

The Cost of Political Nationalism: Evidence from anti-Japan Sentiments in China

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Nationalism in Authoritarian Regimes

- Anti-foreign nationalism is an important political phenomenon in authoritarian countries.
 - China: anti-American protest (1999), anti-French protest (2008), anti-Japan protest (2012)
 - Outside of China: anti-China protests in Vietnam (2011, 2014)
- Authoritarian states often support, sponsor, and stage anti-foreign nationalism.
 - Defend regime legitimacy: anti-democracy nationalism
 - Mass mobilization: patriotic nationalism
 - Political strategy: Implement diplomatic tactics, divert attention to social problems

Economics of Nationalism

- Nationalism as a personal identity
 - Individuals trade off utility of identity recognition against material benefits
 - Examples: consumers boycott foreign brands; producers boycott foreign suppliers; governments bias against foreign investors.
- Nationalism as a political agenda
 - State-sponsored nationalism indicates changes in economic policy, political stability, and macro environments.
- The impact of nationalism on economic activities depends on
 - To what extent nationalism is internalized as personal identity
 - Whether a decision maker is spontaneous or strategic.
 - How nationalism is perceived.

What's new in this paper?

- Study the effect of nationalism on government responses to Japanese investors as well as FDI activities at the regional level.
 - Consumer behavior/sales: Hong et al. (2011); Pandya and Venkatesan (2016); Barwick et al. (2019)
 - Financial market/trade: Davis and Meunier (2011); Fisman et al. (2014); Che et al. (2015)
 - FDI activities: Foley et al. (2018); Chen et al. (2018); Yue et al. (2021)
- Separate government attitude from firm intention
 - Randomized auditing study of government responses to foreign investors at the county level
- Separate different kinds of nationalism
 - Cultural nationalism: historically formed
 - Political nationalism: politically oriented; state-sponsored

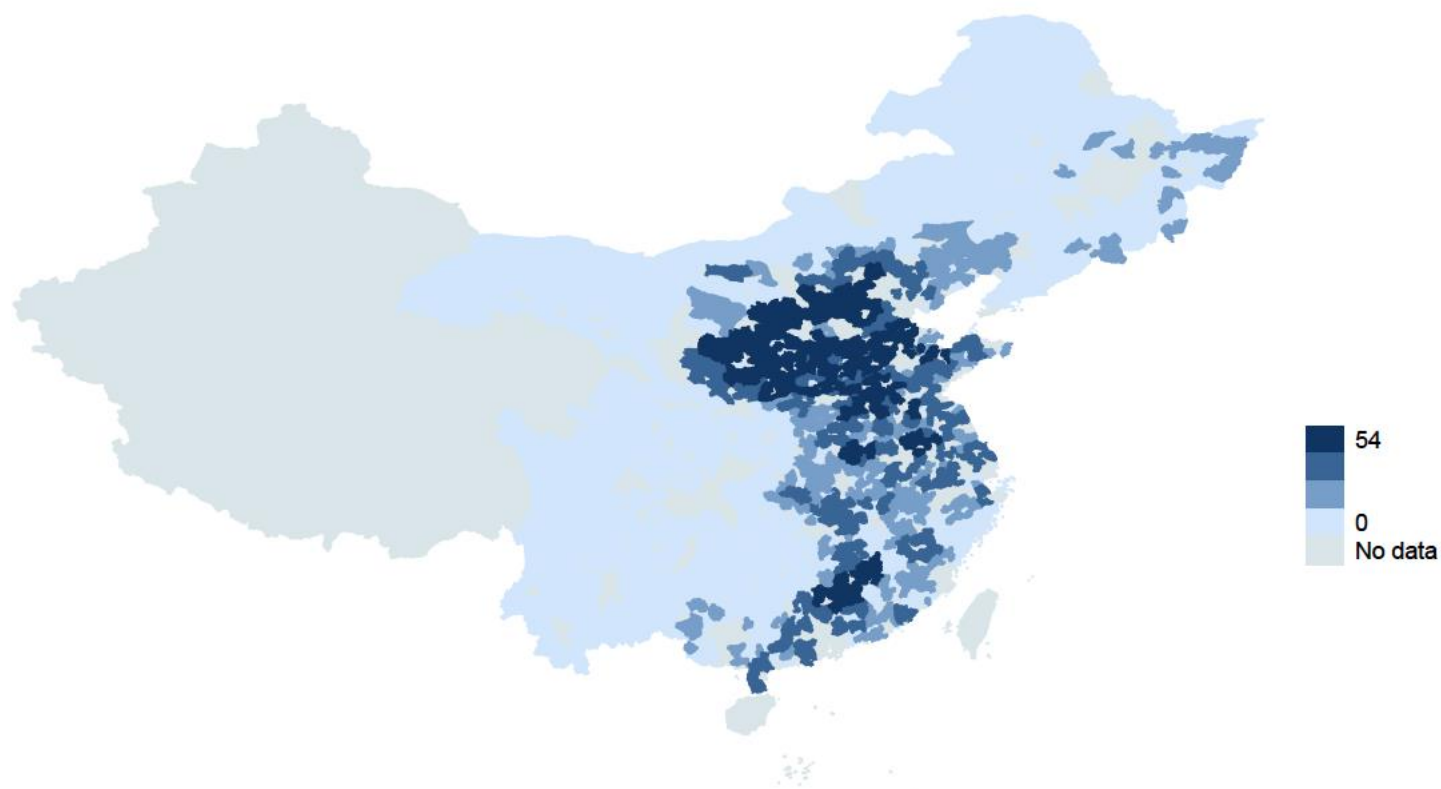
Sino-Japan Relationship

- Hostility in history
 - First Sino-Japan War (1894-95)
 - Second Sino-Japan War as part of the World War II (1937-1945):
Japanese army occupied and controlled nearly 20 provinces, at least 20 million casualties.
- Economic cooperation in past decades
 - Re-normalized diplomatic relations in 1972.
 - Steady increases in personnel exchange, bilateral trade, and FDI
- Sino-Japan political relations remain tense despite close economic ties.
 - A series of political controversies, e.g., accounts of wars in Japanese textbooks, Japanese government officials visited the Yasukuni Shrine, disputes over the Senkaku Islands .

Anti-Japan Bases

- During the Second Sino-Japan war, CCP established anti-Japan bases to support local guerrilla warfare against Japanese invasion.
- Anti-Japan bases coverage: 731 counties in 19 provinces
- The building of anti-Japan bases involved:
 - Economic development
 - Culture and education improvement
 - Ideological construction
 - Propaganda of CCP with slogans, folk songs, and dramas.
- Long-lasting influence: bases for patriotism education and cultural propaganda

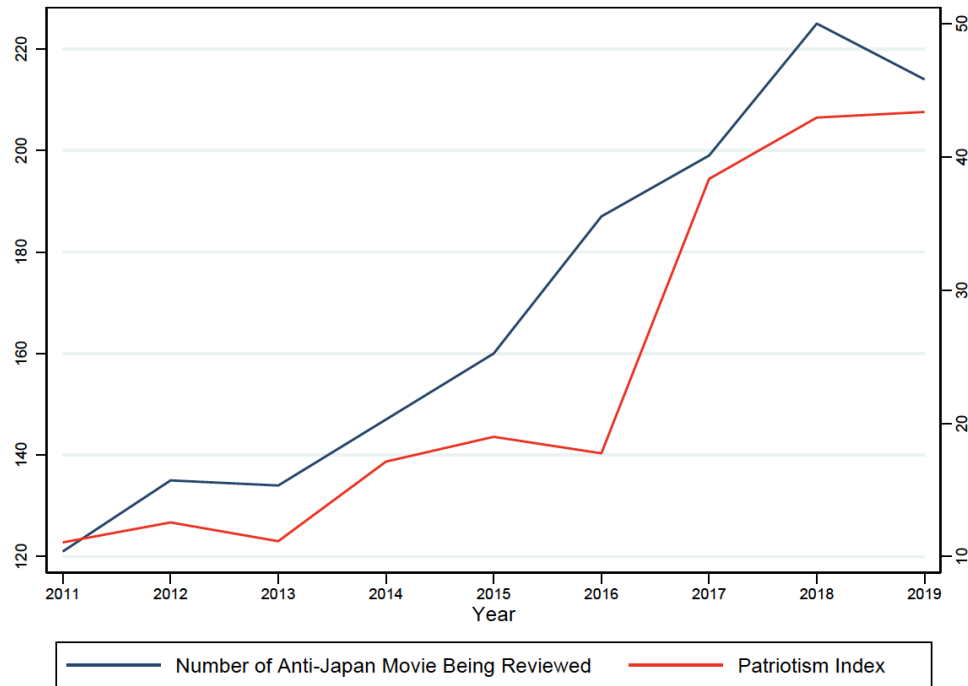
Anti-Japan Bases



Anti-Japan Protests in 2012

- In April 2012, Japanese government decided to nationalize several of the Senkaku Islands (ruled by Japan but claimed by China).
 - Aug 15th, activists from Hong Kong landed on the islands and were detained by the Japanese Coast Guard.
 - Sept 11th, the Japanese government officially purchased the islands.
- Street protests:
 - Anti-Japan demonstrations and protests took place in over 100 Chinese cities during Aug and Sept.
 - From Sept. 19th onwards, Chinese governments took action to rein in protests.
- Online anti-Japan sentiment:
 - Micro-bloggers voiced their opinions and expressed sentiments on Sina Weibo (China's equivalent to Twitter).
 - Reflected more genuine public sentiment but still manipulated by the central government to some extent.

When nationalism became propaganda

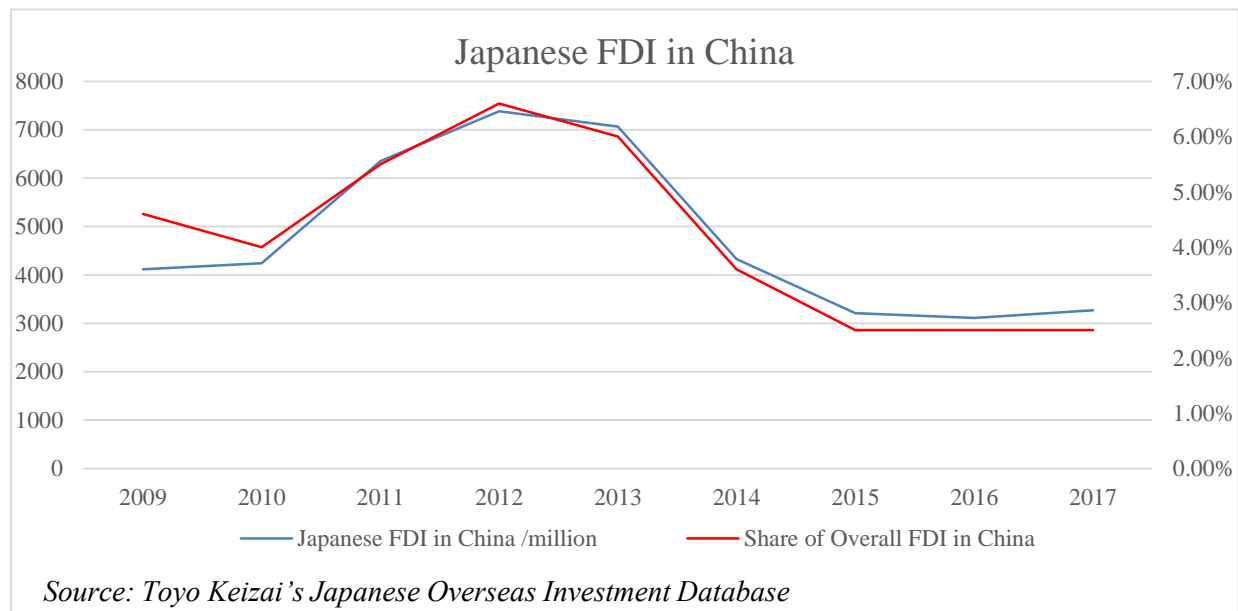


Source: Douban Movie Review, Baidu Index Search

- July 2015, National Press Office started a one-year-long propaganda campaigns to promote 10 movies and 12 newly-made TV dramas about the Sino-Japan war
- 2019-2020: a number of new anti-Japan dramas were aired to celebrate the 75 anniversary of Japan's defeat in the Second World War.

Japanese FDI in China

- Japanese FDI in China grew rapidly after 1978
 - US\$ 6 billions, 21,000 affiliates in China by 2006, accounted for 10% China's inbound FDI.
 - began to decline after 2012.



Overview of data

- Outcome variables
 - Government response (county-level, auditing study)
 - Japanese FDI, entry and exit at the prefectural level
(source: Toyo Keizai's Japanese Overseas Investment Database)
- Measures of anti-Japan nationalism
 - Cultural nationalism: number of historical anti-Japan bases at the county level
 - Political nationalism: anti-Japan street protests in 2012; anti-Japan posts on Sina Weibo; both at the prefectural level
- Control variables
 - Prefectural characteristics: Chinese City Yearbooks
 - County characteristics: population, GDP, government expenditure and revenues

Auditing study of government responses

- Sending electronic requests to the office of the city manager (county chief) via email or government website
- The letters requested help locating information about how to start a business in the city.
- Example (English translation of the Chinese text):

“ I am a business representative of a (Japanese) firm. I am looking for information on how to start a factory in your city limits. In particular, I request information on business licensing, fees, and preferential policies. Can you point me to a website or give me contact information for the appropriate person? ”

Randomization

- Main treatment: Japanese vs. German firms
 - Whether to respond as a measure of government attitude towards Japanese investors
- Treatment among requests from Japanese firms
 - General
 - Labor-intensive technology (solve employment problems)
 - High-tech
 - Charitable activities (local schools and nursing homes)
- Stratified randomization at the province level
 - Excluding counties in the metropolitan areas
- Sent letters to 1572 county offices in August 2018
- Collected information on response date, format (email/phone), content
- Response rate: 29.33% (461)

Summary statistics of main variables

	N	mean	sd	min	max
<i>Panel A: County Level</i>					
government reply	1572	0.29	0.46	0	1
Letter from Japan	1572	0.79	0.40	0	1
#Anti-Japan Bases	1572	7.53	11.67	0	54
Dummy for Anti-Japan Bases	1572	0.47	0.50	0	1
<i>Panel B: Prefectural Level</i>					
#Entry in 2006-2017	105	13.46	46.00	0	392
#Exit in 2006-2017	105	12.06	38.58	0	301
#Anti-Japan Protest in Aug-Sept 2012	105	1.34	1.03	0	4
#Anti-Japan Posts in Aug-Sept 2012/thousand	105	2.04	2.57	0	14
#Anti-Japan Violence Posts in Aug-Sept 2012/thousand	105	0.19	0.25	0	1

Effects of anti-Japan base on government response

- Econometric specification:

$$y_{ijp} = \alpha + \beta Base_i \times Treatment_i + X_i'\gamma + X_j'\theta + \lambda_p + \varepsilon_i$$

- y_{ijp} : whether a county government i in prefecture j , province p replies to messages.
- $Base_i$: the number of anti-Japan resistant bases.
- $Treatment_i$: a dummy variable that equals 1 if a county government receives messages from Japanese investors.
- X_i/X_j : a set of county/prefectural characteristics
- λ_p : provincial fixed effects.
- ε_i : the error term.

Effects of anti-Japan base on government response

	(1) Overall	(2) General	(3) Labor Incentive	(4) High-tech	(5) Social Responsibility
<i>Panel A: Discrete Measure</i>					
Letter from Japan	0.029 (0.034)	0.070 (0.056)	0.035 (0.035)	-0.028 (0.041)	0.042 (0.044)
Being Anti-Japan Bases	0.041 (0.056)	0.057 (0.076)	0.046 (0.064)	0.071 (0.063)	0.058 (0.060)
Letter from Japan × Being Anti-Japan Bases	-0.104** (0.043)	-0.172*** (0.061)	-0.063 (0.053)	-0.048 (0.056)	-0.156** (0.068)
<i>Panel B: Continuous Measure</i>					
Letter from Japan	0.019 (0.030)	0.036 (0.045)	0.043 (0.039)	-0.023 (0.035)	0.015 (0.039)
Number of Anti-Japan Bases	0.004 (0.003)	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)	0.004 (0.005)
Letter from Japan × Number of Anti-Japan Bases	-0.005*** (0.002)	-0.006** (0.003)	-0.005** (0.002)	-0.003 (0.002)	-0.007** (0.003)
Observations	1356	552	547	547	547
County Controls	Yes	Yes	Yes	Yes	Yes
Prefecture Controls	Yes	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes	Yes

Effects of anti-Japan protests on government response

	(1) government reply	(2) government reply	(3) government reply	(4) government reply
<i>Panel A: Online Sentiments</i>				
Letter from Japan × Number of Anti-Japan Posts	0.001 (0.010)		0.001 (0.010)	
Letter from Japan × Number of Anti-Japan Violence Posts		-0.053 (0.118)		-0.051 (0.122)
Letter from Japan × Number of Anti-Japan Bases			-0.005*** (0.002)	-0.005*** (0.002)
<i>Panel B: Offline Activism</i>				
Letter from Japan × Number of Anti-Japan Protest	0.016 (0.030)		0.017 (0.028)	
Letter from Japan × Dummy for Anti-Japan Protest		-0.001 (0.060)		0.006 (0.057)
Letter from Japan × Number of Anti-Japan Bases			-0.004* (0.002)	-0.004* (0.002)
Observations	1284	1284	1284	1284
County Controls	Yes	Yes	Yes	Yes
Prefecture Controls	Yes	Yes	Yes	Yes
Province FE	Yes	Yes	Yes	Yes

Effects of anti-Japan protest on patriotic nationalism

- Patriotic nationalism: Baidu index based on keyword search (patriotism/anti-Japan)
- Prefecture-year level: 105 prefectures during 2011-2017

	Patriotism Index		Anti-Japan Index	
	(1)	(2)	(3)	(4)
Anti-Japan Posts × Event	1.666*** (0.285)	1.672*** (0.284)	0.238*** (0.069)	0.240*** (0.068)
Number of Anti-Japan Bases × Event		0.005 (0.005)		0.002 (0.001)
Observations	735	735	735	735
Prefectural Controls	Yes	Yes	Yes	Yes
Prefecture FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Province Year Trend	Yes	Yes	Yes	Yes

Nationalism propaganda on government response

	(1) government reply	(2) government reply	(3) government reply
Letter from Japan × Patriotism Index 2013-16	-0.002 (0.002)		-0.002 (0.002)
Letter from Japan × Number of Patriotic Education Bases		-0.031 (0.066)	-0.024 (0.068)
Observations	1356	1356	1356
County Controls	Yes	Yes	Yes
Prefecture Controls	Yes	Yes	Yes
Province FE	Yes	Yes	Yes

Effects on Japanese FDI

- Econometric specification:

$$y_{ijt} = \alpha + \beta \text{AntiJapan}_j \times \text{After2012}_t + X_{jt}'\theta + \delta_i + \mu_j + \lambda_t + \varepsilon_{ijt}$$

- Unit of observation: Industry i - prefecture j - year t
- y_{ijt} : whether a Japanese company entry/exit.
- AntiJapan_j : number of anti-Japan posts/protests in a prefecture during Aug to Sept in 2012.
- After2012_t : a dummy variable that equals 1 if the year is in or after 2012.
- X_{jt} : a set of prefecture characteristics
- δ_i : industry fixed effect
- μ_j : prefecture fixed effect
- λ_t : year fixed effect.
- ε_{ijt} : the error term.

Average effects on Japanese FDI (2006-17)

	(1)	(2)	(3)	(4)
<i>Panel A: Firm Entry</i>				
Number of Anti-Japan Bases × Event	0.050 (0.059)	0.047 (0.059)	0.079 (0.069)	0.078 (0.069)
Anti-Japan Posts × Event	-0.013*** (0.003)			
Anti-Japan Violence Posts × Event		-0.127*** (0.023)		
Anti-Japan Protest × Event			0.001 (0.012)	
Anti-Japan Protest Dummy × Event				0.000 (0.032)
<i>Panel B: Firm Exit</i>				
Number of Anti-Japan Bases × Event	-0.083* (0.045)	-0.076 (0.049)	-0.125 (0.099)	-0.136 (0.108)
Anti-Japan Posts × Event	0.039*** (0.008)			
Anti-Japan Violence Posts × Event		0.357*** (0.082)		
Anti-Japan Protest × Event			0.033 (0.023)	
Anti-Japan Protest Dummy × Event				0.061 (0.068)
Observations	4392	4392	4392	4392
Prefectural Controls	Yes	Yes	Yes	Yes
Prefecture FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

Heterogeneous effects on Japanese FDI

	(1)	(2)
<i>Panel A: Firm Entry</i>		
Anti-Japan Posts × Event	-0.008* (0.004)	-0.008* (0.005)
Anti-Japan Posts × Event × Labor Intensive	-0.025*** (0.008)	
Event × Labor Intensive	0.084 (0.053)	
Anti-Japan Posts × Event × Consumption Goods		-0.029** (0.014)
Event × Consumption Goods		0.174 (0.123)
<i>Panel B: Firm Exit</i>		
Anti-Japan Posts × Event	0.045*** (0.012)	0.052*** (0.016)
Anti-Japan Posts × Event × Labor Intensive	-0.025 (0.022)	
Event × Labor Intensive	-0.001 (0.062)	
Anti-Japan Posts × Event × Consumption Goods		-0.061* (0.033)
Event × Consumption Goods		0.150 (0.131)
Observations	4392	4392
Prefectural Controls	Yes	Yes
Prefecture FE	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes

Effects of nationalism propaganda on Japanese FDI

	(1) Firm Entry	(2) Firm Exit	(3) Firm Entry	(4) Firm Exit
Patriotism Index	-0.004*** (0.001)	-0.000 (0.001)		
Anti-Japan Index			0.020*** (0.006)	0.033*** (0.003)
Observations	2562	2562	2562	2562
Prefectural Controls	Yes	Yes	Yes	Yes
Prefecture FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

Conclusions

- Main results
 - Governments in counties experiencing stronger Sino-Japan conflicts historically are less responsive to Japanese investors (relative to other foreign investors).
 - Politically-oriented anti-Japan nationalism does not affect local governments' attitude towards Japanese investors but deters entry and increases exits of Japanese investment.
- Cultural nationalism has a larger impact on government behavior than political nationalism. The effect of nationalism depends on the tradeoff between identity and interest.
- Political nationalism has a larger impact on FDI activities than cultural nationalism. For outsiders, the effect of nationalism depends on how they perceive it.