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China's Strategic Thinking on the Diaoyu/Senkaku Island Dispute

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In January 2021, the government of the People's Republic of China (PRC) enacted the China Coast Guard Law. In Article 22, the law states that 'when the national sovereignty, sovereign rights, or jurisdiction is being illegally violated at sea by a foreign organization or individual, or is in imminent danger of illegal violation, a coast guard agency shall have the power to take all necessary measures including the use of weapons to stop the violation and eliminate the danger.' It also allows Chinese Coast Guard personnel to forcibly board noncompliant foreign vessels that they deem are 'illegally' engaged in economic activities in Chinese-claimed waters (Standing Committee of the National People's Congress 2021). In response, Japanese government officials reinterpreted the existing laws on maritime rights enforcement, which granted the Japanese Coast Guard the authority to fire when foreign vessels aim to land personnel on the Diaoyu/Senkaku Islands (DSI). Before this, the Japanese Coast Guard was only allowed to use force in case of self-defence and emergency, subject to the defence-oriented provisions inherent in the pacifist constitution of Japan (Kaneko 2021). This regulatory escalation, with the potential to spur kinetic conflict, illustrates why the international community expressed concerns that China's new law could be invoked to assert territorial claims in the East China Sea and the South China Sea, and the spiral of distrust and rivalry among competing claimants could generate catastrophic impacts and continue the destabilisation of the region (Asia Maritime Transparency Initiative 2021).

The DSI dispute also creates strategic impacts beyond itself. Considering America's security commitment to defend territories administered by the Japanese government, including the DSI, and given recent Sino-US competition, both sides (the United States and China) tend to stand firm in the dispute to avoid showing any signs of weakness, making rational dialogue and crisis management even more challenging.

Will the DSI dispute be a flash point in East Asia that triggers a great-power war? Rather than examining China's specific policies in the DSI dispute, this chapter will attempt to decode the general behavioural patterns of Chinese leaders in their quest for territorial integrity, and then explore the implications for the DSI dispute. The relative-gains concept and the instrumental value of disputed territories both fail to provide coherent explanations for China's territorial strategies. Instead, what matters most are the political meanings of disputed territories within the context of China's grand strategy.

In the DSI disputes, the possible energy reserves and other maritime rights are not China's primary concerns. Rather, DSI claims are embedded within China's policies on Taiwan and Hong Kong, its strategic concerns over domestic stability and economic development, and Beijing's desire to maintain a friendly international environment that it has deemed necessary for domestic development. China was mostly trying to muddle through and balance among competing domestic and international, economic and political interests in the dispute, rather than implementing a well-crafted strategy aimed at restoring its control over the islands. China's new thinking of Japan and East Asian integration will continue to hinder Beijing's incentives to invoke foreign policy and military adventurism in the dispute. The author thus predicts that the DSI dispute will not trigger a major crisis and the issue

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will, in all likelihood, continue to be shelved for the foreseeable future.

In the first section of this chapter, an explanation is provided for why relative gains and the instrumental value of disputed territories do not provide a coherent explanation for China's strategic behaviours. The second section proposes to shift the analytical focus to the political meanings of disputed territories in China's grand strategy, elaborating upon the DSI issue. In the third section, China's strategic calculus over the islands is examined and how this creates instability, but until the promulgation of the aforementioned law, has prevented the use of force. The author concludes that China's DSI policy has been to balance competing domestic and international, economic and political interests. Despite the rise in Chinese nationalism and the strongman-style leadership exhibited by China's Paramount Leader Xi Jinping, China has no intention of engaging in military adventurism in this dispute. In the fourth and final section, the author examines the reasons for cautious optimism amid the current Sino-US rivalry and then discusses policy implications.

Getting China Wrong

It is common practice for scholars of international relations to utilize the rational choice approach to understand the strategic behaviours of nation-states. Empirical studies of states' actions in territorial disputes – including dispute onset and escalation, the use of force, and peaceful resolution – examine the importance of relative power asymmetries (economic and military strengths), economic, ethnic, and religious values, the locations of disputed territories, domestic politics, and international audience costs (Carter 2010; Heldt 1999; Huth 1996).

In recent years, the media, pundits, and scholars have paid close attention to China's territorial behaviours, particularly since 2010. According to the popular narrative, China is more and more war-prone in dealing with maritime disputes and is trying to flex its military muscle to elbow other competing claimants out. In June 2020, China and India were on the brink of war due to a brawl in the Galwan River Valley. The international community became worried that, with the rise of China's economic and military strength, it would be ready, willing, and able to take control over these territories using military force. However, the media and many pundits usually misunderstand China's strategic motives in maritime disputes, and they particularly overestimate the importance of relative gains and the instrumental value of disputed territories.

The concept of relative gains is a valuable paradigm to explain states' strategic behaviours, particularly in the realist tradition. The popular narrative tends to attribute China's assertiveness since 2010 to its rising economic and military strength and predicts an even more aggressive China with the modernization of Chinese naval forces. The merits of the relative-gains argument are evident. For example, China used to lack sufficient means to strengthen its control over remote disputed waters and features such as the Spratly Islands, the DSI, and Aksai Chin along the China-India border. A weak China in the 1980s–1990s was more willing to de-escalate territorial crises. Since 2010, however, Beijing has tended to view such crises as windows of opportunity, responding in a deliberately escalatory manner in an effort to create a new *status quo* in its favour (Swaine 2013). However, a systematic review of China's strategic behaviours reveals the weaknesses inherent in casually linking power and assertiveness.

For example, China has historically been more likely to confront powerful rivals over territorial issues (including India, the Soviet Union, Vietnam and the United States – the latter on the Taiwan issue during the Cold War), but has peacefully resolved disputes with its weak neighbours, and made significant concessions to the latter in the territorial negotiations (Fravel 2008; Nie and Li 2008). On the matter of Taiwan, China's response was more aggressive and war-prone during the tenure of Republic of China (ROC) President Lee Teng-hui, to the point of firing missiles into the area during the island's 1996 presidential elections. In contrast, China's countermeasures against President Chen Shui-bian's pro-localization moves in the middle 2000s were harsh but mostly rhetorical, despite China's military and economic strengths having made significant progress since the 1995–1996 Taiwan Strait Crisis (Bush 2013; Ross 2000).

In the South China Sea, China has not exploited the weaknesses of its small neighbours in Southeast Asia. China's territorial claims have been consistent with its long-term policies; indeed, sometimes, Chinese assertiveness is a reaction to the provocative moves of other claimants, and of the United States.^[1] Beijing also has no intention to

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escalate or resort to the use of force despite the occasional diplomatic standoff or confrontation in disputed waters. In the recent China-India border disputes, for example, Beijing did not adopt economic retaliatory measures the way New Delhi did; China acknowledged four deaths of officers and soldiers in February 2021, albeit eight months after the incident, to avoid fuelling domestic nationalism amid the high-intensity military standoff. All this suggests that the relative-gains explanation oversimplifies China's strategic calculation and thus provides an ill-informed understanding of Beijing's moves.

Fravel (2010) points out the importance of the United States in deterring Chinese aggression. Washington claims to be neutral on the sovereignty of the islands, but *de facto* takes Tokyo's side and reiterates its security commitment to defend territories administered by Japan, including the DSI (Blanchard 2000). The Korean war might serve as a typical case to illustrate how China will dare to fight a powerful enemy, in this case the combined international forces operating under the United Nations Command, for the sake of strategic and ideological reasons (Shen 2012). When Beijing shifted its focus to economic development instead of ideology-oriented domestic and foreign policies, its foreign policies turned to serve the needs of domestic development, and thus there was a tendency for Beijing to restrain itself from such diplomatic and military adventurism.

Energy reserves, fishing rights, and other maritime rights are also frequently used to explain China's recent assertiveness in its maritime disputes. As highlighted by the Japanese government in its official claim over the DSI, 'it is only since the 1970s that the Government of China and the Taiwanese Authorities began making their own assertions about the Senkaku Islands, which was after a survey conducted by an agency of the United Nations in autumn of 1968 had indicated the possibility of the existence of petroleum resources on the East China Sea, and attention was focused on the Senkaku Islands,' adding, 'until then, they had never expressed any objections' (MOFA of Japan 2016). However, the role of energy in China's overall calculus should not be overestimated for several reasons. Whether it is economically feasible to exploit the energy resources in disputed waters still needs further investigation; the market mechanism is a more efficient way for China to acquire resources instead of conquering and utilizing disputed territories. It is also questionable whether the DSI and islets in the South China Sea will be acknowledged as islands and generate entitlement to an exclusive economic zone according to international law, thereby undermining the value of these disputed territories and waters to a large extent. Beijing also declared that its territorial claims over the DSI have nothing to do with the petroleum stores believed to be there (People's Daily 2012).

Overall, the tendency to seek a linear causal mechanism that would simply attribute China's strategic behaviour to either a relative-gains calculation in China's favour, or one focusing on the instrumental value of disputed territories and waters, is misleading. The analytical focus herein will therefore shift to the political meanings of the disputed territories in China's grand strategy.

The Political Meanings of Disputed Territories

A historical review highlights the political meanings of disputed territories in China's grand strategy and policy-making. Whether territorial disputes are peacefully resolved or lead to military conflict usually serves the needs of China's grand strategy.

China's use of force in territorial issues usually involves more strategic concerns. The China-India border disputes are partly an outgrowth of India's ambitions to defend its traditional interests in Tibet in the 1950s. The PRC largely inherited its sovereignty claims over the South China Sea islands from the ROC, which lost the Chinese Civil War and fled to Taiwan in 1949. During the Cold War, the ROC used its superior naval forces to threaten the communist regime's survival. From this perspective, Beijing certainly had no incentive to back down from previous claims, and it tried to strengthen its control over the disputed waters, as the dispute involved regime survival and long-term competition with the ROC as to which was the sole representative of the nation's territorial interests (Jiang 2006, 130–131). The China-Soviet border dispute that led to the Zhenbao/Damansky Island clash in 1969 was part of Mao Zedong's struggle over ideological rightness and leadership in the global Communist Camp, as well as in domestic affairs (Shen and Xia 2011). The Sino-Vietnam border conflict in 1979 was not simply a response to 'the Vietnamese government killing local Chinese, sending others to labour camps and expelling many to become "boat people," and to a dispute over the Spratly Islands in the South China Sea' (Copper 2009), but were rooted in domestic and

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structural concerns including China's relations with the Soviet Union and the United States, as well as a power struggle among political elites in China.

Compared with these disputes that involved military conflicts, more of China's territorial disputes were resolved peacefully, and China made significant concessions to its competing claimants. Beijing's concessions were mostly to strengthen its control over China's periphery, inhabited mainly by ethnic minorities, by resolving border issues with its weak neighbours. It also wanted to build friendly relations with these weak neighbours, either among Third World countries or those in the Communist Camp, both of which were perceived to be ideologically close to the Chinese Communist Party (CCP). Chinese leaders would like to trade territorial concessions for periphery stability, international recognition, and friendship with these small neighbours (Fravel 2008). The DSI dispute is a case in point to explain how the political meanings of disputed territories shape China's strategic behaviour.

China did not make its first territorial claim over the DSI in 1970, when Beijing noticed the rise of the *Baodiao* (protecting the Diaoyu Islands) movement in Taiwan, Hong Kong and particularly in the overseas Chinese community in the United States. By waiting until 1971, Beijing was able to exploit the ROC's weak position on the island dispute and de-legitimise the ROC's claim to be the representative government of the Chinese nation, while winning the hearts and minds of overseas Chinese communities. Since then, the DSI dispute has continued to disrupt the Sino-Japan bilateral relationship. On the China side, the dispute was closely connected to China's strategic interest in annexing Taiwan, controlling Hong Kong, and the CCP's need to accommodate domestic nationalism, which occasionally provides Beijing both the motivation and the pretence to escalate its claims and act assertively. Meanwhile, China's territorial interests and their political importance were subordinated to serve more strategic needs to improve its relations with Japan and the West and to create a friendly environment for domestic reform and opening-up (Chung 2001; Duan 2019).

Since the 1970s, an essential factor defining China's DSI policy has been Taiwan and Beijing's 'One-China principle.' Granted, the importance of these factors is in decline as the DSI dispute is basically marginalized in Taiwan's political discourse, and had been reduced to a scuffle over fishing rights between Taipei and Tokyo until the signing of their 2013 fishery agreement. From Beijing's perspective, Taipei's weak stance on its DSI claims is a disappointment to those ROC citizens that claim a Chinese identity, as well as fishermen in southern Taiwan whose fishing activities around the DSI have been curtailed and whose fishing boats risk being detained by the Japanese Coast Guard. By criticizing Taipei's lack of action against Tokyo, Beijing has been able to exploit the weaknesses of Taipei's political system, and win the hearts and minds of some of the people living in Taiwan.

In the 1990s, Hong Kong was the centre of the *Baodiao* movement, as Taiwan repressed such social movements which, Taipei worried, could be easily exploited by Beijing to destabilize society. The dispute was probably the only issue that could unite different political groups within Hong Kong. Both the pro-China and pro-democracy parties had their affiliated *Baodiao* factions and lobbied Beijing for a hard-line policy on the dispute. Beijing had more substantial incentives to accommodate their demands, because it wanted to cultivate Chinese patriotism among Hong Kong citizens and elites, to pave the way for a peaceful handover of Hong Kong in 1997. According to an editorial in *The South China Morning Post* (1996), 'For the first time since the rift between them started seven years ago [referring to the Tiananmen Square massacre in 1989], political activists in HK and the mainland government are united in a common cause against a common adversary.' However, since the handover of Hong Kong to China, patriotism in the former British colony has waned, and the DSI dispute was no longer a politically salient issue. These days, few activists attempt to organize *Baodiao* movements or to land on the islands.

Since the 1990s, the DSI dispute and other irritants to the Sino-Japanese relationship have continued to arouse nationalistic sentiment in China, constraining the flexibility of the PRC government's policy response. However, Beijing has come to realize that nationalism is a double-edged sword. The CCP worries that anti-foreign sentiment may destabilize society, disrupt its grand strategy to develop the economy, and, more importantly, turn into an anti-government movement (Reilly 2014; Zhao 2005).

While many factors continue to pressure leaders in Beijing to escalate the territorial claims over the islands, a more defining and pacifying factor that could de-escalate the dispute is the shared commercial interests between China

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and Japan, two of the world's major economies that are both integrated into the global value chain. In the early stages of China's reform and opening-up, commercial transactions with Japan, official development assistance, and private investment from Japan were critical for China. As China further integrates itself into the global economy, the two countries are deeply interdependent. Although political tensions occasionally disrupt the commercial relationship, and Japanese companies have recently tried to reduce their dependence on Chinese resources and markets by diversifying their global investments, no Japanese companies want to leave the Chinese market entirely (Dreyer 2014; Iida, 2017, 138–162).

China: Mudding Through

Michael Pillsbury's famous albeit controversial book *The Hundred-year Marathon: China's Secret Strategy to Replace America As the Global Superpower* elaborates how China has carefully drafted its strategies, exploited the weaknesses of the United States, and ultimately turned itself into the only peer competitor that could challenge the United States in all aspects (Pillsbury 2015). From this perspective, does China have a well-drafted strategy to seize control over the islands? In other words, how can we understand China's DSI strategy (if indeed Beijing has one)? Close observation reveals that China was mostly muddling through the territorial contingencies rather than implementing a well-crafted strategy aimed at taking control of the islands.

Firstly, China's territorial claims were opportunistically aimed at weakening the ROC's legitimacy as the government of all of China in the early 1970s. Still, Beijing did not take substantive action to exercise sovereignty over the islands. At critical moments of the normalization of the Sino-Japanese relationship in the 1970s, Chinese leaders suggested that the dispute should be secondary to the relationship normalization, and then proposed that the disputes be shelved and left to future generations to effect a possible peaceful resolution.

Secondly, China's DSI policies were mostly reactive, designed to deal with contingencies created by *Baodiao* activists in the Chinese-speaking world and provocations from among the right-wing in Japan in the 1990s and early 2000s. In China, the *Baodiao* social groups and activists were unwelcome. The Chinese government's responses during most of the 1990s and 2000s were aimed at de-escalation and crisis management (Downs and Saunders 1998).

Thirdly, the dispute has led to a series of diplomatic standoffs and paramilitary confrontations since 2010. The Chinese government believes that the boat collision incident that year, and the Japanese government's purchase of three of the islands from their private owner in 2012, constituted unilateral changes to the *status quo* and damaged China's territorial interests, so it had to take firm action, including instituting routine patrols in the surrounding waters, to restore its losses from the dispute. After a series of assertive moves, including diplomatic standoffs, propaganda warfare, and increased frequency of patrols by Chinese vessels, the PRC government has satisfied hard-line Chinese nationalists, publicized the dispute in the international community, and expanded its presence in the waters surrounding the DSI. Still, Beijing surprisingly claims that it has no intention of retaking the islands, which it perceives to be very risky at the moment. To avoid miscalculation, Chinese ships exert a regular presence around the islands.

Nationalist pressure may yet force the PRC government to act aggressively sooner or later (Cairns and Carlson 2016; Weiss 2014). Although the government has tried its best to censor sensitive information and repress online anti-Japanese sentiment, and to redirect people's attention to economic developments in times of crisis, the rapid development of information technology and the growth of social media make it difficult for the CCP regime to steer society away from such online discussions. Given the efficiency with which the regime is able to censor other sensitive topics, however, it has been suggested that the Chinese government is, in fact, leveraging this nationalism and anti-Japanese sentiment to rally popular support and fuel the CCP's legitimacy to rule (Zhao 2013). In times of domestic instability and economic crises, Chinese leaders tend to engage in foreign-policy adventurism as a means of diverting the Chinese people's attention from the government's domestic failures. For several reasons, the author doubts the logic inherent in such claims.

Firstly, whether the Chinese government is fuelling anti-Japanese sentiment at home remains open to intellectual debate. For example, scholars have found that elites' manipulation of domestic nationalism is constrained by the

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existing cultural and historical givens and 'had to adhere to the cultural parameters of the traditions of the people, politicizing their sense of ethnic community, and reinterpreting those traditions as deep cultural resources for a political struggle for national self-determination' (Smith 2001, 119). Japan's historical revisionism angered people in China and the Republic of Korea (ROK), both of which suffered from Tokyo's war crimes. That means that anti-Japanese sentiment in China is not simply a result of the CCP's political use of history, but has historical origins and deep cultural roots. Secondly, how strong Chinese nationalism is and how influential it is over foreign policy-making is still unclear (Duan 2017; Johnston 2016). To what extent individuals are willing to sacrifice their interests for the sake of a nationalist course of action remains unclear, as many Chinese are fine with traveling to Japan and purchasing Japanese products. Thirdly, we cannot assume that the nationalistic pressure only accumulates to a higher level. As official and social exchanges between China and Japan return to normal after territorial contingencies, there is the possibility that such pressure will ease, which can terminate or even reverse the downward spiral of rivalry between the two countries.

China observers have expressed worries that Xi's consolidation of personal power and China's new practice of 'Great Power Diplomacy with Chinese Characteristics' will create new sources of instability. They believe that China has edged away from its traditional diplomatic doctrines of 'Keeping a low profile' and 'shelving disputes' in dealing with unsolved territorial issues (Chen and Wang 2011; Yan 2014). Rather, under Xi, China has been more willing to leverage its economic and military strengths to advance its territorial interests – in ways subtle and not – to create a new *status quo* in its favour without going so far as to resort to the use of force. However, this does not mean that Xi has embraced hard, realpolitik doctrines (Wang 2019). As long as China still adheres to the grand strategy of reform and opening-up and prioritizes economic development, Beijing would be foolhardy to jeopardize the stable international environment so necessary for its own domestic development by engaging in foreign-policy and military adventurism over its territorial disputes.

The author does not believe that China will seize the islands by force in the foreseeable future. As this chapter attempts to highlight, China's strategies in the territorial disputes in general (and the DSI in particular) are part of its grand strategy, which involves tradeoffs among short- and long-term interests, territorial and economic interests, and domestic and international interests. Mostly, China was steering a middle course and balancing its competing interests among domestic stability and economic development. It is therefore a strategic necessity for China to create a friendly international environment not only to safeguard its territorial interests in the dispute, but to avoid irritants to its relations with Japan and the United States, and to uphold its prestige as the world's second largest economy. In addition, a weak stance in the DSI dispute may encourage provocative moves by competing claimants in other territorial disputes throughout Southeast Asia and India. Beijing's DSI policy is a combined product of these factors and reactions to contingencies as a sign of political representativeness and responsiveness. The multiple layers of China's strategic interests, the rationality of Chinese leadership and bureaucrats, and the tight political control over the army precludes the possibility of military adventurism.

Reasons for Cautious Optimism amid Sino-US Rivalry

With the rise of China's economic and military strength, the Sino-US relationship is increasingly characterized by tense great-power rivalry. Power transition theorists, or 'Thucydides Trap' advocates, argue that a rising power and an established power are destined to engage in a military conflict over global leadership and the associated benefits (Allison 2017; Lemke and Tammen 2003; Kugler and Organski, 1989). War could happen either when the rising power acts as a revisionist actor and tries to build a new world order, or when the established power is trapped by a better-now-than-later logic and starts a preventive war to eliminate the threat from the rising power before it loses the strategic advantage (Levy 1987).

The rancour between China and the United States is worsening in a number of fields – trade, technology, media, diplomacy, propaganda and political and economic systems. Under the administration of President Barack Obama, American policymakers noticed the necessity of managing the challenge of a rising China and increased the US diplomatic, military, and economic involvement in the Asia-Pacific Region. However, Obama still valued Sino-US cooperation on many global and regional issues, including climate change, nuclear non-proliferation, and global economic recovery. After Donald Trump was elected president, friction between the two powers evolved into full-

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scale competition and confrontation in geopolitics, trade, technology, media, and diplomacy. The COVID-19 pandemic only accelerated this downward spiral of rivalry. A new Cold War seemed to have emerged between the two great powers (Landler 2018).

DSI is a flashpoint in the Sino-US relationship, considering that America has been deeply involved in the dispute since the 1970s. Although it claims to be neutral on sovereignty issues, the United States clearly 'favored in both word and deed Japanese claims to the islands' (Blanchard 2000, 97). A series of territorial contingencies and strategic action-reaction intensified the great power competition.

Firstly, American strategists usually see Chinese assertiveness in the dispute as a test of America's security commitment to its Asian allies, and any signs of weakness or reluctance will only attract further aggression from China. America therefore needs to stand firm and sometimes act decisively to show its resolve. Secondly, the Japanese government keeps lobbying for a more active role for the United States in the dispute. Japan has become the tail that wags the American dog to check China's behaviour, even though the United States sometimes prefers to act with caution. For example, in 2012, then-US Assistant Secretary for East Asian and Pacific Affairs Kurt Campbell believed that the nationalization of the DSI islands would surely antagonize Beijing and thus urged his Japanese counterparts to 'consult and advise Beijing on their plans' (Japan Times 2016). Even if senior officials believed that Japan's purchasing decision was reckless, America chose to stand firm with Japan and deterred China's countermeasures after the nationalization took place. Thirdly, Japan felt directly threatened by China partly due to its assertiveness in the dispute and thus attempted to enhance security linkages with regional powers such as India and Australia, which is likely to facilitate the formation of a balancing coalition to check China's moves (Kliman and Twining 2014, 14–16; Koga 2016).

However, we still have strong reasons for cautious optimism that the dispute could de-escalate. Tactically, both the Chinese and Japanese governments have enhanced their control over the islands, and *de facto* barred either Chinese *Baodiao* activists or Japanese nationalists' from landing on the islands and raising tensions; America's firm and clear commitment to defend the islands leaves no room for Beijing to drive a wedge between Tokyo and Washington on the dispute and thus minimizes the strategic uncertainties. Moreover, bilateral relations between China and Japan, and China's strategic needs in a post-pandemic world, continue to disincentivise China from invoking foreign-policy adventurism in the DSI dispute.

The economic cooperation and integration between China and Japan will be more intensive in the foreseeable future. Firstly, thanks to the Trump presidency, the world has witnessed the other side of the United States, that is liable to promote protectionism-oriented trade policies, abandon its commitment to global governance, and retrench from its security commitment to European and Asian allies. China, Japan, and Korea suffered from President Trump's solutions to America's trade imbalance problems, including a tariff war and renegotiating new trade agreements in America's favour. Amid the trade war, the three countries revived the delayed agenda of East Asian integration. On January 21, 2021, the PRC Ministry of Commerce announced that 'the country [China] will boost China-Japan-South Korea FTA talks and free trade talks with Gulf Cooperation Council, Israel and Norway, while actively considering joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership' (Global Times 2021). Secondly, the successful conclusion of the Regional Comprehensive Economic Partnership (RCEP) will also further integrate the two countries' supply chains in automobile manufacturing, steel, textiles, and other sectors. What's more, Asia continues to develop into the world's economic centre. China and Japan are important engines and beneficiaries of Asia's growth, and they share more common interests in regional affairs. Thirdly, the COVID-19 pandemic may also have enhanced their shared interest in economic cooperation. The Chinese government was very effective in controlling the pandemic and restoring social order and the Chinese economy, even as other major economies were still struggling with the virus. Along with other measures to improve the business environment, China remains an attractive place for foreign investors, including Japanese companies. Last but not least, as the United States since Trump administration began engaging in a high-tech decoupling from China, Japan became an important country for China to access high-technology components.

Although their bilateral relationship has not improved significantly since its historical low in 2012, foreign policymakers in both China and Japan have met on various occasions. They agree that a stable bilateral relationship

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is very important, and have been trying to normalize high-level dialogue and cooperation. Since 2014, Chinese President Xi and Premier Li Keqiang have met with Japanese Prime Minister Shinzo Abe 14 times, including Abe's official visit to Beijing in 2018, and a second visit in December 2019 to attend the Eighth Japan-China-ROK Trilateral Summit. In 2019, Abe invited Xi to visit Japan in Spring 2020 and Xi accepted the invitation 'in principle,' although Xi's trip to Japan was delayed largely due to the COVID-19 pandemic. Both countries are motivated and ready to improve their relations and expand Sino-Japan cooperation in trade and investment, tourism, culture and sports, communication, and coordination on regional affairs (MOFA of PRC 2019).

Conclusion: How China's Strategic Calculus Creates Instability but Prevents War

In this chapter, the author has reviewed the important factors that shape China's strategic behaviours in the territorial disputes. While the notion of relative gains and the instrumental value of disputed territories both fail to provide a coherent explanation for China's strategy in dealing with territorial issues, this chapter highlights how the political meanings of disputed territories take effect. The DSI issue was closely related to China's regime competition with the ROC during the Cold War, and Beijing's efforts to press its 'One China' paradigm; appeasing the patriotism of Hong Kong's pro-China elements to facilitate a stable handover of the former British colony in 1997; and more recently, its concerns over social order and the strategic need to accommodate domestic nationalist sentiment. When the *Baodiao* movement was largely being marginalized in Taiwan and Hong Kong's popular discourse, the nationalism in China was rising, and played a more prominent role in shaping China's Japan policy and its DSI strategies.

Since the nationalization of three DSI features by the Japanese government in 2012, multiple factors have created new sources of instability, as well as the reason for cautious optimism. On one hand, China's strategic need to defend its territorial interests and to accommodate domestic nationalism, the practice of 'Great Power Diplomacy with Chinese Characteristics' launched during the Xi presidency, and frequent patrols by Chinese vessels in waters surrounding the DSI have served to create new sources of instability and increase the risk of conflict due to miscalculation. On the other hand, there are reasons for cautious optimism. By strengthening their control over the islands and surrounding waters, China and Japan are limiting the possibility that nationalistic elements might land on the islands and drag Beijing and Tokyo into a military confrontation, or even just another diplomatic crisis. America has reiterated its security commitment to defend the DSI as Japanese territory, which could deter military adventurism on the part of Xi. The most pacifying factor is the increasing shared interests in interdependent economic relations and regional integration.

The author believes that China still prioritizes the strategic interests of economic development and a friendly relationship with Japan over its territorial interests in the DSI. At this stage, China has no incentive to escalate the dispute because its routine patrols have advanced its territorial interests in the DSI and appeased Chinese nationalists. The worst scenario would be if Japan made any further proactive moves in the dispute, or if an incident should occur during a Chinese patrol of the surrounding waters, either of which would arouse popular anti-Japanese sentiment in China and compel Beijing leaders to respond harshly. Overall, the author believes that the DSI dispute will continue to be shelved, and will not trigger any significant crises in the foreseeable future.

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[1] For example, since the middle 2000s Vietnam has made significant progress in offshore petroleum exploitation in waters also claimed by China, while China remained reluctant to do similar things, though it did disrupt Vietnam's efforts. Vietnam and Malaysia's submission to the Commission on the Limits of the Continental Shelf (CLCS) claimed that the outer limits of their continental shelf in the South China Sea went beyond 200 nautical miles, so China submitted counter-claims to prevent the CLCS from qualifying these claims, which triggered new tensions at that time. When the United States expanded its commitment and interests in the South China Sea, this made China feel insecure and thus Beijing began acting assertively (Fravel 2011; Lind, 2017; Johnston 2013).

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