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Balancing Rivalry and Cooperation: Japan's Response to the BRI in Southeast Asia

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Since the ascension of Xi Jinping as the paramount leader of China, the Belt and Road Initiative (BRI) has been the cornerstone of China's foreign policy. Announced in 2013, the BRI is an ambitious investment and infrastructure program which seeks to boost global trade by enhancing China's connectivity with the rest of Eurasia through infrastructure development. As such a large-scale program, the BRI has garnered massive attention from the international community including Japan which has been a major player in the infrastructure investment sector for decades.

Considering the rivalrous relationship between China and Japan, it has become mainstream for observers to view Japan's response to the BRI from a neomercantilist perspective, which views the BRI as a threat to Japan's position as one of Asia's largest exporters of infrastructure (Bajpae, 2016; Murashkin, 2018). Accordingly, the BRI has also been regarded as one of the main catalysts behind the intensified rivalry between China and Japan in recent years. This is especially true in Southeast Asia because Japan has traditionally been the region's most dominant infrastructure developer, and because the region is also considered to be the most vital for the realization of China's BRI (Li, 2017; Zhao, 2019). Furthermore, as the realm of geopolitics and economics become increasingly more intertwined due to the rising security tensions in the South China Sea, the infrastructure investment sector has also been regarded as a vital area for China and Japan to compete for influence in Southeast Asia through economic statecraft (Bajpae, 2016; O'Neill, 2018; Yoshimatsu, 2017).

Yet, from a liberal perspective, the BRI can also become an opportunity for cooperation between China and Japan. Accordingly, many scholars and analysts have also questioned the extent to which the BRI could be regarded as a catalyst for the rivalry between China and Japan (Suzuki, 2021; Wijaya & Osaki, 2018). In fact, while Japan's announcement of the Free and Open Indo-Pacific vision in 2016 is often seen as a means to counter China's BRI (Brown, 2019; Grissler & Vargö, 2021), Japan has also demonstrated a more accommodating response to the BRI since 2017 (Nikkei, 2017). Hence, what is the nature of Sino-Japanese relations in Southeast Asia's infrastructure development sector, and to what extent could the relationship be described as a rivalry?

Based on this background, this paper seeks to evaluate the extent to which the BRI has intensified the rivalry between China and Japan in the infrastructure sector in Southeast Asia. In the extant literature, scholars have convincingly argued that the nature of contemporary Sino-Japanese rivalry is asymmetrical because while Japan considers China as a rival, China only views Japan as a rival within the context of Sino-American rivalry and Japan's alliance with the United States (Hirono, 2019; Schulze, 2019; Sinkkonen, 2019; Wallace, 2019). Hence, this paper evaluates the rivalry between China and Japan in Southeast Asia's infrastructure development sector based on Japan's response to the BRI in the region. As will be elaborated further, this paper contends that while the BRI has indeed intensified Japan's sense of rivalry with China, the extent of the rivalry should not be overestimated because Japan does not view the BRI in a monolithic way and because the main source of the rivalry comes not from the infrastructure development sector itself but the rising geopolitical tensions in the South China Sea. To elaborate on this argument, the next section of this paper provides a theoretical foundation for the discussion by reviewing the neomercantilist and liberal schools of thought. Afterwards, the following section illustrates why Japan's response to the BRI is not monolithic and the paper continues by demonstrating how the Sino-Japanese infrastructure rivalry in

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Southeast Asia is more geostrategic than it is economic.

Theoretical Framework: Neomercantilism and Liberalism

Neomercantilism and liberalism are two contrasting theories in the study of International Political Economy (IPE). Between the two, neomercantilism is regarded as the older school of thought and is the IPE counterpart to the International Relations theory of Realism. In this regard, neomercantilism shares several important characteristics with the realist school of thought. Firstly, neomercantilism also begins with the basic assumption that the international system is an anarchic self-help environment where no central authority exists above the state (Cohn & Hira, 2021). Accordingly, neomercantilism considers the state as the primary actor in international economic relations and emphasizes the centrality of power in interstate relations. However, while realism is traditionally more concerned with military power, neomercantilism emphasizes power in terms of “economic instruments and strategies of competition” (Ziegler, 2010, p. 76). Nevertheless, both theories’ emphasis on power is rooted in the assumption that states would always seek to maximize their national security and interests. In the neomercantilist context, the maximization of national security and interests are not measured in absolute terms but in relative terms vis-à-vis other states. This is because, for neomercantilists, international economic relations are a zero-sum game in which the gains of one state equal another state’s loss (Cohn & Hira, 2021). Accordingly, neomercantilism endorses the concept of relative gains, whereby states should pursue policies that maintain or improve their position in the global economic standing even when they have alternative options that could generate more overall wealth (Gilpin, 1975). However, despite its emphasis on self-help, neomercantilists do not necessarily oppose the idea of cooperation and integration with other states. For neomercantilists, economic cooperation and integration are desirable when they are necessary for countering the influence of another more powerful state (Cohn & Hira, 2021). Hence, from a neomercantilist perspective, cooperation is a strategic endeavor that is more likely to occur among states with similar political views or within the same military alliance (Gowa, 1989).

Although neomercantilism is the oldest theory in IPE, liberalism is considered to be the more dominant school of thought in the contemporary world. In contrast to neomercantilists’ emphasis on the primacy of states, liberalism considers politics and economics as two separate domains of activity. In this regard, liberalism endows domestic actors, such as private firms and corporations, with a higher degree of agency and believes that the role of the state is to create “an open environment in which individuals and private firms can freely express their economic preferences”, such as by facilitating healthy competition and providing infrastructures and security (Cohn & Hira, 2021, p. 76). Furthermore, unlike neomercantilism, which views international economic relations as a zero-sum game, liberalism believes in the concept of a positive-sum game, where states could mutually benefit from open economic interactions even when their gains are not equal (Cohn & Hira, 2021). In other words, liberals prefer policies that maximize absolute gains over relative gains. From a liberal perspective, humans naturally desire beneficial cooperation and are, therefore, agreeable to the idea of regional integration. Accordingly, private firms often request their governments to participate in trade agreements and other international cooperation mechanisms in order to enhance competitiveness and access to markets (Cohn & Hira, 2021). Furthermore, as economic activities become increasingly more integrated, it would eventually lead to a higher degree of interdependence, which is defined as the mutual dependence and reciprocal relations among states (Keohane & Nye, 2012). In this regard, liberalism also holds that interdependence is generally desirable because it could prevent states from entering into conflict by making the economic impacts of the conflict more costly compared to conditions without interdependence (Copeland, 2015).

Japan’s Response to the Belt and Road Initiative and the Myth of Monolithic Japan

Since the announcement of the BRI in 2013, Japan’s attitude toward the initiative has gradually shifted from indifference to opposition and later to conditional engagement. As several scholars point out, there were little to no discussions pertaining to the BRI within the Japanese policymaking circles from 2013 to 2014, and it was not until 2017 that the initiative received significant attention from the Japanese government (Hu, 2019; Ito A. , 2019; Tüter, 2021). Prior to 2017, Japanese policymakers only addressed the BRI within the context of whether Japan should become a member of China’s Asian Infrastructure Investment Bank (AIIB). According to Ito (2019), discussions on the AIIB started to emerge occasionally in 2014 and intensified in 2015 due to the AIIB’s founding membership

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deadline in March 2015. However, as Hu (2019) points out, Japan's attitude toward the BRI and the AIIB during this time had been largely cautious and negative. During a House of Representatives Foreign Affairs Committee meeting in 2015, for instance, Japanese policymakers expressed wariness toward the possibility that the AIIB may invest in North Korea (House of Representatives, 2015). Hence, Japan eventually abstained from membership due to issues pertaining to the AIIB's overlapping functions with the Asian Development Bank (ADB), internal governance, and transparency (Ito A. , 2019; Ito T. , 2015). However, while Japan has not joined the AIIB as of the writing of this paper, Japan began to reconsider its potential membership following the participation of several Western countries in 2015, leading observers to point out the uncertainty in Japan's response (Sakamoto, 2015; Suwa, 2015). Accordingly, Japanese policymakers continued to discuss the AIIB and the BRI since then, and they began to pay significantly more attention to the BRI in 2017 (Ito A. , 2019). Eventually, Japan began to adopt a conditional engagement approach toward the BRI as signified by the attendance of Toshihiro Nikai as the Secretary-General of Japan's Liberal Democratic Party (LDP) at the 2017 Belt and Road Forum for International Cooperation (Hu, 2019; Ito A. , 2019; Tüter, 2021).

Hence, how should Japan's changing attitude and oftentimes uncertain responses toward the BRI be understood? As briefly discussed in the theoretical framework, the neomercantilist perspective posits the BRI as a threat to Japan's dominant position in Southeast Asia's infrastructure development sector, while the liberal perspective emphasizes the opportunity for cooperation presented by the initiative. However, these contrasting views and the tendency of observers to view states as the smallest unit of analysis have often led to the misconception that Japan's response to the BRI could only be one or the other. Yet, as this section contends, the nature of Japan's response to the BRI has been multifaceted because Japan is not a monolithic actor. This means that within the domestic realm, there exist various actors with different and oftentimes contradictory views as to how Japan should react to the BRI. Accordingly, as Tüter (2021) contends, Japan's shifting policy toward the BRI was characterized by an unusual decision-making process due to the differing viewpoints of policymakers.

Firstly, several important domestic agents that adopt a liberal viewpoint on the BRI include the Ministry of Finance (MOF), the Ministry of Economy, Trade and Industry (METI), and Japanese business executives (Black, 2017; Ito A. , 2019; Suzuki, 2021; Tüter, 2021). This is unsurprising considering that these actors operate within the economic sphere. From an economic perspective, the initial results of the BRI were promising for Japan to meet its growing demand for overseas markets in light of Japan's protracted economic stagnation (Hu, 2019). For instance, as Khan (2015) and Suzuki (2021) point out, an increase in demand for China's BRI projects could provide Japanese businesses with potential commercial benefits, especially in consideration of the shrinking domestic demand for infrastructures due to Japan's aging population. Furthermore, as Suzuki (2021) contends, the contemporary relationship between China and Japan is also characterized by a very high degree of economic interdependence, which makes conflictual approaches even less desirable for these economic actors. Accordingly, the MOF has also been in close contact with China since 2015 to negotiate the criteria for Japan's AIIB membership in spite of the United States' opposition toward Japan's participation in the China-led institution (Black, 2017). In addition, Finance Minister Taro Aso and ADB President Takehiko Nakao have also endorsed the idea of AIIB-ADB cooperation in co-financing Asia's infrastructure projects (Katada & Liao, 2020; Reuters, 2015). As the finance minister himself argued, the infrastructure development sector is not necessarily a zero-sum game between the two institutions (Reuters, 2015). Furthermore, other prominent figures that advocated for Japan's BRI engagement include LDP Secretary-General Toshihiro Nikai and Prime Minister Shinzo Abe's Executive Secretary Takaya Imai, the latter of whom proposed a METI-oriented approach toward the BRI (Tüter, 2021).

On the other hand, the domestic actors that adopt a neomercantilist stance toward the BRI include the Ministry of Foreign Affairs (MOFA), the Ministry of Defense (MOD), and the National Security Council Secretary-General Shotaro Yachi (Black, 2017; Tüter, 2021). Indeed, in contrast to how the actors on the liberal side of the spectrum are mostly economic actors, the domestic agents that have a more neomercantilist orientation are mostly actors whose work pertains to security issues. In response to the BRI, both MOFA and MOD have emphasized their preference for "closed regionalism through strategic partnerships with key regional players in a bid to contain China", with MOFA being especially prone to American pressures on the AIIB membership issue (Black, 2017, p. 165). This is because, for these actors, the BRI represents an instrument of power projection that could expand China's sphere of influence at the expense of Japan's international position (Insisa & Pugliese, 2020). In other words, unlike the

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liberal actors that seek to maximize Japan's absolute gains, these neomercantilist actors view the BRI from the perspective of Japan's relative gains. Nevertheless, although the neomercantilist views have undoubtedly been apparent in Japan's overall response to the BRI, this paper concurs with Suzuki's (2021) argument that the existence of domestic actors who view the BRI "as potential opportunities for cooperation or commercial gain" indicates that Japan is not necessarily "locked in a dynamic of rivalry with China" (p. 11). Accordingly, Japan's response to the BRI should be understood not as a policy that is made by a monolithic nation-state but as one that is resulted from the interactions among various domestic actors with differing viewpoints. Moving forward, the next section of this paper discusses how Japan's response to the BRI is manifested in Southeast Asia's infrastructure development sector.

Sino-Japanese Relations in Southeast Asia's Infrastructure Development Sector

For countries in Southeast Asia, the directions of Sino-Japanese relations could carry significant implications for the region. In line with the neomercantilist perspective, it is difficult to deny that the rivalry between the two countries in the region has indeed intensified following China's BRI expansion. As Ng (2017) points out, Chinese investments in Southeast Asia have increased significantly since the announcement of the BRI, thus making China a new major player in the region's infrastructure development sector. On the other hand, with China's rapid economic growth, it has become more difficult for Japan to compete in terms of raw material capabilities. Hence, in response to the BRI, Japan has adopted what Wallace (2019) coins as a strategy of 'strategic contrast' by emphasizing its infrastructure program as a more sustainable and high-quality alternative to China's BRI infrastructures. This strategy is manifested in Japan's Partnership for Quality Infrastructure program which was announced at the 21st International Conference on the Future of Asia in May 2015 (METI, 2015). Although many observers have pointed out that Japan is still the leading country in the competition for Southeast Asia's infrastructure development (Fernandez, 2019; Jamrisko, 2019; The Economist, 2021), Japan's sense of rivalry with China intensified further following Indonesia's controversial decision to award the \$5 billion Jakarta-Bandung high-speed railway project to China over Japan in September 2015. Unsurprisingly, this case gained significant attention in Japan, with prominent officials, such as Suga Yoshihide, calling Indonesia's decision "completely incomprehensible and extremely regrettable" (Kantei, 2015, para. 2). Accordingly, Japan responded to the incident by making revisions to its infrastructure investment policies, such as changes in loan guarantees and insurance (Katada & Liao, 2020; Zhao, 2019).

Yet, despite the intensified rivalry, there have also been various forms of cooperation that occur in Southeast Asia between China and Japan. In fact, as Ito (2019) points out, Japanese companies have already been involved in China's BRI projects in Southeast Asia even before Japan formally announced its intention to cooperate in the BRI. For example, this is evident in the China-Indonesia Economic and Trade Cooperation Zone in which Japanese enterprises are among the main tenants of the BRI-backed Indonesian industrial park (Han, 2019; Song, et al., 2021). Following the softening of Japan's attitude towards the BRI, Japan began to officially encourage Japanese businesses to cooperate with Chinese companies in Southeast Asia by preparing a BRI cooperation guideline (The Mainichi, 2017). Through METI and MOFA, Japan also extended and formalized its BRI cooperation in Southeast Asia further by signing the China-Japan Memorandum on Business Cooperation in Third Countries (METI, 2018).

Hence, to what extent could Japan's relationship with China in Southeast Asia's infrastructure development be described as a rivalry? Continuing from the discussions in the aforementioned section, this one further contends that although the BRI has intensified Japan's sense of rivalry with China in Southeast Asia, the nature of this rivalry is more geostrategic than it is economic. Specifically, the primary catalyst behind the intensified rivalry lies in the potential political implications of the BRI on the ongoing South China Sea dispute between China and several members of the Association of Southeast Asian Nations (ASEAN). Evidently, China has already been using its investments to gain the political support of non-claimant ASEAN countries like Cambodia in order to prevent ASEAN from forming a united response vis-à-vis China on the dispute (O'Neill, 2018; Storey, 2013). Although Japan is not a claimant in the South China Sea dispute, the direction of the dispute is of significant importance to the Japanese government because they view it as an issue that is closely connected to Japan's territorial dispute with China in the East China Sea. Specifically, as Storey (2013) and Yoshimatsu (2017) contend, this is because, if the dispute progresses in China's favor, it could lead to the strengthening of China's political leverage vis-à-vis Japan in the East China Sea dispute. Accordingly, the concerns of the Japanese government were exacerbated further following China's rejection of the South China Sea Arbitration ruling in 2016 as it demonstrates the ineffectiveness of

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international legal institutions in regulating China's behavior (Koga, 2019).

Thus, in light of China's BRI expansion, Japan has also been using its infrastructure program to counter China's economic statecraft in Southeast Asia. For instance, after ASEAN failed to address the South China Sea arbitration ruling in their 2016 joint communique due to Cambodia's support for China, Prime Minister Abe reacted by holding a meeting with Cambodian Prime Minister Hun Sen in an attempt to "change Cambodia's position through infrastructure support commitments" (Zhao, 2019, p. 560). Incidentally, the fact that the South China Sea issue was unconventionally addressed at the Seventh Mekong-Japan Summit in 2015 also reinforces the notion that the Sino-Japanese infrastructure rivalry in Southeast Asia is a spillover of the rising geopolitical tensions in the South China Sea (Insisa & Pugliese, 2020; Parameswaran, 2015). Interestingly, this paper also finds that Japan's softening attitude toward the BRI was not only a response to the demands of its liberal-viewing domestic agents but also a means to balance China's expanding influence in Southeast Asia by increasing its own presence in the region's infrastructure development sector (Brînză, 2018; Insisa & Pugliese, 2020). Furthermore, the geostrategic nature of the Sino-Japanese infrastructure rivalry could also be observed in the Japan-backed East-West Economic Corridor project. As Nitta (2019) points out, the completion of the East-West corridor would provide Mekong states – including Cambodia – with greater access to the large Indian market, thus making them less dependent on China. Additionally, Japan has also strategically contrasted the East-West corridor against the China-Southeast Asia North-South corridor plan in consideration that the latter is more beneficial to China from a geostrategic perspective (Insisa & Pugliese, 2020). Hence, while rivalry *does* exist between China and Japan in Southeast Asia's infrastructure development sector, it can be argued that Japan sees the rivalry in zero-sum terms mostly within the context of its geostrategic interests in the South China Sea as opposed to within the infrastructure development sector itself.

Conclusion

This paper has demonstrated how cooperation between China and Japan in Southeast Asia's infrastructure development sector exists despite the intensified rivalry. Firstly, at the domestic level, one could find that various agents within Japan have opposing views as to how Japan should respond to the BRI, with one side being more neomercantilist and the other being more liberal. Consequently, this led Japan to pursue a policy that could balance the policy preferences of both sides. Secondly, as the primary source of rivalry comes from geopolitical tensions in the South China Sea rather than the infrastructure development sector itself, the competition between the two countries may not always be zero-sum. From a neomercantilist perspective, one could emphasize how geopolitical conflicts have prevented China and Japan from engaging in deeper cooperation in the region. Yet, from a more liberal point of view, one could also argue that interdependence and economic interests have prevented Japan from pursuing a full balancing act against the BRI. In this regard, this paper has demonstrated that both theories are relevant for understanding Sino-Japanese relations in Southeast Asia. Accordingly, the paper suggests that it is more productive to treat neomercantilism and liberalism as theories that are complementary rather than contradictory.

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