Testimony before the U.S.-China Economic and Security Review Commission

China's Belt and Road Initiative: Five Years Later
Regional Reactions and Competing Visions

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Tobias Harris
Vice President, Teneo Intelligence
Economy, Trade, and Business Fellow, Sasakawa Peace Foundation USA

Introduction

Thank you for giving me the opportunity to testify before the U.S.-China Economic Security Review Commission today on the subject of regional reactions to China's Belt and Road Initiative (BRI). China's USD 1tn program of infrastructure investment presents opportunities for its sixty-five member countries to develop, while also raising risks of over-dependence on Chinese investment, unsustainable borrowing, and high environmental and social costs for host nations.[1]

The risks and opportunities of the BRI extend even to Asia's developed democracies, which already have complex economic relationships with China and interests in promoting development across Asia. In my remarks today I will focus on how Japan – which is in the process of developing a strategy of limited engagement with the BRI – has responded to the BRI, touching briefly on Australia to show some of the difficulties presented by the BRI. The Japanese case is particularly instructive because it shows that on the one hand, building a positive relationship with China may increasingly require engagement with the BRI in some form, while, on the other hand, showing that it is possible and even necessary for Asia's wealthier democracies to pursue their own development strategies to help BRI members minimize their dependence on China and maximize their freedom of action. Japan may not be able to match China's promises dollar for dollar, but through its willingness to increase its lending, loosen rules and implement other reforms to its foreign assistance institutions, and to promote private investment by Japanese companies Tokyo has arguably outlined a possible response to the BRI even as it considers participating in the BRI.

Japan's approach to the BRI not only provides a model for the US consider as it formulates its own Asia policies, but also is an opportunity for the US to strengthen its relationships with Japan, Australia, and, increasingly, India, as they all determine how to respond to the BRI.

Japan's shift on the BRI

As we meet today, Japan's approach to China's Belt and Road Initiative is a moving target. After years of keeping its distance from the BRI – and, with the United States, actively opposing the creation of the related Asian Infrastructure Investment Bank (AIIB) – the Abe government has signaled that it is developing a strategy of limited cooperation with the BRI. Japan's BRI strategy is still a work in progress, so our discussion today must by necessity be tentative. However, what we know thus far suggests that the Abe administration is developing a strategy whereby Japanese public financial institutions like the Japan Bank for International Cooperation (JBIC) and Nippon Export and Investment Insurance (NEXI) will provide financial support for Japanese corporations working on BRI projects, provided the projects satisfy certain conditions, including transparency, profitability, debt sustainability for the borrower, and no possibility that the infrastructure could be converted to military purposes. Early reports suggest that public finance will focus on backing joint Japan-China projects regarding the development of renewable energy infrastructure in third countries, promoting high-speed industrialization in third countries, and the proposed rail connection between China and Europe.[2]

These conditions are largely consistent with the Abe administration's focus on "high-quality" infrastructure investment, and, as such, do not necessarily signify a sharp break with its prevailing approach to regional development or its broader foreign economic policies. Instead, from what we know of the Abe government's approach, the emerging policy shift is likely driven by pragmatic calculations that recognize the role that China and the BRI will play in regional development, infrastructure investment, trade facilitation, and connectivity not just within Asia but between Asia and other regions. The Abe government is not ceding leadership in regional development to China but it is recognizing that the initiative does bring much-needed investment to the region – investment that Japan and the Japan-led Asian Development Bank (ADB)[3] have long recognized as necessary – and that whether or not Japan participates, the BRI will go forward and could reshape Asia and much of the developing world over the coming decades. By endorsing participation by Japanese firms, the Abe government will tacitly acknowledge this reality and try to find ways for Japan to profit from the BRI and perhaps shape the initiative on the margins in a way more friendly to Japanese interests and values.

The Abe administration's shift is part of a broad recalibration of Japan's foreign economic policies since the United States withdrew from the Trans-Pacific Partnership in January 2017. From Abe's decision to join TPP talks in March 2013, the regional trade pact had been the predominant focus of the Abe administration's foreign economic policy, as it provided a framework not only for addressing longstanding issues in its bilateral relationship with the United States but also established "high-quality" rules that would govern trade and investment in the Asia-Pacific in the twenty-first century. While TPP's origins predate the BRI, as the talks proceeded, it became increasingly clear that for Japan, TPP was at least part of its answer to the BRI. While not explicitly focused on helping middle-income economies develop, the inclusion of Vietnam and

Malaysia and the prospect of other Southeast Asian countries joining the bloc in the future suggested an approach to development in which developing countries would, in exchange for access to the markets of the US and other wealthy members (making them the agreement's biggest beneficiaries in GDP terms[4]), undertake politically difficult domestic reforms that could fundamentally restructure their economies. As long as the Abe administration was focused on implementing TPP as it was signed in February 2016, it could afford to remain aloof from the emerging China-led framework for regional development.

US withdrawal severely undermined the concept of TPP as development model, forcing the Abe government to rethink its overall approach to trade, investment, and development in Asia. While Tokyo eventually decided to lead the bid to revive the TPP without the US – now the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) – without the US, it was not nearly as beneficial or as appealing to the developing-country members, and Vietnam and Malaysia repeatedly signaled their skepticism about the post-US TPP. The Abe government appeared more supportive of the Regional Comprehensive Economic Partnership (RCEP) after the US left TPP, but the larger, more economically diverse membership of RCEP meant that it was never going to satisfy Japan's desire to advance higher standards for regional integration – and it is possible that the Abe government's insistence on raising RCEP's standards, which Abe and other officials repeated after the US withdrew from TPP, indicated that Tokyo was more interested in slowing RCEP's progress rather than guiding them to completion. The other difference, of course, is that RCEP included China, meaning that unlike TPP it would not be a tool for reshaping China's economic practices or help Asian countries reduce their dependence on China. Therefore, after the US withdrawal from TPP, Japan was left with a trade agreement that did not have the same appeal to middle-income Asia while facing a China that was aggressively expanding its ambitions for integration through the BRI framework.

The result is that beginning in spring 2017 the Abe administration began articulating a multi-faceted updating of its foreign economic policies. Despite Abe's dismissing the value of TPP without the US on multiple occasions,[5] the prime minister decided that Japan would throw its weight behind efforts to revive the agreement without the US and set an ambitious goal of finalizing the revisions by the Asia Pacific Economic Cooperation (APEC) summit in Vietnam in November 2017. Additionally, it would also push to conclude an economic partnership agreement (EPA) with the European Union, talks for which had begun in 2013. By pursuing these agreements, especially the TPP-11, Japan would show that even as the US shifted away from multilateral to bilateral and unilateral approaches to trade, the multilateral trading system was still deepening on multiple fronts – and Japan was still invested in advancing new rules to govern commerce in the twenty-first century. Meanwhile, in May Japan and India announced the creation of the Asia-Africa Growth Corridor (AAGC), an infrastructure investment initiative that appeared to be a direct challenge to the BRI.

At the same time, however, the Abe government began quietly but purposefully signaling to Beijing that Japan is open to participating in the BRI in some capacity. Even as Japan was resurrecting TPP and assuming leadership of the bloc of eleven, the Abe government began making overtures to Beijing. The clearest sign of a shift came in mid-May, when Abe dispatched Takuya Imai, his principal private secretary, along with the Liberal Democratic Party's (LDP) secretary general Toshiro Nikai, widely regarded as a leading LDP "China hand" to Beijing to attend the Belt and Road Forum. During this visit, Nikai met with Xi and conveyed a letter from Abe expressing the prime minister's hopes for an exchange of visits and more constructive bilateral engagement. This delegation communicated the Abe administration's seriousness regarding rapprochement with Beijing, in which cooperation under the auspices of the BRI could play a central role.

When Abe met Xi on the sidelines of the G20 in Hamburg in July 2017, the joint statement included the first mention of BRI – "Japan and China will discuss how to contribute to the stability and prosperity of the region and the world, including the One Belt, One Road initiative."[6] By November, when Abe met Xi and Chinese Premier Li Keqiang on the sidelines of APEC, the language had been upgraded: the joint statement with Xi now said, "The two sides *shared the view* [emphasis added] that they will together discuss how Japan and China will contribute to the stability and prosperity of the region and the world, including the 'the Belt and Road' Initiatives."[7] The joint statement from Abe's meeting with Li two days later included the same language but also noted:

> Both sides shared the view that Japan and China should cooperate with each other in order to deepen and expand their win-win economic relationship, and that developing Japanese and Chinese businesses in third countries will be beneficial not just to Japan and China but to the development of the countries concerned as well. They also shared the view that exchanges in the business community should be promoted.[8]

This point from the Abe-Li summit is particularly important because it directly anticipates the policy approach the Abe government eventually indicated it would adopt in December 2017, whereby it would provide financial support for Japanese firms working on BRI projects but not directly participate in the BRI or join the AIIB. This trajectory has continued since the start of 2018. On 10 January, Abe met with Nikai and Yoshihisa Inoue, secretary-general of the LDP's coalition partner Komeito (which has its own connections to China) and reiterated that Japan's cooperation with the BRI would be on a case-by-case basis, with decisions made on the basis of the aforementioned criteria as well as from consideration of China's preferences.[9]

Political drivers

As surprising as Japan's embrace of the BRI has been, it bears stressing that Japan's embrace is thus far not only still pending but also looks to be modest: private-sector-led investment with government backing, with no indication that Japan will change its stance on non-participation in the AIIB. While Tokyo is learning to live with the evolving China-led development regime, it is not prepared to jump in with both feet and, as will be discussed in the next section, is still focused on its own initiatives. This is not a grand strategic realignment, the birth of something like what former Prime Minister Yukio Hatoyama called an “East Asian Community.”[10] Rather, it is driven mainly by domestic political considerations, which, as the Council on Foreign Relation’s Sheila Smith has noted, have increasingly played an outsized role shaping Japan’s China policies.[11]

First, the Abe government has signaled that it wants to use the fortieth anniversary of the Japan-China Treaty of Peace and Friendship as an opportunity to put the bilateral relationship on a more stable footing. The two governments have not minimized the significant obstacles to a genuine sea change in their relationship – the territorial dispute and broader competition in the East China Sea, Japanese concerns about China’s support for North Korea, and tensions regarding China’s burgeoning military power – but have agreed that bilateral dialogue with a view towards building a stable relationship is worthwhile. As 2017’s joint statements recognized, economic cooperation will be an important factor for restoring trust between the two countries. The expectation is that the commitment to stabilizing the bilateral relationship will lead to an exchange of high-level visits, including visits by Xi and Li to Japan and Abe to China and the drafting of a new bilateral communiqué that would highlight the importance of bilateral economic cooperation, particularly through the BRI.

Public opinion polls suggest that the Japanese public is broadly supportive of efforts to strengthen bilateral cooperation. The annual survey of public opinion in Japan and China conducted by Japanese think tank Genron NPO found that while sources of distrust remain, especially the dispute over the Senkaku/Diaoyu Islands, the Japanese public is increasingly less pessimistic about the state of the relationship at present and less pessimistic about the future of the relationship.[12] The 2017 poll, which was released in December, suggests that Abe can count on domestic political support for reaching out to Beijing. The poll found:

- 59.2% of Japanese believe “a new, stronger cooperating relationship should be established between the two countries for the sake of a stable and peaceful order”;
- 40.7% of Japanese believe that “[strengthening] trust between the two governments” would be useful for improving the relationship;
- The share of respondents who identified China as a country that poses a military threat to Japan fell from 66.6% in 2016 to 45.3% in 2017.

The perception that China is less threatening to Japan and that it is important for the two governments to work together stands in stark contrast to the years following the 2010 collision between Japanese Coast Guard and Chinese fishing vessels near the disputed islands and the 2012 standoff following Japan’s “nationalization” of the islands, after which Japanese public hostility to China rose sharply.

However, while the public is more open to bilateral cooperation, the Genron NPO poll shows that the Japanese public is also highly skeptical about the prospects for economic cooperation. Only 27% of respondents (9.7% strongly, 17.3% relatively) agreed that the two economies' complement each other, "making it possible to build a win-win relationship." A plurality – 35.9% - expects that economic relations will worsen (although this was an improvement over 2016 when 44.2% were pessimistic). Only 8.6% said Japan should cooperate with China's economic plans; a large majority (61.4%) was not sure. The implication is that while the public is supportive of diplomatic measures to reduce tensions and strengthen cooperation, the Japanese people are not necessarily clamoring for Japan to follow China's economic leadership. Whether intentionally or not, the Abe government's approach appears to fall at this sweet spot. For the same reason, the Japanese government's approach could be highly sensitive to incidents in the East China Sea, such as the recent passage of a Chinese submarine just outside territorial waters near the disputed islands, which prompted protests from the Japanese government.[13]

At the same time that the Abe government is sensitive to the opportunities and constraints presented by changing public attitudes towards China, it is also sensitive to the Japanese business community's interest not just in a stable relationship but in the business opportunities arising from the BRI. It is not clear just how widespread interest in the BRI is among Japanese firms: a May 2017 Reuters survey found that 95% had no desire to participate in the BRI and no firms were currently considering participation in BRI projects.[14] However, it is entirely possible that business sentiment changed once the Abe government signaled that Japanese participation (with public financing) was possible. One indicator of corporate Japan's enthusiasm is advocacy in favor of BRI participation by the leadership of Keidanren, Japan's leading business federation. Keidanren chairman Sadayuki Sakakibara attended the Belt and Road Forum at Beijing's invitation; approved of references to BRI cooperation in the 2017 Abe-Xi joint statements, noting that Japanese businesses were especially interested in "connectivity infrastructure" projects;[15] and led a business delegation to China in November during which he argued that bilateral cooperation through the BRI would benefit not just the two countries but the whole world.[16] Meanwhile, the joint statement produced by the Keidanren-hosted Japan-China CEO Summit in December included a BRI plank that stated: "Both sides agreed to work closely with each other in close cooperation in third-country markets in which both countries' companies can demonstrate their superiority within the 'One Belt, One Road' framework."[17] (In his remarks at a reception for the summit, Abe noted that Sino-Japanese cooperation on infrastructure could "contribute greatly to the prosperity of Asian peoples" and suggested the possibility of cooperation as part of the BRI, but also said such cooperation would be under Japan's "Free and Open Indo-Pacific Strategy" framework.[18])

At a basic level, Keidanren's support for Japanese participation likely reflects concerns that by foregoing participation, Japanese firms – which have already been engaged in a fierce competition with Chinese firms for infrastructure projects across the region – would be operating at a disadvantage in the race to build the infrastructure Asia's middle-income countries need to develop. Corporate Japan's concerns likely include not only the advantages that Chinese firms could enjoy but also firms from other economic rivals, including South Korea, Germany, and France, which have signaled their willingness to cooperate with China through the BRI. Corporate Japan's influence should not be overstated: its voice carries weight in government deliberations, but it does not necessarily make the government's policies. Nevertheless, in this case, given the Abe administration's focus on creating new market opportunities for Japanese firms overseas and promoting Japanese exports, including infrastructure, the administration was likely receptive to corporate Japan's arguments that if Japan remained outside of the BRI, Japanese firms would miss profitable opportunities. However, it is too early to say how many Japanese companies will participate in the BRI, in what countries and on what projects they will work, and just how profitable participation will be.

Japan's regional development strategy

As Abe's aforementioned remarks at the Japan-China CEO Summit suggest, Japan's participation in the BRI will occur within the existing framework of Japan's regional development, trade, and investment strategies. Japan has contributed to the development of Southeast and South Asian countries since the early 1950s, beginning with reparations during the early postwar period and continuing to significant amounts of official development assistance (ODA) and investment as Japan's economy achieved takeoff growth. In a broad sense, Japan's postwar approach to ODA and investment in Asia's developing countries anticipated what China is trying to accomplish through the BRI. The Japanese government recognized that by investing in the industrialization of Asia's less-developed countries – particularly through energy infrastructure and "connectivity" infrastructure like roads and ports – it could create overseas market opportunities for Japanese firms and exports, strengthen Japan's political influence in strategically important countries, and secure access to energy supplies and other resources needed for Japanese producers.[19]

While over time Japan has directed more resources to poverty alleviation in least-developed countries, its development strategy has remained preoccupied with the economic development of Southeast and South Asia. For example, in 2015, Japan's total gross ODA disbursements were roughly USD 12bn, approximately half of which went to Asia – including USD 3.2bn to Southeast Asia and USD 2.46bn to South Asia. Revealingly, the two largest recipients of Japanese ODA were India and Vietnam, which received USD 1.54bn and USD 1.42bn in ODA respectively. Both countries are, of course, increasingly important strategic partners for Japan and targets for Japanese foreign direct investment as they become integrated in Japanese supply chains.[20]

However, as China has grown wealthier and began using its resources to promote economic development through infrastructure construction in Asia and elsewhere in the developing world, Japan has found itself locked in a competition with China to win projects, preserve market share, and maintain political influence across Southeast Asia after decades of being the region's preeminent economic power.[21] As a result, the Abe administration has upgraded its approach to regional development in order to preserve a leadership role for Japan even in the face of what has been described as China's "Marshall Plan" for the twenty-first century. At the same time, as the Abe government articulated Abenomics, its program for revitalizing Japan's economy, it identified infrastructure exports as a source for potential growth, meaning that competition with

China and Asia's "infrastructure gap" presented Japan with a major opportunity. Therefore, in March 2013, the administration created a prime ministerial advisory council to develop a strategy for infrastructure exports and develop new tools for providing public support for Japanese exporters. The government established a target of JPY 30tn in orders for infrastructure exports by 2020, three times larger than the JPY 10tn Japan exported in 2010. Abe and other senior officials have persistently used foreign trips to promote Japan's infrastructure systems, especially high-speed rail and subway and electrical systems (including nuclear power).

As the Abe government developed this approach, it recognized that Japan would not be able to match China in quantitative terms and has therefore articulated a regional development strategy focused on "quality." The February 2015 revision of Japan's Development Cooperation charter stresses the need for "quality growth" that is inclusive, sustainable, and resilient.[22] In Asia, this would entail "both physical and non-physical infrastructure including that which is needed for strengthening connectivity and the reduction of disparities both within the region and within individual countries," with a focus on helping Southeast Asian countries escape the "middle-income trap." Several months later, in May 2015, Abe announced the creation of the Partnership for Quality Infrastructure as part of the broader overhaul of Japan's development policy. Japan would increase its investment in Asian infrastructure to JPY 13.2tn between 2016 and 2020, a 30% increase over the previous five-year period, with the funds divided between the ADB, the Japan International Cooperation Agency (JICA), and the Japan Bank for International Cooperation's (JBIC) infrastructure investment program, the Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN). To encourage private investment, JBIC would relax its conditions requiring host governments to offer guarantees of their ability to repay loans and instead offer to cover losses incurred by private investors. JICA would streamline the process of dispensing loans and grants and would work closely with the ADB to foster public-private partnerships (PPP). JICA and the ADB would establish a fund to enable them to make equity investments in support of infrastructure investment. Recognizing that Asia's infrastructure needs are substantial, he argued, "We should seek 'quality as well as quantity.' Pursuing both ambitiously is perfectly suited to Asia."[23] This program was clearly intended as Japan's response to the then-nascent BRI and AIIB.

The Abe government would further refine its infrastructure export strategy in 2016, when, in conjunction with its hosting of the G7 in May 2016, it unveiled the "High-Quality Infrastructure Export Expansion Initiative," which included new capital for Japan's public financial institutions that would, from 2017 onwards, increase annual support for infrastructure exports to JPY 200bn annually from JPY 110bn, sharply reduce the time required to secure a yen-denominated international loan, explore euro-denominated lending, and increase NEXI's insurance coverage for overseas projects to 100%.[24]

Seen from this perspective, the pending decision to participate in the BRI appears to be simply a new component of a wider-reaching strategy rather than a new strategy in and of itself. Limited participation in the BRI may present Japan with new opportunities for both meeting its development goals by helping to close Asia's infrastructure gap and for meeting its infrastructure export target. Indeed, even as Japan has moved closer to embracing the BRI, it has deepened its partnership with India to promote its own infrastructure initiative, the AAGC. The Abe government has not only engaged India as a partner for advancing "quality" infrastructure in Asia and neighboring regions, it has also taken advantage of India's decision to not join the BRI to ramp up its own development assistance, complementing the broader strategic engagement between the Abe and Modi governments. The joint statement from Abe's September 2017 visit to India includes a laundry list of Japanese aid and investment projects in India, including infrastructure development in India's North Eastern Region (which, coming in the wake of the military confrontation between India and China at Doklam, was opposed by China[25]); major rail investments, including the Mumbai-Ahmedabad high-speed rail and a JICA-sponsored technical assistance program for the National High Speed Rail Corporation; subway projects in six major cities; and energy, sanitation, and "smart city" cooperation.[26] As noted previously, as of 2015 India was already the largest recipient of Japanese ODA, and the latest bilateral exchanges suggest that India will continue to grow as both a partner and recipient of public development assistance and private investment from Japan. The deepening of the Japan-India partnership puts Japan's approach to the BRI in perspective. In much the same way Japan has pursued TPP as an alternative vision for the regional trading regime, Japan has pursued its own vision of regional development. Even if Japan seeks areas of cooperation with China, strategic competition between the two countries will lead Japan to keep China-led initiatives at an arm's length and will lead it to pursue its own vision for regional development even if it cannot match China in terms of funding.

Comparison: Australia and the BRI

Japan's evolving approach to regional development and the BRI contrasts in important ways with Australia, another Asian developed country with a complex, interdependent economic relationship and an often-contentious political and security relationship with China. Like Japan, Australia recognizes Asia's needs for infrastructure and has also stressed the importance of "high-quality" infrastructure that "has robust social and environmental safeguards and avoids unsustainable debt burdens on the economies of the region."[27] Unlike Japan, however, Australia has struggled to chart an independent path that balances cooperation with China and pursuit of its own development strategy. It may belatedly be reaching a similar policy mix as Japan has articulated.

To a certain extent, however, Australia and Japan are moving in opposite directions. Whereas Japan opposed the AIIB and refused to consider BRI participation before 2017, Australia concluded a free trade agreement with China in 2014, was a founding member of the AIIB in 2015, and, according to Chinese Ambassador Cheng Jingye, entered discussions with China in 2015 and 2016 regarding how China and Australia could cooperate under the auspices of the BRI, including a possible linkage to Canberra's plan for developing Northern Australia.[28] However, ahead of a March 2017 visit to Australia by Premier Li Keqiang, the Turnbull government abandoned talks regarding a memorandum of understanding for a BRI-Northern Australia linkage.[29] In short, even as Japan was preparing to discuss how to cooperate with the BRI, Australia was rejecting

Chinese overtures to extend the initiative to Australia itself. Australia has not categorically rejected the BRI; Trade Minister Steven Ciobo attended the Belt and Road Forum in May 2017, for example, on which occasion he said, "Australia supports the aims of initiatives such as Belt and Road that improve infrastructure development and increase investment opportunities in the Asia-Pacific region."[30]

As with Japan, Australia's approach to the BRI has been strongly shaped by domestic politics. In Australia's case, despite signals from Canberra that it is willing to work with China on infrastructure investment across Asia, Australia has been in the midst of a "panic" about the Chinese government's influence in Australia following reports about "thought policing" of Chinese students at Australian universities and the resignation of opposition Senator Sam Dastyari after it emerged that he appeared to have accepted Chinese donations in exchange for defending Beijing's positions, particularly on the South China Sea.[31] Prime Minister Malcolm Turnbull himself escalated tensions with China when, speaking in Mandarin, he evoked Mao Zedong by saying "the Australian people stand up" in response to perceived Chinese influence operations.[32] In this context, it may be difficult for the Turnbull government to bolster cooperation with China on infrastructure investment or extending the BRI to Australia proper. In fact, since the start of 2018, Canberra has feuded with Beijing over its development policies after Minister for International Development and the Pacific Concetta Fierravanti-Wells criticized China for funding "useless buildings" in the South Pacific,[33] prompting the Chinese government to oppose Canberra's "irresponsible remarks."[34] In this context, it may be difficult if not impossible for Australia to move beyond what Australian scholar Ian Hall calls Australia's "wait-and-see" BRI strategy.[35]

At the same time, Australia is struggling to articulate an independent development strategy. While it has enthusiastically embraced the TPP-11 alongside Japan, the Australian government has continued to cut ODA budgets and has yet to articulate new policies to leverage private-sector investment. This may be beginning to change: in December the Turnbull government issued a report highlighting opportunities for infrastructure investment in the Association for Southeast Asian Nations (ASEAN)[36] and the revival of the "quad" of Australia, the US, Japan, and India could create new opportunities for economic cooperation. Nevertheless, even as Japan has responded to China by revamping its development institutions, promoting private investment, and pursuing new relationships to promote regional development before seeking to cooperate with the BRI, Australia has struggled, failing either to reach an accommodation with the BRI or to develop a new strategy for competing with China.

By comparing how Japan and Australia have responded to the BRI, there are two takeaways. The first is that domestic politics matters. Part of the reason Japan is only now pursuing a role in the BRI is that the Japanese public is not nearly as hostile towards China as it was after the Senkaku/Diaoyu dispute intensified after 2012. Similarly, the uptick in fear and hostility in Australia towards China's presence in Australia has made it difficult for Canberra to take a consistent position towards the BRI. Second, although Japan has argued for "quality" infrastructure investment, it has recognized that it cannot counter China without spending some money. While Japan's

ODA budget has not necessarily grown, as mentioned previously the Abe government has channeled more funds to its overseas investment institutions and made it easier for them to lend. By contrast, the recent spat between Australia and China over China's aid in the South Pacific has highlighted the extent to which Australia has cut its ODA budgets.[37]

Implications for the United States

The massive investment surge promised by the BRI has highlighted longstanding concerns about the risks of economic interdependence with China; with Chinese funds, analysts argue, will come Chinese influence over a recipient's foreign and domestic policies. As the recent uproar in Australia shows, these concerns are not limited to developing countries – and they are not new concerns.[38]

However, Japan's management of its relationship with China and its cautious embrace of the BRI is instructive. While we do not yet know what form Japanese cooperation with the BRI will eventually take or what effects it could have on Japan domestically, the Abe government's approach offers some lessons.

First, the Japanese government's shift on the BRI rests on an essential fact. With the BRI added to the Chinese Communist Party's constitution at the nineteenth Party Congress, there is no question that the BRI will remain central to China's foreign policy for at least as long as Xi is in charge. Whether or not third countries decide to cooperate with China through the BRI, China will continue to use it to strengthen its trade and investment links across Eurasia and the rest of the developing world. Developed countries like Japan and Australia have the choice to stay out of the initiative – and are obviously less dependent on Chinese investment than the less developed and developing countries most in need of infrastructure – but staying out will have costs, whether in terms of lost opportunities for one's businesses or lost influence in BRI partner countries.

If the BRI will be a fixture in Asia's economics and politics, the developed democracies, especially the maritime democracies in Asia, need to have their own plans for how to promote development in Asia, particularly in the middle-income countries of ASEAN. As important as strengthening security ties with allies and partners around East Asia is for the United States, Japan, and Australia, security cooperation will not be sufficient to win "hearts and minds" in the region over the long term. Obviously, China's rise is divisive throughout the region and countries can be attracted to China's economic power while still being concerned about its military power. In fact, for many of China's neighbors its economic power is a source of anxiety too. In a 2017 Pew survey of attitudes towards China across the region, only 26% of Vietnamese, 49% of Indonesians, 48% of Filipinos, and 20% of Indians said that China's growing economy was a good thing for their country. Ironically, Australians were the most positive about the benefits of China's growth: 70% said it was good for Australia. In all of these countries, majorities (and a plurality in Indonesia) said China's growing military power was a bad for their countries.[39] These attitudes present an opportunity to the US and its allies to present an alternative vision for the region. But, over time, as China ramps up its investment through BRI, it could wield influence through a variety of channels, complicating efforts by the US and its allies to win support for their own initiatives in the region.[40] As the US competes for influence in Asia, it cannot assume that fears of China's military power will be sufficient to preserve its influence. As Japan has shown, the best way for the US and its partners to challenge China's growing influence is to offer an alternative. As Japan's engagement in India has shown, by committing resources and pursuing its own development strategy, Japan has lowered the costs to India of staying out of the BRI. Perhaps India will not be able to stay out of the BRI forever, but Japan's ODA and growing investment portfolio will increase India's freedom of action if and when it does. The same holds true in other countries on China's periphery. Their fears of dependence on China give the US and its allies an opening, but as Japan shows, it is necessary to have something tangible to offer them.

This need is even more profound now that the US has withdrawn from TPP and the administration has not yet articulated a new strategy to deepen engagement with middle-income Asia. As noted previously, TPP offered Asia's developing countries new market opportunities in the US in exchange for reforming their economies in ways that benefited US companies. As the Obama administration emphasized and as the Abe administration has continued to stress, TPP also provided the region with an alternative sets of rules that could force China to adapt, instead of pushing its own version of the rules governing trade and investment in Asia through the BRI. While Japan's bid to revive TPP may preserve some of its benefits as an alternative vision for regional economic integration, the absence of the US limits its attractiveness to the developing countries that were otherwise eager to join. Without a regional trade strategy aimed at middle-income Asia, it is imperative for the US to develop a regional development strategy that uses bilateral foreign aid, cooperation with the ADB and other multilateral lending institutions, and, perhaps most importantly, incentives to encourage private infrastructure investment in South and Southeast Asia. Given Japan's existing capabilities and influence, the US should coordinate closely with Japan and follow Tokyo's lead in stressing the importance of high-quality infrastructure. Developing a joint regional development strategy could be an appropriate agenda item for the US-Japan Economic Dialogue, as well as for future meetings of the quad.

Despite China's determination to use its wealth to promote greater economic ties to China across Eurasia and expand its power and influence, it is not inevitable that China will succeed in binding its neighbors ever closer. But the US and its allies cannot beat something with nothing. If they want to support the development of Asia and ensure that, even as the region develops, its growth is fiscally, environmentally, and socially sustainable, it is imperative that they coordinate and develop their own plans for meeting Asia's developmental needs, giving the countries of South and Southeast Asia more freedom of action even as Chinese investment proceeds.

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