–55; Kuik 2008, 159–85; Murphy 2010, 1–3; Koga 2011, 4; Jackson 2014, 331–56; Lim and Cooper 2015, 701). Balancing consists of either internal balancing or external balancing. Internal balancing is a state’s effort to increase its own defense capabilities—for example, by developing its economy for arms-buildup, increasing its defense budget, improving its defense policies, and advancing its defense technology and equipment—whereas external balancing is a state’s effort to formulate alignment or alliance for its own security (Waltz 1979, 118, 163). Bandwagoning is defined as “alignment with the source of danger” to gain benefits and ensure security at the expense of autonomy and opportunities to cooperate with other powers (Walt 1987, 17; Schweller 1994, 88–99). Both balancing and bandwagoning have risks and uncertain strategic consequences. For example, internal balancing involves a risk of a misdistribution of internal resources that may destabilize the domestic social infrastructure. External balancing involves risks of “entrapment” and “abandonment” (Snyder 1984, 465–67). Bandwagoning involves risks of losing autonomy because of stronger states’ political domination. In this context, “hedging” is essentially the combination of “balancing” and “bandwagoning,” and this counteraction cancels out the risks of each action (and, to some extent, its benefits), thereby either gaining the benefit of buying time to determine whether the state should balance or bandwagon until the strategic landscape’s future direction is clarified, or attaining a strategic benefit to maintain the state’s neutral position in a manner that maximizes autonomy.

As such, there is a clear conceptual gap between policy and scholarly usage. On the one hand, policymakers define “hedging” as a methodological choice because the state has already taken sides against the target state but remains determined to use noncoercive methods to induce cooperation as long as the target state remains nonbelligerent. The balance of power theory broadly defines this approach as balancing (e.g., Goh 2006). On the other hand, scholars tend to define “hedging” as a strategic choice that the state makes by not taking sides, either temporarily or permanently. Scholars thus use the term as the third choice in addition to balancing and bandwagoning, contributing to honing the “balance of power” theory by adding a nuanced explanation of state behavior (e.g., Kang 2007, 54–55; Tessman and Wolfe 2011, 216). This article adopts the scholarly usage.

That said, the literature does not provide a sufficient or clear explanation of the concept of hedging. To systematically understand the use of “hedging” from IR perspectives and to clarify the conceptual framework to practitioners, this section deconstructs the concept of “hedging” in terms of the aspects of definitions, motivations and conditions, and patterns and identification, in which definitions clarify the meanings of terminology, motivations and conditions discuss the causes and process involved in hedging behavior, and patterns and identification illustrate methods for identifying hedging.

Definition

Some define hedging broadly enough to include a state's overall strategies. For example, Goh defines hedging as "a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality" (Goh 2005, 2). Roy's definition (2005, 306) also takes the term in the broad sense, describing hedging as "keeping open more than one strategic option against the possibility of a future security threat."

These definitions include not only "balancing" and "bandwagoning" but also other means, such as "neutrality," "engagement," and "accommodation," creating the conceptual flexibility to make hedging both applicable to many cases in which states do not take one particular strategy and useful in illustrating the political dilemmas confronting actors when they attempt to choose one (e.g., Ross 2006; Jerden and Hagstrom 2012). However, the definitions emphasize the use of mixed strategies as the defining characteristic of hedging, not the degree or risk entailed by those strategies. Such a definition does not question whether the state has decided to take sides and the degree to which the state has weighed one strategy against another when it mixes strategies. In this sense, the definition becomes too expansive, resulting in any mixed strategies being identified as hedging, thereby making it difficult to clarify what is, and what is not, "hedging."

Kuik (2008, 163) provides a more detailed definition, stating that hedging is "a behavior in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects under the situation of high-uncertainties and high-stakes." This definition specifies the objective of hedging behavior as one that "seeks to offset risks," so that the hedging states can avoid potentially provoking the target states. However, the conditions of "under situation of high uncertainties and high-stakes" are too restrictive. Considering hedging as a strategic choice that can be conducted by any state, the concept of hedging should not be confined to certain conditions, although certain conditions determine the likelihood of hedging behavior. Furthermore, it is difficult to identify "high" uncertainties or "high" stakes without a reference point.

Based on these considerations, hedging here refers to a state behavior that attempts to maintain strategic ambiguity to reduce or avoid the risks and uncertainties of negative consequences produced by balancing or bandwagoning alone.

Motivations and Conditions

The basic motivation for "hedging" is to reduce the risks and uncertainties associated with a particular course of action—balancing or bandwagoning. Risk and uncertainty are inherently similar concepts: both are context-dependent and subjective. The major difference between them is the issue of probability: whereas risk involves a certain probability of negative consequences caused by a particular course of action, uncertainty is not a measurable concept (Fruhiling 2014, 20). To reduce uncertainties, it is necessary to identify potential consequences of a particular course of action, but it is extremely difficult to lay out every possible outcome. Thus, accepting a certain level of uncertainty, the state calculates the risks of balancing, bandwagoning, and hedging. If the risk of balancing and bandwagoning exceed that of hedging, then security and autonomy are maximized by choosing hedging.

It is also worth noting that hedging poses a certain risk of sending mixed signals, perhaps as an unintended consequence. Because hedging is essentially an ambiguous behavior, third parties interpret it differently from what a hedging state attempts to signal—not taking sides. For example, even if the United States believes itself to be hedging against China's risk, China could interpret the United States' action

as a strategic deception for containing China (Johnston 2003, 88; Fingar and Jishe 2013, 128). Thus, hedging can be potentially counterproductive, and there is a possibility that third parties might essentially increase their diplomatic, economic, or military pressure on the hedging state. To reduce this risk, a hedging state strives to maintain credibility by matching its actions with its rhetoric.

Given this basic motivation for hedging, certain strategic conditions shape state behavior. Admittedly, in the traditional “balance of power” theory, the default state behavior is balancing. That theory predicts that because of their fear of domination, states are likely to balance against a hegemon or rising state by taking the sides of the weaker powers (Waltz 1979, 127). However, states calculate their strategic costs and benefits and have motivations to hedge. These motivations can be strengthened under certain structural conditions, and such conditions can be most significantly influenced by polarity—the number of great powers.

In a unipolar world, hedging is primarily conducted by secondary powers. It is costly for secondary powers to balance against the sole superpower, so they are likely to choose bandwagoning or, at best, hedging, whereas the sole superpower will merely aim to maximize its power (e.g., see Brooks and Wohlforth 2005; Lieber and Alexander 2005; Goh 2006; Foot 2006; Tessman and Wolfe 2011). For example, China, which is in the initial stage of being a rising state, is expected to engage in hedging towards the United States, the system leader in a unipolar world, in an effort to avoid provoking the United States to contain it.

In a bipolar system, hedging is rarely used because both superpowers engage in balancing with each other, whereas secondary powers experience difficulty in maintaining strategic ambiguity or neutrality and are compelled to engage in either balancing or bandwagoning. Admittedly, as illustrated by the “Non-Aligned Movement” (NAM), some states pursue neutrality, and secondary powers may engage in hedging. Nevertheless, this political stance was often challenged by great powers because great powers seek to clarify their sphere of influence, supporting their friends and pressuring their enemies. This is illustrated by the fact that member states of the NAM, such as the Philippines and North Korea, soon took sides and some neutral states such as Laos became victims of proxy wars; neutrality or nonalignment is too often seen as a power vacuum and increases the risk of domination by either a hegemon or a rising state.

In a multipolar world, hedging is more likely to be conducted by both major powers and secondary powers because power in a multipolar world is diffused and sporadically distributed. Even if one policy—either balancing, bandwagoning, or hedging—ultimately fails, the impact of the policy failure will not be too severe because of the abundance of policy alternatives available to the state under power diffusion. The state can even afford to quickly reverse its course of action to compensate for this failure. Accordingly, hedging is less costly in a multipolar world than in a unipolar or bipolar world.

The problem is a power shift—a transition from one type of polarity to the other—which changes these conditions. When transitioning from a unipolar to a bipolar to a multipolar world, there is a period in which the environment includes hybridized characteristics of any combination of the two. If the environment is shifting, for instance, from a unipolar to a multipolar world, its premises, such as that of secondary powers’ hedging against the system leader, will partially erode because some secondary powers are rising and will more explicitly balance against the system leader. Although the timing of such a balancing act is contingent due to the nature of policy decisions, narrowing the material capabilities gap either between the system leader and the secondary powers or among the system leaders could lead to such a behavioral change. In particular, this type of change can be triggered by external shocks, such as an economic crisis, that alter existing perceptions of the power distribution.

Although the type of polarity serves as an independent variable in shaping state's strategic behavior, there are two intervening variables. The first intervening variable is the availability or pre-existence of allies or alignment. In terms of balancing, it is quite difficult for secondary powers to engage in internal balancing given their lack of military and economic resources; thus, they seek external balancing instead (Walt 1987, 30–31). If secondary powers do not have any credible allies or partners, they are more likely to bandwagon to ensure their minimum security. However, because of their limited strategic options, secondary powers that already have alliances with a major power will be more concerned about the alliance dilemma, entrapment and abandonment. Entrapment refers to being dragged into a conflict that one does not share, whereas abandonment refers to an ally's defection from an alliance obligation (Snyder 1984, 465–67). Common interests certainly bind allies to each other, but allies do not always share the same level of interests. Although a pre-existing alliance system could have an institutionalized policy coordination mechanism to manage the perception gap and cooperation, in a changing strategic environment it is likely that the secondary powers will also engage in hedging against such risks because the alliance dilemma will never disappear.

The second intervening variable is geographical proximity. A system-level analysis focuses on major powers that have relatively high power projection capabilities in shaping the global balance of power, whereas secondary powers do not have such capabilities. Inevitably, a secondary power's security concerns are constrained to a narrower geographical scope. For example, Latin American secondary powers are concerned more about the rise of Brazil than the rise of China because of Brazil's potentially greater impact on the regional balance of power in Latin America. In this sense, the regional distribution of power is particularly important for secondary powers.

To be sure, hedging can be conducted regardless of polarity and power status in the foreign policy dimension (Wlatz 1996, 54–57). A specific foreign policy is essentially determined through a state's domestic decision-making apparatus. Thus, it comes as no surprise that many scholars and policymakers discuss the US "hedging" strategy towards China even in a US-dominated unipolar system. A system leader can implement a hedging policy to avoid unnecessary conflicts with potential challengers, regardless of whether the leader's final intention will be coercive or cooperative (Medeiro 2005, 147). Most of the literature on US "hedging" strategy emphasizes engagement both to integrate China into the current international order and to hedge against the risk of its failure. Indeed, this explains policymakers' definition of hedging. It implicitly suggests that the United States never intends to bandwagon with China but instead persuades China to bandwagon with the United States, which is consistent with the theoretical logic of balancing.

Given the importance of polarity, the path-dependence of existing security arrangements, and geographical proximity in shaping states' strategic behavior in international politics, the secondary powers tend to engage in hedging more often than great powers, but great powers are likely to do so under multipolarity.

Patterns and Identification

Balancing and bandwagoning behaviors are the basic indication of a state's overall strategic behavior. However, to identify such behaviors, it is necessary to examine policies and actions in specific areas, such as the military, economic, and diplomatic fields (e.g., Khong 2004; Pape 2005; Paul 2005; He 2008; Tessman and Wolfe 2011). While the conventional means of pursuing hedging involve economic bandwagoning and military balancing (Kuik 2008, 165–71), other methods can be used to conduct hedging through various combinations of economic and military balancing/bandwagoning. Material capabilities are the most important variables because they are consistent with the variables involved in the balance of power theory,

yet a diplomatic variable is also important for understanding a nuanced hedging behavior.

Admittedly, some scholars de-emphasize the importance of economic and diplomatic variables. For example, according to [Lim and Cooper \(2015, 707–12\)](#), economic and political factors are “poor signals of security alignment” that involve “minimal tradeoffs” because the contemporary world has been already economically interdependent, and the interstate economic networks are deeper than ever before.¹ They thus argue that only security alignment pattern is a clear and significant indicator to determine balancing or bandwagoning.

Economic interaction, however, has long-term security implications as realists emphasize relative economic gain.² For example, the higher the GDP, the more likely the state is to engage in internal balancing ([Lieber and Alexander 2005](#)). One state’s economic dependence on another state through trade and investment becomes a political constraint on military balancing because such dependence increases the cost of confrontation ([Papayouanou 1996, 53](#)). Therefore, relative economic gain matters.

Additionally, [Liff \(2016, 430\)](#) argues that to avoid conceptual stretch, the concept of balancing should be military-domain-specific. This is a very important suggestion, but to understand the nuances of state behavior, the degree of balancing and bandwagoning should be explored. Incorporating military, economic, and diplomatic factors, thereby creating the conceptual variation of “hedging,” is useful for such an analysis.

Still, some argue that diplomacy itself does not clearly generate tangible effects and has the potential to be labelled “empty talk.” This is why some scholars articulate that hedging-type behavior can be observed in daily interactions in international relations, mainly through diplomatic activities because, in most situations, states seek ways to ensure both the diversification of risks and the mitigation of uncertainty ([Goh 2006](#); [Ciorciari 2009, 168](#); [Tessman and Wolfe 2011, 218](#)). Accordingly, if economic and military behaviors are clear enough to signal a state’s policy, its diplomatic activities will be relatively discounted, and military and economic factors generally play a more prominent role in the identification of hedging behavior.

Nevertheless, the diplomatic factor becomes particularly important when either the military or economic factor can be identified as neither balancing nor bandwagoning. For example, in a situation where a state’s internal and external balancing behavior is unclear, it is difficult to clarify whether its economic bandwagoning behavior vis-à-vis a particular state can be identified as pure bandwagoning. This is because through diplomacy, the state may simultaneously seek the initial institutionalization of diplomatic or even military coalition with other states, a practice that constitutes conventional hedging behavior. Given that such diplomatic activities could constitute a daily hedging-type behavior, it is important to clarify whether diplomatic activities can sufficiently represent a state’s mid- and long-term objectives. Here, the key factor is international institutions. As international institutions generally constrain states’ behavior through norms and rules, a state’s commitment to such institutions could signal its relatively strong commitment. As such, whereas the diplomatic factor is not a primary factor in the identification of hedging, state diplomacy toward institutions should be considered in the context of the relevant military and economic factors.

In this context, six main patterns of hedging can be identified: (1) military balancing / economic bandwagoning (conventional hedging); (2) diplomatic balancing / economic bandwagoning (soft hedging); (3) military bandwagoning / economic

¹ Their work specifically focuses on secondary powers’ alignment behavior, explaining the trade-off between external balancing and bandwagoning.

² For the classical work on economic relative gain, see Joseph Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” in *Neorealism and Neoliberalism: The Contemporary Debate*, ed. David Baldwin (New York: Columbia University Press, 1993), 116–42.

Table 1. Types of Hedging

	Economic Balancing	Military Balancing	Diplomatic Balancing
Economic Bandwagoning	–	<i>conventional hedging</i>	<i>soft hedging</i>
Military Bandwagoning	<i>economic hedging</i>	–	<i>security hedging</i>
Diplomatic Bandwagoning	<i>diplomatic hedging</i>	<i>politico-military hedging</i>	–

balancing (economic hedging); (4) military bandwagoning / diplomatic balancing (security hedging); (5) economic balancing / diplomatic bandwagoning (diplomatic hedging); and (6) military balancing / diplomatic bandwagoning (politico-military hedging). If we observe any of these patterns of behavior, state behavior can be understood as hedging (see Table 1).

Specifically, in economic terms, a state can engage in economic balancing and bandwagoning. The former refers to the use of instruments such as economic sanctions, while the latter is intended to strengthen economic interactions even at the expense of increasing dependency. In the military field, creating a new military alliance against a target state is a balancing act, but militarily aligning with a potential source of threat is military bandwagoning. Joint military exercises or defense diplomacy that can be used to strengthen interoperability or increase defense transparency are seen as tools of either balancing or bandwagoning, depending on the political context (e.g., Fargo *et al.* 2015). Finally, in the diplomatic field, the use of international institutions can be identified as diplomatic balancing or bandwagoning. If institutions become exclusive and form political alignments to impose certain norms on the targeted state, diplomatic balancing is being practiced. Inclusive institutions that aim at confidence-building among member states through the establishment of channels of communications and information exchange are tools for diplomatic bandwagoning. However, if inclusive institutions are used to create norms and rules to implicitly constrain the targeted state’s behavior, those institutions can serve as a means of diplomatic balancing. Therefore, diplomatic means are highly context-dependent.

To be clear, this six-point dyadic typology should be understood as “two plus four” rather than six. This is because the primary variables are both military and economic. Conventional hedging and economic hedging are clear in terms of whether the state engages in hedging behavior. This is because such behavior is founded on actual economic and military action, not a plan. In contrast, soft hedging, security hedging, diplomatic hedging, and politico-military hedging are based on expectations of the state’s future behavior, not on its actual behavior, and thus do not send a strong political signal to the audience. Consequently, unless a diplomatic signal is transformed into actual policy actions, the four types of hedging may invite confusion and misunderstanding compared to conventional hedging and economic hedging.

To operationalize this hedging concept, military and economic capabilities and policies will be first examined. The development of defense policy toward a target state is traced through annual defense policy documents, such as white papers or leader’s statements. External balancing can be identified through a state’s defense policy. In addition, military capabilities will be measured as a means of internal balancing mainly through annual defense expenditures and their share of GDP. To be sure, these monetary figures by themselves do not necessarily represent *actual* military capabilities, and there is a debate on whether military expenditures and the share of GDP are the best measurement. Indeed, they should be interpreted in the context of a broader defense and military policy of the state. Still, these figures are important because they indicate each state’s *potential* military capabilities, including the potential strength of internal balancing (Lieber and Alexander 2005; Walker 2014). It is thus analytically beneficial to put these figures in the political context

with the major development of a state's defense and military policy, which helps clarify whether the state engages in military balancing or bandwagoning and the degree to which the state can allocate economic resources to its military strength.

For economic capabilities, the GDP and its growth rate will be measured. Whereas the amount and growth of GDP do not define a state's behavior, the size and growth trend of GDP indicate the potential amount of economic resources that can be converted to military capabilities. In addition, interstate economic interaction helps determine whether a state is economically balancing or bandwagoning. If there is no economic dependence or cost associated with it, as measured by the amount of Foreign Direct Investment (FDI) and of export or import in consideration of the state's trade dependency, this interstate relationship is not regarded as bandwagoning. This is because if the state's economic interaction with the target state is free of risk, the state can break off the economic relations at a relatively low economic cost. In contrast, if the state accepts the economic cost created by such an interaction, this behavior can be regarded as bandwagoning.

If military or economic indicators do not clearly determine whether the state is balancing or bandwagoning, then the diplomatic factor will be examined. The development of diplomatic interaction between the state and the target state is traced using the diplomatic historical record, including formal and informal diplomatic statements and media reports.

Japan's Foreign Policy: Hedging or Balancing?

With these conceptualizations, in what type of hedging vis-à-vis China and the United States, if any, has Japan engaged since the end of the Cold War? Beginning in the 1990s, polarity in East Asia gradually, albeit very slow, shifted from unipolar to bipolar due to the rise of China. The conceptual framework of hedging expects the secondary powers to have more incentive for hedging vis-à-vis China and the United States because of an increase in strategic uncertainty. Nevertheless, since Japan's security strategy had been firmly based on the US-Japan alliance since the Cold War, this sunk-cost made it difficult for Japan to quickly change its policy. Moreover, given the speed of the gradual power shift such that China had yet to militarily and economically catch up with the United States, Japan's basic security policy would likely remain the same—militarily bandwagoning with the United States and balancing against China. In this context, it is possible for Japan to engage in conventional or politico-military hedging vis-à-vis China, while engaging in economic or security hedging vis-à-vis the United States.

Nevertheless, scholars have long claimed that Japan has engaged in conventional hedging since the 1990s.³ Most notably, Heginbotham and Samuels, Mochizuki, and Hornung provide not only a conceptual framework of “hedging” but also detail cases of Japan's security policy development in recent decades. Heginbotham and Samuels argue that Japan's fundamental approach to foreign policy in the post-Cold War era was based on differentiating economic policies from security policies. While relying on the United States to balance against potential security threats in the region, Japan cultivates different partners, particularly China, to hedge against economic risks from the United States (Heginbotham and Samuels 2002). Mochizuki (2007, 741, 745) emphasizes the US-Japan alliance in the context of the rise of China and argues that Japan can continuously engage in a cooperative strategy with China because the alliance with the United States can “effectively balance against China if Chinese intentions turn out to be malign” while carefully managing its alliance dilemma with the United States. Hornung (2014) also argues

³ Hughes (2016) and Koga (2016) are the most recent discussions over Japan's “hedging” behavior; however, while Hughes does not provide a clear definition and conceptual framework of hedging, Koga's discussion focuses on the development of Japan's security policy.

that Japanese foreign policy has increasingly moved toward “hard hedging,” which emphasizes balancing because of the rise of China’s assertiveness vis-à-vis Japan.

The similarity of these three arguments is their employment of the “engagement-hedging” spectrum to analyze the impact of the rise of China and Japan-US-China trilateral relations. Their basic proposition describes the management of China’s rise by Japan and the United States. Given the path-dependency effect of Japan’s security alliance with the United States, Japan’s national interests have been largely built on the US-led international order, which includes democracy, rule of law, and human rights. Due to the alliance’s overwhelming power resources, which far exceed those of China, both the United States and Japan aim to sustain the international order by incorporating China, whereas the balancing policy remains as an insurance policy to punish China should the engagement policy fail—that is, if China resists following the international order. Indeed, Hornung is explicit about this fact and states that the balancing–bandwagoning spectrum is not helpful in understanding Japan’s hedging behavior because bandwagoning is a “strategy of weak states” and Japan is not “weak or a state without powerful ally” (Hornung 2014, 99).

However, it is never clear whether Japan can be identified as a strong power, especially compared to China and the United States. Indeed, Japan currently has strong ties with the United States, and their policy coordination is highly institutionalized, but Japan ultimately is not a state that can flex its own material and ideational power to create an international order by itself. The alliance dilemma forces Japan to constantly confront its fear of abandonment and entrapment, and its superior position is never assured. Additionally, given China’s rapid development of military and economic capabilities and Japan’s constant concerns about the level of the US commitment to its security, analysis should not be confined to the strongest side of the hedging strategy. Considering these strategic risks and uncertainty, Japan’s foreign policy development should be analyzed through its relations not only with China but also with the United States and other actors in East Asia, such as the Southeast Asian states and the Association of Southeast Asian Nations (ASEAN).

This section analyzes Japan’s foreign policy development from 1990 to 2015 in terms of its politico-military relations (military budget, defense policy, and political context); economic relations (trade and foreign direct investment); and diplomatic relations with the United States and China. The combination of military, economic, and diplomatic behavior then identifies Japan’s pattern of hedging, balancing, or bandwagoning vis-à-vis the risks and uncertainty associated with China and the United States.

Politics and Military Capabilities: Internal or External Balancing?

Japan’s internal balancing vis-à-vis China and the United States from 1990 to 2015 did not occur in a material sense. This is because the United States, Japan’s foremost ally, remains the sole military superpower, and it is inconceivable for other states to militarily challenge the United States. In fact, the United States has consistently spent more than 3 percent of its GDP on defense, and, as illustrated in Figure 1, although this spending includes the maintenance of US military personnel and equipment, the state’s defense budget remained at \$578 billion in 2014, far exceeding that of both Japan and China. The share of GDP for Japan’s military expenditure has remained below 1 percent because of its self-imposed political constraint, the 1 percent military expenditure ceiling. China also maintains a share of GDP for military expenditure that is approximately only 2 percent of its GDP.

To be sure, this US supremacy does not mean that the United States has maintained constant military engagement in East Asia. The sharp increase in US military expenditure from 2001 to 2010 is closely related to the US military commitment in Afghanistan and Iraq after the terrorist attacks of 2001, and the estimate of these war costs could amount to approximately \$4 trillion (Bilmes 2013; Crawford 2014).

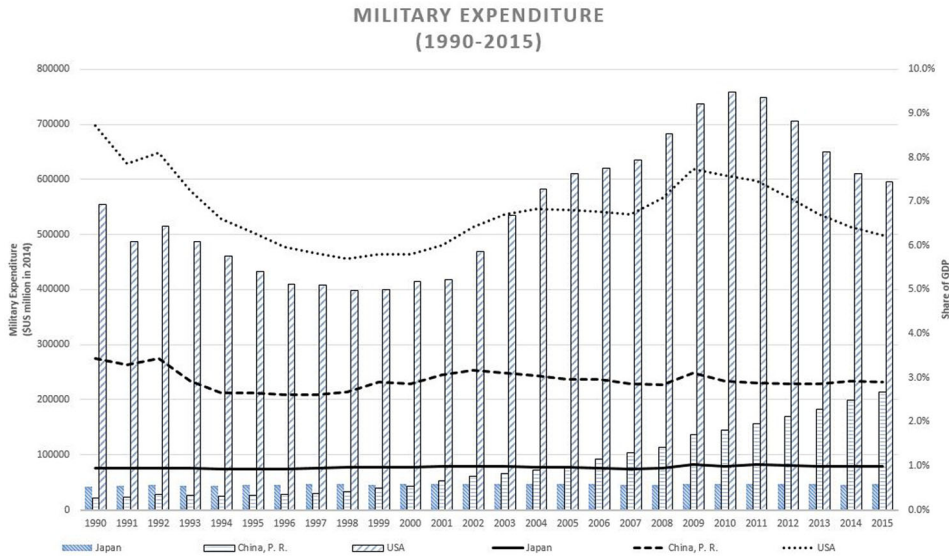


Figure 1. Military Expenditure from 1990 to 2015.

Source: SIPRI – Military Expenditure 2016 http://www.sipri.org/research/armaments/milex/milex_database/milex_database

Although Asia was perceived as nonpriority during the war period, the United States was capable of redirecting its military capabilities to the Asia Pacific region if its vital national interest was at stake, and thus, the supreme military capabilities of the United States were unshakable from 1990 to 2015.

Another major reason that Japan did not actively pursue hard-balancing against China in the 1990s is that Japan had its own strong military capabilities. Despite its political and constitutional constraints, Japan's military assets, technology, and budget far exceeded those of China and were sufficient to counter China's rise.

Japan's military supremacy, together with the US-Japan alliance, thus ensured the defense of Japan. There was little expectation that China could effectively counterbalance Japan. This was well demonstrated in the 1995/96 Taiwan Strait crisis, when the United States effectively deterred China by sending the 7th Fleet to the Taiwan Strait. Under the US unipolar system, Japan did not choose either hedging or bandwagoning with China.

Nevertheless, Sino-Japanese relations in terms of military expenditure began to change in the mid-2000s. In the 2000s, China's military modernization program accompanied its rapid economic growth with a significant increase in its military expenditure. China's expenditure exceeded that of Japan in 2004, although Japan's defense assets maintained a higher technological standard than China's. In addition, Japan's stagnated economy in the 1990s and 2000s made it difficult for Japan to engage in internal balancing in a material sense except for its missile defense system, which the Koizumi administration decided in 2003 to create in collaboration with the United States. Indeed, Figure 1 shows that Japan has responded to neither the decline of the US military expenditure during the 1990s and the late 2000s nor China's rapid increase in military expenditure during the 2000s. Japan believed it had sufficient military capabilities to defend itself from China because of its alliance with the United States and its technological superiority. Nevertheless, this relative capability change gradually increased Japan's security concern over China.

Japan successfully maintained a tool for external balancing vis-à-vis external risks, including China's potential threat, with the US-Japan alliance from 1990 to 2015.

Its alliance management, however, was never straightforward—there were two main phases of uncertainty with regard to the alliance's credibility. The first phase was from 1990 to 1996. No longer facing potential military threats from the Soviet Union following the Cold War, the US-Japan alliance searched for a new *raison d'être*. Certainly, North Korea's nuclear ambition, China's nuclear tests in the mid-1990s, and the military and political tension between China and Taiwan in 1995–1996 justified the existence of the alliance, which was considered a useful security tool to manage regional stability in East Asia. However, the real question was the degree to which the US-Japan alliance should be maintained because changes in the international security environment also created political and strategic momentum for a change in the alliance structure. For example, the Philippines took the initiative to negotiate with the United States with regard to the future management of the US bases in the Philippines, namely Clark Air Base and Subic Bay Naval Base, resulting in the Philippines' 1991 political decision to close them. In 1993, the US Department of Defense issued the US Bottom-Up Review to illustrate its future military posture in the world. Although the report noted that the US military commitment to its allies around the world—including Europe, East Asia, the Near East, and Southwest Asia—remained imperative to prevent global instability, it also called for the United States to reduce its military forces and to conduct political, financial, and military burden-sharing with its allies (Aspin 1993).

Additionally, political relations between Japan and the United States became tense in the early 1990s. Intensive economic friction existed, as the United States accumulated a trade deficit by absorbing Japanese exports. The two states' policy divergence towards China immediately after the 1989 Tiananmen Square incident became evident because Japan did not necessarily agree with the prolonged economic sanctions that the United States imposed on China. Furthermore, Japan's nonmilitary participation in the 1990 Gulf War increased US skepticism about the implementation of the burden-sharing.

Also, Japan and the United States faced a significant perception gap over Japan's security policy. In part, this gap stems from US policymakers' concern about the 1994 Higuchi Report—Japan's semi-official report on the future of its security policy—which emphasized the continued importance of the US-Japan alliance, the UN multilateral framework, and regional security dialogues led by ASEAN in the post-Cold War security environment (Advisory Group on Defense Issue 1994). However, US policymakers considered Japan to be drifting away from the US-Japan alliance and concentrating more on the UN-led multilateral security arrangements (Cronin and Green 1994, 9). Thus, their interests were perceived to be increasingly incongruent, and it became difficult for both the United States and Japan to smoothly determine the alliance's future direction (Green 1999, 157).

Under these circumstances, Assistant Secretary of Defense Joseph Nye commenced a comprehensive review of the US-Japan alliance in 1994—the so-called “Nye Initiative.” Based on this review, the report the United States Security Strategy for the East Asia-Pacific Region (the so-called “Nye Report”) was issued in 1995, reaffirming both the US security commitment to East Asia and the US-Japan alliance by recommending a specific US defense posture, including the maintenance of approximately one hundred thousand troops in the US forward-deployed forces in the Asia Pacific region and defining multilateral institutions in the region, such as the ASEAN Regional Forum (ARF), which played a “complementary” role to US bilateral alliances (DOD 1995). Accordingly, Japan and the United States decided to officially enhance US-Japan security cooperation through the 1996 “Japan-US Joint Declaration on Security.” This declaration provided reassurance that the US presence in the Asia Pacific region and the bilateral security cooperation would remain an imperative security arrangement in the post-Cold War era. In this declaration, both states emphasized that China's constructive cooperation was vital to regional stability and prosperity (MOFA 1996). Additionally, they decided to

comprehensively strengthen their bilateral security ties by reviewing the 1978 Guidelines for Japan-US Defense Cooperation and by broadening the range of cooperation beyond the defense of Japan. In light of the 1995–96 Taiwan Straits Crisis, many policymakers, mainly in China, questioned whether the new guidelines' statement specifying that the alliance covered situations in areas surrounding Japan would include the Taiwan contingency. In contrast to the situation with the Korean Peninsula, Japan deliberately avoided answering questions about the situation with Taiwan because of political sensitivities related to China and did not create a contingency plan (MOD 1997; *Asahi Shimbun Digital* 2007).

Accordingly, Japan's external balancing was recalibrated. To be sure, the maintenance of the US-Japan alliance through joint R&D related to the ballistic missile defense system, deploying that system in Japan, and sustaining US nuclear extended deterrence was primarily motivated by North Korea's nuclear and missile threats. Although China posed a potential threat, that threat was not of sufficient concern for Japan to explicitly counterbalance China, given the strength of Japan's military capability and the US-Japan alliance. Therefore, it was a *de facto* external balancing.

The second phase of alliance uncertainty was from 2010 to 2015, when Japan increasingly saw China as a potential threat in East Asia despite the existence of the US-Japan alliance. This was different from the situation during the 1998–2009 period, when the US-Japan alliance enjoyed relative stability while reconfirming its security significance through joint statements and military cooperation, including the Joint Statements of the US-Japan Security Consultative Committee, the 2006 Japan-US Alliance of the New Century, and the national missile defense cooperation and coordination. From 2009 to 2015, Japan was concerned about China's expansion at sea following the confrontations over the *Senkaku/Diaoyu* Islands and the East China Sea maritime border disputes (MOD 2004; Mochizuki 2007, 753–4). Furthermore, China was becoming more assertive in the South China Sea, where political tensions had arisen after a skirmish between a Chinese naval vessel and a Vietnamese fishing boat in 2007 (*The Straits Times* 2007). In 2009, Chinese naval ships harassed the USNS *Impeccable* during its mission to monitor submarine activity in the South China Sea, which China claimed was within its own Exclusive Economic Zone (EEZ) and insisted that the United States needed prior permission to conduct military activities in (Mitchell and Sevastopulo 2009; Torode 2009). In this context, the 2010 *Senkaku* incident prompted Japan to more explicitly bolster its balancing act against China.

The *Senkaku* incident occurred in 2010, when a Chinese fishing boat collided with the Japanese coast guard's patrol ships, leading Japan to detain the fishermen and resulting in strong nationalistic responses by both states. China even instituted informal economic sanctions against Japan by delaying exports of rare earth; it also arrested four Japanese businessmen in China, charging them with espionage (*Kyodo News Service* 2010). In September 2012, bilateral relations again deteriorated after the Japanese government purchased and took control of three islands in the *Senkakus*; subsequently, China established the East China Sea Air Defense Identification Zone (ADIZ) in November 2013 (*The Nikkei Weekly* 2012; *Financial Times* 2013). These diplomatic and military tensions were heightened following China's assertiveness from 2010, which was coupled with the rapid growth of its military capabilities, particularly through increasing the Anti-Access/Area Denial (A2AD) capabilities of the People's Liberation Army Navy (PLAN) as an asymmetric warfare strategy.

Japan then gradually gathered its security resources to counter China's assertiveness. Japan strengthened internal balancing by creating a new defense policy and relaxing political constraints on the activities of the Self-Defense Force (SDF). The Japanese Ministry of Defense issued the 2010 National Defense Program Guidelines (NDPG), which focused on the management of Chinese paramilitary activities in the East China Sea. Specifically, the 2010 NDPG created a concept of "dynamic defense," through which Japan fully utilizes its intelligence, surveillance, and

reconnaissance (ISR) capability and mobilizes its existing defense forces as a “show of force” to signal to China that any fait accompli or probing strategy would be immediately detected and responded to accordingly (MOD 2010; MOD 2012). However, because this measure did not prevent China’s continuous encroachment, Japan saw China’s actions as an attempt to “change the status quo by coercion,” and it renewed the NDPG in 2013 with the goal of redistributing its defense budget to enhance its defense capabilities under the same budget constraints for air and maritime superiority in the East China Sea (MOD 2013). Lifting the ban on the right to collective self-defense in July 2014 was another part of these internal balancing efforts.

Japan also attempted to strengthen its external balancing through security cooperation not only with the United States but also with other US allies in East Asia, such as Australia, India, and the Philippines. In the post-9/11 era, US allies began to create security networks among themselves to counteract international terrorist groups. The Japan-US-Australia Trilateral Strategic Dialogue (TSD) is a case in point; it was created at the senior official level in 2002 and elevated to the ministerial level in 2005. At this point, these three states continued to reassure China that the framework did not seek to balance against it (Department of State 2004; MOFA 2005; MOFA 2006). However, when the TSD perceived China’s assertiveness in the East and South China Sea in 2013, it issued a joint statement raising concerns about China’s behavior (MOD 2010; MOD 2013; MOFA 2013; Cabinet Secretariat 2013). Thus, these security frameworks served as a diplomatic means of balancing China, although they still fell short of full-fledged military alliances and did not play a concrete security role in times of traditional security contingencies.

Japan engaged in these internal and external balancing efforts to hedge against the risks of US commitment reduction. Officially, recognizing the security limitation of the SDF overseas activities and the newly created security networks in East Asia, including TSD, through the 2010 NDPG and the 2013 Japanese National Security Strategy, Japan became concerned about the global diffusion of power and the “relative change” in US influence (MOD 2010, 3; Cabinet Secretariat 2013, 6). This is because the United States still faced experienced political, military, and economic constraints created by the 2008 Global Financial Crisis. In 2013, the United States engaged in budget sequestration on the basis of the Budget Control Act of 2011, with a core focus on the US military budget (DoD News 2014). Moreover, considering the emergence of new flashpoints in the world, such as Syria and Ukraine, US security attention to East Asia was likely to be distracted (Russel 2015). Therefore, Japan attempted to avoid the risk of high security dependency on the United States, which is characterized by security hedging vis-à-vis the risk of US retrenchment through diversifying Japan’s security linkages with other regional states. Because this resonates with US political demands for security burden-sharing, internal balancing and external balancing with the United States and other regional states becomes mutually reinforcing. Still, these developments illustrate Japan’s desire to maintain its balancing posture vis-à-vis China.

Economic Capabilities: Bandwagoning with China’s Rise?

The increase in China’s economic capabilities since 1990 has been remarkable (Figure 2). Although the 1989 Tiananmen Square incident resulted in severe international criticism and economic sanctions and the 1997 Asian Financial Crisis negatively affected the Asian economy, China’s economic growth averaged approximately 11 percent from 1990 to 2000; its GDP also rose to \$1,214 billion in 2000 from \$398 billion in 1990. China’s GDP remained far below that of Japan (\$4,730 billion) and the United States (\$1.02 trillion), but its economic growth continued. The growth level remained at the same level between 2001 and 2010—10.4 percent—and finally in 2009, its GDP surpassed that of Japan, reaching

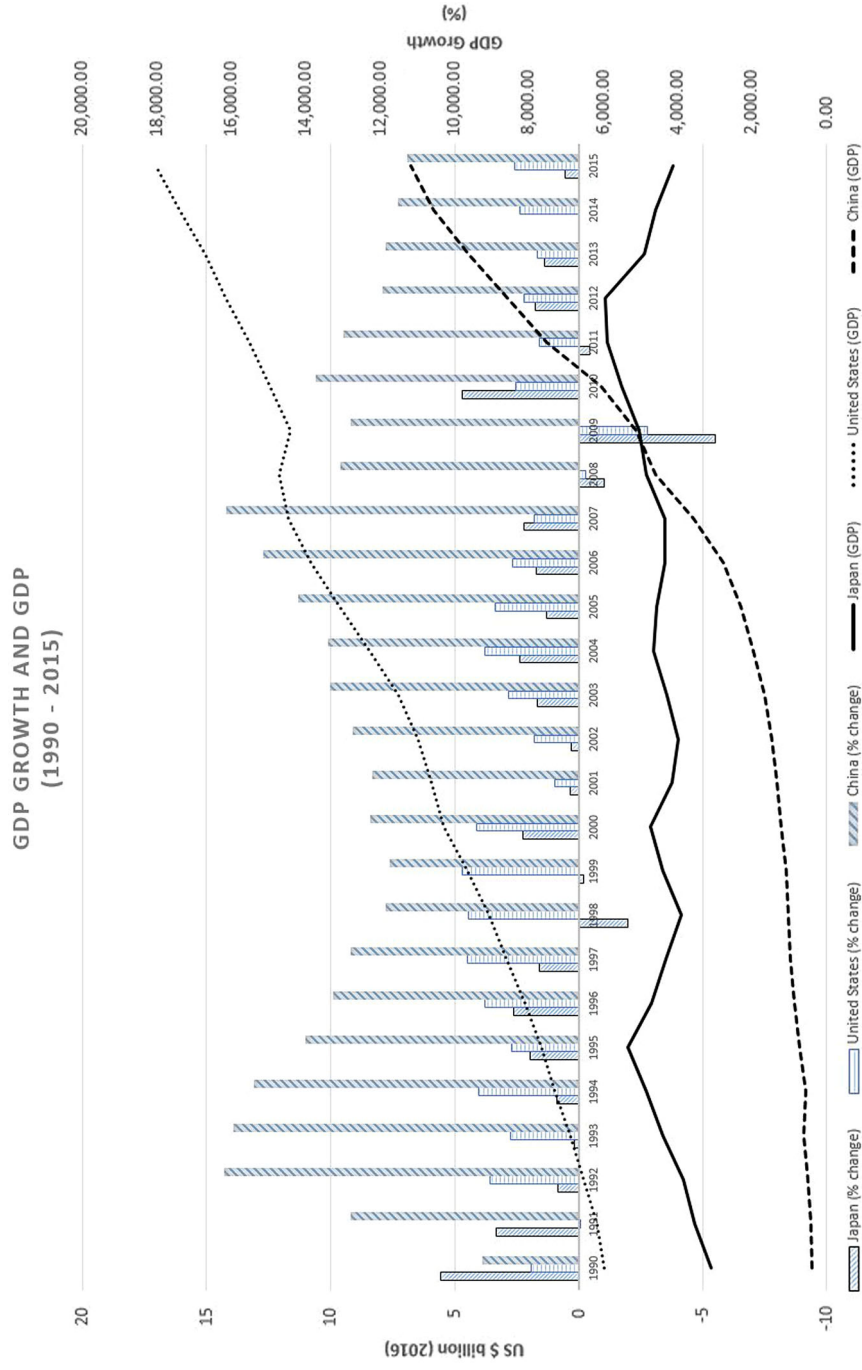


Figure 2. GDP Growth and GDP.

Source: IMF World Economic Outlook Database <http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx>

\$5,121 billion. Furthermore, despite the 2008 Global Financial Crisis, China maintained economic growth of approximately 9 percent, in contrast to the United States' negative growth of 5.5 percent.

However, the Chinese economy remains in a stage of ongoing development. The US economy has been resilient enough to achieve a gradual recovery since 2010, and in 2015, its GDP grew to \$18 trillion, 1.6 times that of China. Moreover, China's GDP per capita, \$8,140 in 2015, remained much lower than that of the United States and Japan—the US GDP per capita in 2015 was \$56,083 and Japan's was \$32,478. China's GDP per capita increased substantially from \$348.6 in 1990, yet China still lags behind Japan and the United States.

Given Japan's balancing posture from a military perspective, it must be determined whether Japan is engaged in economic bandwagoning with China's rapid development to identify conventional hedging behavior vis-à-vis China. However, Japan's economic policy toward China remains ambiguous, and it is difficult to identify whether its policy is characterized as balancing or bandwagoning. Japan admittedly imposed economic sanctions against China after the 1989 Tiananmen Square incident and suspended its Official Economic Assistance (ODA) to China after China's 1995 nuclear test; however, such sanctions were short-term in nature, and Japan lifted them in 1992 and 1997 (Koga 2016, 780–81). Since then, Japan has yet to engage in any explicit economic balancing against China.

Japan also had a mixed record with respect to its trading strategy toward China. Since 2012, Japan and China have begun to consider potential multilateral free trade agreements, including the Japan-China-South Korea Free Trade Agreement and the Regional Comprehensive Economic Partnership (RCEP) (MOFA 2012). However, Japan signed the Agreement in Principle on the Trans-Pacific Partnership (TPP) negotiations with member states, which included the United States but not China (MOFA 2015). These arrangements have been slow to be implemented because RCEP is led by ASEAN given its respect for a consensus decision-making procedure, and the Trump Administration withdrew the United States from the TPP in 2017. Still, the two arrangements are not mutually exclusive, and they do not clearly indicate whether Japan's economic strategy is based on balancing or bandwagoning.

Against this backdrop, one of the most important considerations regarding economic bandwagoning is the degree to which a state can take the risk of increasing economic dependence on a hegemon or rising state. If economic dependence increases, a state will be rendered economically vulnerable to the political and economic sanctions imposed by the target state. In this sense, it is important to understand the degree to which Japan has become dependent on China for its economic prosperity since 1990 and whether Japan intends to increase or decrease that dependency. If Japan has increased its dependency, this will indicate that Japan has conducted economic bandwagoning; this behavior, together with military balancing, would constitute conventional hedging. To investigate this, Japan's economic dependency on China through trade and foreign direct investment (FDI) are measured because they are major sources of economic interconnectedness.

Japan's exports to China steadily increased from 1990, but it did not match Japan's highest level of export dependency while Japan depended the most on the United States during the 1990s. From 1990 to 2002, the United States accounted for more than 27 percent of Japan's total export, while China accounted for less than 15 percent (Figure 3). China surpassed the United States in its share of Japanese exports from 2009 to 2012 and became the largest export destination for Japan, although its share was only approximately 20 percent. Furthermore, in 2012, the United States regained its position as the largest export destination.

Nevertheless, Japan's import dependency on China rapidly increased beginning in 2000, and since 2002, China's share of Japan's total import has replaced that of the United States' share (Figure 4). China's share was approximately 5 percent in

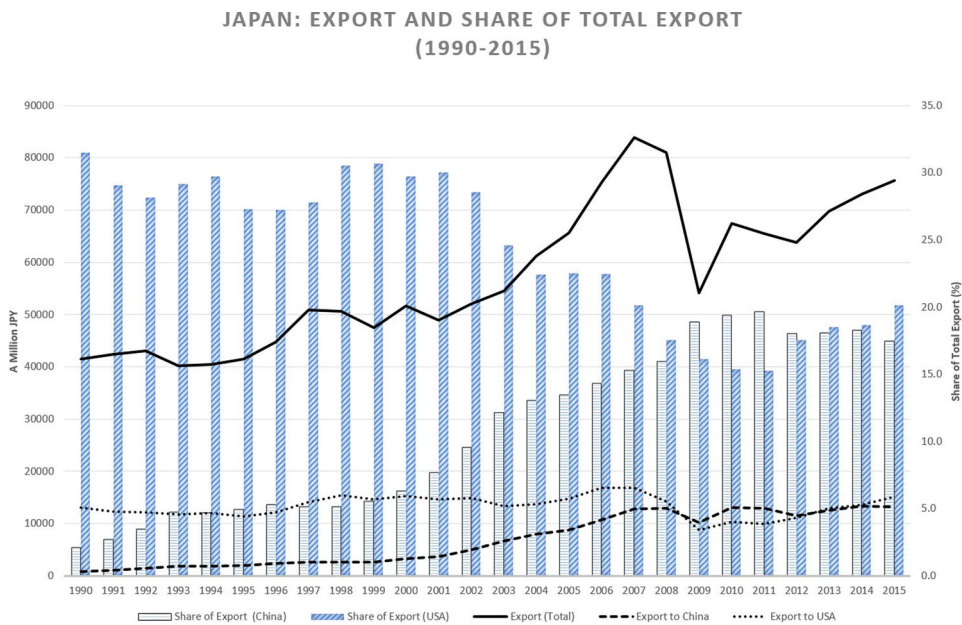


Figure 3. Japan: Export and Share of Total Export vis-à-vis China and the US.
Source: Trade Statistics of Japan, Ministry of Finance <http://www.customs.go.jp/toukei/suii/html/time.htm>

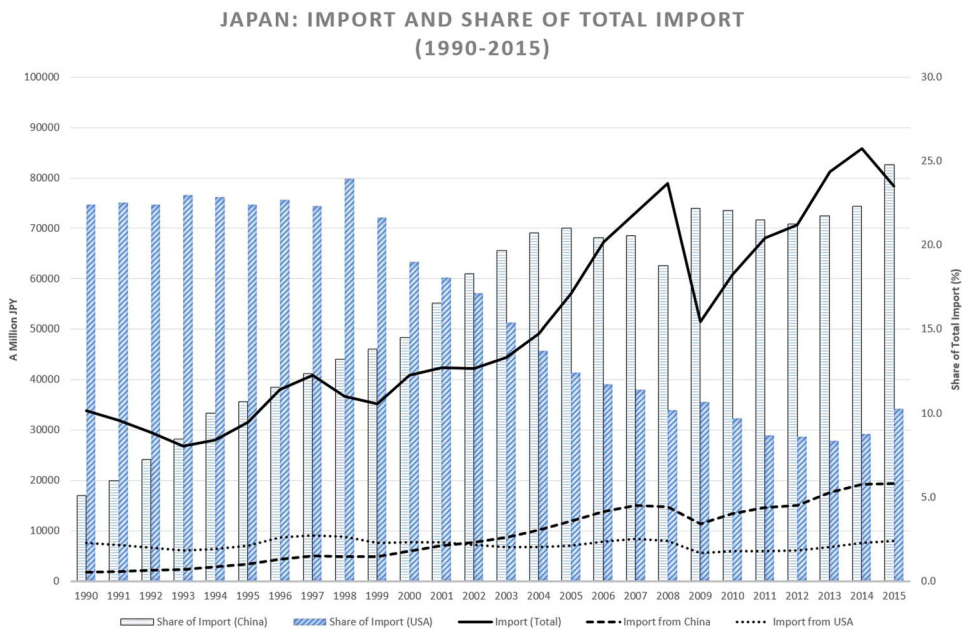


Figure 4. Japan: Import and Share of Total Import vis-à-vis China and the US.
Source: Trade Statistics of Japan, Ministry of Finance <http://www.customs.go.jp/toukei/suii/html/time.htm>

1990, increasing to 18.3 percent in 2002 and to 22.3 percent in 2014. In contrast, the US share has shrunk from well over 20 percent during the 1990s to 8.8 percent in 2014. In terms of imports, Japan has become more vulnerable to China.

These changes notwithstanding, since 1990 Japan's total trade dependency—calculated by [(Total import plus total export) divided by GDP]—has remained relatively low, at 35 percent. Most of Japan's GDP is generated domestically, and—contrary to conventional wisdom—Japan has not depended excessively on trade for its economic growth. Although Japan's import dependence on China has increased and the economic interconnectedness between Japan and China has been strengthened, the overall economic impact is relatively small. This is because Japan's total import trade dependency from 2002 to 2013, when China became Japan's largest import trading partner, was only 16 percent, and the ratio of China's import to Japan's GDP was at most 4 percent. Although this is not a small number, it is also not large enough to threaten Japan's economic stability.

Another indicator is FDI. Because Japan's investment in China can be a source of China's military capabilities, whereas China's investment in Japan also increases Japan's financial vulnerability, FDI can be a political concern. Nevertheless, both Japan's outbound and inbound FDI from 1996 to 2015 remained significantly low. According to the data from the Japan External Trade Organization (JETRO), China's share of total inbound FDI from Japan has been less than 1 percent since 1990, which is almost negligible. The United States is the destination of the largest share of Japan's FDI (JETRO 2015). Although fluctuating significantly and depending on the economic trends, from 1996 to 2015 the US share of Japan's outbound FDI averaged 27.7 percent. However, China's share averaged only 8.9 percent during the same period.

Overall, Japan's economic interaction with China is almost risk-free and costless, and it cannot be characterized as economic bandwagoning. Bilateral economic interactions surely have increased steadily, but Japan has yet to become economically vulnerable to China. Even regional and global production chains between China and Asian states have been controlled not by Chinese but by Japanese, South Korean, EU, and US firms, and Japan's dependence is not significant (Cook 2016). Admittedly, certain trade sectors in Japan had relied entirely on China. A case in point is that of China's export restrictions on rare earth to Japan after the 2010 *Senkaku* incident. Japan had relied on China for almost 80 percent of its rare earth imports. Nonetheless, this did not cause significant economic damage, and Japan has diversified its imports from other countries, such as France and Vietnam, thus decreasing its reliance on China by almost 50 percent (Hornung 2014, 112–13). In this sense, Japan is still capable of managing its economic reliance on China without creating critical vulnerability.

Diplomatic Interactions: Plans for Bandwagoning?

Since 1990, diplomatic relations between Japan, China, and the United States have experienced several turning points, particularly in the field of multilateral diplomacy. In the early 1990s, the three states enhanced their diplomatic interactions through multilateral forums, such as the Asia Pacific Economic Forum (APEC) and the ASEAN Regional Forum (ARF). The United States consistently resisted the idea of establishing regional institutions in East Asia that excluded the United States. For example, after the end of the Cold War, regional trade blocs, such as the European Union and the North American Free Trade Agreement (NAFTA), emerged, and Malaysian Prime Minister Mahathir Mohamad proposed the idea of an East Asia regional framework—a quasi-East Asian trade bloc called the East Asian Economic Group (EAEG). However, the United States fiercely opposed that framework, and Japan was hesitant to support it. The idea was eventually watered down to the East Asian Economic Caucus (EAEC), as a regional consulting group within the

APEC framework (Koga 2017, 65–8). In this context, Japan was diplomatically more aligned with the United States.

From 1996 to 2005, a diplomatic change occurred that was characterized as Japan's nascent security hedging towards the United States through "partial" diplomatic bandwagoning with ASEAN. This bandwagoning is described as "partial" because ASEAN did not have material capabilities to counter any regional major powers whereas Japan enhanced its diplomatic ties with ASEAN. This policy shift began in 1997, when Japan informally agreed with ASEAN to create ASEAN+3 (Terada 2003, 251–277). Japan's diplomatic maneuver was unprecedented. ASEAN+3 primarily aimed to create a regional economic mechanism that was capable of responding to a future economic crisis in the region without depending on the United States. The United States was reluctant to bail out regional economies and criticized Asian-style "crony" capitalism, by which Asian states strongly valued personal business networks and state intervention for economic stability. In response to the crisis, Japan had attempted to establish the Asian Monetary Fund, an alternative financial institution to the International Monetary Fund (IMF), but this idea faced strong opposition from the United States and China because it would offer Japan a strong political and economic tool to become a regional hegemon that could thwart US and Chinese political influence. On the other hand, China's self-restraint in the devaluation of its currency, the yuan, was applauded by ASEAN member states, particularly Singapore and Thailand (*Business Times* 1998; *Xinhua News Agency* 1998), which led to political momentum to establish a new regional economic framework. When ASEAN+3 was formally institutionalized in 1999, this cooperative scheme expanded into political, security, and sociocultural fields, following the adoption of the "Joint Statement on East Asia Cooperation" in 1999 among ASEAN+3 members and the creation of the ASEAN+3 joint study groups—namely the East Asia Vision Group (EAVG) and the East Asian Study Group (EASG) (ASEAN Secretariat 1999; East Asia Vision Group 2001; East Asia Study Group 2002). Through a regional multilateral framework led by ASEAN, Japan gained an opportunity to politically interact with China for potential regional and bilateral cooperation.

Indeed, diplomatic relations between Japan and China from 1997 saw relative improvement through ASEAN-led institutions. Despite certain Japanese historical perspectives that were contested by then-President Jiang Zemin, and China's skepticism about the 1997 Guidelines for the Japan-US Defense Cooperation, Japan and China concluded the "Japan-China Joint Declaration on Building a Partnership of Friendship and Cooperation for Peace and Development" in 1998. In this declaration, both states agreed to "an annual visit by a leader of either country to the other, the establishment of a Tokyo-Beijing hot line between the two Governments, and the further enhancement of personnel exchanges at all levels" (MOFA 1998). Multilaterally, ASEAN+3 provided forums for states, particularly the Northeast Asian states, to interact with each other and to conduct confidence-building measures (CBMs). This led to the conclusion of the November 1999 "Joint Statement on East Asia Cooperation," which formally promised to expand areas of cooperation among the ASEAN+3 member states (ASEAN Secretariat 1999). Furthermore, the trilateral meeting of China, Japan, and South Korea—which was formally institutionalized in 2003—grew out of ASEAN+3 in 1999 (ASEAN Secretariat 2003). Moreover, the idea of establishing the East Asia Summit (EAS), which did not include the United States, was proposed by Malaysia and approved by ASEAN member states in the early 2000s. In creating such a regional cooperative framework that did not include its traditional ally the United States, Japan diversified its diplomatic options by bandwagoning with ASEAN's increasing diplomatic influence in East Asia. If such a diplomatic attempt was to be successful, Japan's concern regarding the strategic uncertainty created by China's rise might be alleviated.

Still, there were debates inside Japan between those who embraced regional cooperative frameworks that would not include the United States—such as

Hitoshi Tanaka, then-deputy minister of foreign affairs—and those who preferred to include the United States—such as Shotaro Yachi, then-assistant chief cabinet secretary (Council on East Asian Community 2004a; 2004b). Given the United States' unwillingness to sign the Treaty of Amity and Cooperation, the ASEAN treaty that became one of the criteria for participation in the EAS, Japan proceeded to establish the EAS without including the United States. However, US Secretary of State Condoleezza Rice and other officials expressed concerns about whether the summit would be “inward looking and exclusive” (*New Straits Times* 2005).

This Sino-Japanese bilateral cooperation notwithstanding, Japan did not conduct diplomatic bandwagoning with China. In contrast, Japan engaged in diplomatic balancing through ASEAN-led frameworks whenever necessary. This is illustrated through the process of establishing the EAS in December 2005, which resulted in the dissipation of the momentum for cooperation as the political process of establishing the EAS generated political competition between Japan and China and created confusion about the future of the East Asian regional cooperative architecture. This is because the original concept of the EAS was different, stemming from the EASG's long-term proposal that ASEAN+3 would be elevated to the “East Asian Summit” (East Asian Study Group 2002, 4, 63–67). Inventing the new forum without determining its membership, modality, and an institutional division of labor became an obstacle to organizing the overall East Asian regional cooperative architecture.

In this context, Japan engaged in its “value-based diplomacy” to embed open regionalism and the principles of democracy, rule of law, good governance, and human rights. This prevented China from hijacking a forum that was thoroughly exclusive to ASEAN+3 members and shaped the behavior of nondemocratic states, including China. On June 25, 2004, five months before Malaysian Prime Minister Abdullah Badawi formally proposed the establishment of the East Asia Summit in November 2004 at the ASEAN+3 summit, Japan produced “issue papers” discussing important norms and functions that the efforts toward the establishment of an East Asian community needed to include (MOFA 2004, 8, 12–13). In these papers, Japan cautiously discussed the importance of “openness” and “universally recognized principles, such as democracy and human rights” and expressed its willingness to create a shared identity based on such principles, despite the different political positions in East Asian states (MOFA 2004, 8). Indeed, Japan and China confronted each other on the institutional design of the EAS. Whereas China preferred an exclusive East Asian forum to ASEAN+3, Japan resisted and attempted to include neighboring democratic states; namely Australia, India, and New Zealand. In addition, Minister for Foreign Affairs Taro Aso emphasized the political significance of the democratic process, praising the ongoing democratization process of the ASEAN states and expressing hope for China's democratization (MOFA 2005). Through these diplomatic efforts, the EAS was established by including those democratic states, but the division of labor between the EAS and ASEAN+3 remained unclear (Tan *et al.*, 2010).

This political uncertainty cast doubt on the future success of regional cooperation. After these rounds of political tug-of-war, some states in the region—particularly Japan—actively considered bringing the United States back into the East Asian multilateral frameworks, as a means of directly checking China's behavior in East Asia and reassuring other regional states by locking in the US political commitment to the region. As a result of these efforts, the United States became a member of the EAS in 2011 and actively participated in other new ASEAN-led frameworks, including the ASEAN Defense Ministers Meeting Plus (ADMM-Plus) in 2010 and the Expanded ASEAN Maritime Forum (EAMF) in 2012. As such, the political momentum for Japan's nascent consideration to conduct security hedging against the United States, albeit marginal, through diplomatic bandwagoning with ASEAN dissipated before Japan would fully do so.

Conclusion

The conceptual and theoretical framework of hedging informed Japan's past strategic behavior vis-à-vis China and the United States. The gradual power shift in East Asia changed Japan's strategic calculations, but Japan's balancing against China was consistent, and its military bandwagoning with the United States persisted except for security hedging from 1997–2005 and after 2010. Indeed, from 1990 to 2015, no pattern of hedging was observed in Japan's foreign policy strategy vis-à-vis the risk of China's domination, and Japan's behavior was largely consistent with balancing against China rather than bandwagoning or hedging.

Admittedly, a relative change in the degree of balancing occurred when Japan was confronted by a different security challenge in the 2010s, as China's military capabilities increased rapidly and the US defense resources were constrained. Recognizing that significant security reliance on the United States was not a feasible option at that point, Japan modified its security posture by conducting internal balancing against China. It did so not by increasing its material military capabilities but by relaxing its own political limitation on defense capabilities, such as permitting its use of collective self-defense. Simultaneously, Japan nurtured security networks with regional states, including Australia and India, to hedge against the risk of US commitment reduction. In this sense, Japan's basic strategic posture has been consistently based on balancing against the potential Chinese threat.

More broadly, this study illustrates a strategic implication of East Asian security, where the great power politics in Northeast Asia remains relatively stable in the foreseeable future because Japan has consistently taken a firm political position vis-à-vis China. Obviously, to increase analytical precision, it is necessary to investigate the degree to which Russia and South Korea, regional middle powers, have clarified their strategic posture for the better understanding of the prospect of power competition in the region, and thus this single case study cannot judge the general validity of the analytical framework. Nevertheless, the study does contribute to sharpening the "balance of power" theory by adding a conceptual foundation of hedging as the state's third strategy, which clearly explains Japan's consistent balancing act vis-à-vis China and sporadic hedging behavior vis-à-vis the United States. Given Japan's strategic importance in East Asia, this finding helps by decreasing the complexity of East Asian security dynamics.

The "hedging" conceptualization in the "balancing-bandwagoning" spectrum therefore provides us a more nuanced systemic understanding of international politics than the traditional balance of power theory does. Obviously, by elucidating state behavior through balancing and bandwagoning, the traditional theory tremendously contributes to theoretical parsimony in understanding strategic interaction between the states, particularly great powers; however, too much simplification confines the theory to the analysis of the pattern of interstate interaction and would likely blind us from viewing the regional and global security dynamics as a whole.

Furthermore, the global and regional security environment has been undergoing considerable change. The rise of emerging powers, including the rise of China in East Asia, is a main cause to alter the concentration of power that we witnessed in the past seventy decades, namely the bipolar system and unipolar system in the global setting during the Cold War and immediate post-Cold War era. But secondary powers have also begun to gain more material capabilities relative to great powers as they achieve a high level of economic development. Given that the number of such secondary powers is increasing, their political influence also rises. Under such a strategic circumstance, secondary powers' behavior has become more important in shaping the distribution of power in the region and beyond. In particular, East Asia is one of the most important regions that affects the global power distribution, where many emerging secondary states' policy choices would likely shape the regional security dynamics under the ongoing power shift. As a result, the traditional

balance of power cannot capture the rapidly changing strategic environment in the region and beyond.

On the other hand, the conventional school of hedging has faced difficulty in explaining East Asian states' strategic behavior. While most agree that secondary powers are likely to engage in hedging under a power shift, the conventional school considers that Japan should have been hedging as regional secondary powers in East Asia, such as Southeast Asian states, have. If this is true, security environments in East Asia, including Northeast Asia and Southeast Asia, should have been equally in flux. However, discrepancies in terms of strategic configuration between North and Southeast Asia exist in reality—Southeast Asia is more in flux as some states, such as Malaysia, Thailand, and the Philippines, shift their strategic posture vis-à-vis China, whereas Japan's strategic posture has been more consistent, and power configuration in Northeast Asia is relatively stable albeit with persisting tensions. In other words, it is difficult to gain the overall view of security dynamics in the region and beyond with the conventional school's analytical framework, which falls short of providing a concrete theoretical and conceptual framework.

The new conceptualization thus adds nuance to the balance of power theory and contributes to deepening our understanding of state behavior, regional security dynamics, and beyond. As this analytical framework sheds light on the probable range of major powers' and secondary powers' behavior under power shifts, it helps both academics and policymakers articulate the sustainability of power balance under a power shift.

Acknowledgements

I am grateful to Malcolm Cook, Zack Cooper, Cheng Chwee Kuik, and Wilfred Wan for their valuable comments on earlier drafts. I would also like to thank the editors and anonymous reviewers for their constructive comments. I presented earlier versions of the paper at China Foreign Affairs University, S. Rajaratnam School of International Studies at Nanyang Technological University, and the 2016 International Studies Association Annual Convention. Part of this research is supported by AcRF Tier 1 Grant at Nanyang Technological University.

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