

Belt and Road Initiative: Japan's Perspective

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It's a great pleasure to be here to talk about Japan's perspective of the Belt and Road Initiative (BRI).

Professor Yuqing Xing gave an excellent overview of the BRI which was very useful.

I have a PowerPoint and a copy has been distributed to you. I am not going to use it in my presentation to save time. But almost everything I am going to talk about for the next 15 minutes is included in the handout.

The BRI is a very impressive grand vision by China, connecting China with all parts of Asia, the Middle East, Eastern Europe, some parts of Africa, and Eastern Europe, and eventually reaching Western Europe. The Chinese government had the successful event of the BRI Forum for International Cooperation in May. Heads of twenty-nine countries attended, as did the heads of many international organizations, including the United Nations, IMF, and World Bank.

The BRI has several potentials. The first is to further open up China to the rest of the world through trade, investment, and finance. The second is for China to provide international public goods to the global community. The third is for China to use the BRI for expanding its sphere of influence geopolitically and even militarily, which is to be a concern for many countries including the United States, India and Japan. The fourth is for China to achieve more balanced national economic development. And finally with the BRI there is the potential for China to realize the importance of the rule of law by becoming an investor in the BRI countries.

I will first explain these potentials, and then several challenges that the BRI faces. Finally, I will discuss Japan's approach.

Five potentials of the BRI

The BRI has two dimensions. One is the international dimension, and the other is the domestic dimension. From the international perspective the BRI is designed to connect China

with other BRI countries, i.e., 64 countries. The list of these countries is provided in the appendix of my handout. To connect China with these countries through trade, investment and finance would be quite useful from the point of view of the opening-up of China—the first potential I mentioned above.

The second potential is for China to provide international public goods. As long as the infrastructure constructed, including highways, railways, ports and ICT, is open for use to anyone, to any country, and to any firm, then that would be a very useful service to provide. Connecting China and other Asian countries with Europe at lower costs would be beneficial for everyone. China is now committed to using its rising economic and financial power for the construction of cross-border infrastructure, which is highly welcome.

The third potential is for China to expand its geopolitical and military sphere of influence. One of the factors behind China's BRI proposal was to use it as a countermeasure to the "US pivot to Asia" or the Trans-Pacific Partnership (TPP) launched by the Obama administration. Also part of the BRI, specifically the 21st Century Maritime Silk Road, is perceived by some to contain India by forging the so-called "String of Pearls" around the Indian subcontinent, that is, by connecting sea ports in Bangladesh, Sri Lanka and Pakistan where China's warships stop. One of the Silk Road Economic Belt projects, the China–Pakistan Economic Corridor, involves the Kashmir area which is a disputed area between India and Pakistan. Because of these issues, India has not endorsed the BRI as India regards it as threatening her national security. Another concern is that some borrowing countries have had to allow China to take over some property for 99 years because of their inability to repay their debt. One may recall the Qing Dynasty's lease of Hong Kong to the UK for 99 years in 1894. Contemporary property leases for 99 years may entail de facto economic colonization by China. This is why making sure that projects are economically and financially viable is very important. If projects are not financially viable and the borrowing country cannot repay, then China may take over some property for a long period of time, which should be avoided.

The fourth potential, related to the national dimension of the BRI, is for China to achieve more balanced national economic development. The BRI is intended to promote economic development in various underdeveloped regions within China, like the old Western Region Development Program of China. Indeed many regions of China are using the BRI for the purpose of developing their industrial and economic clusters and connecting these clusters with other regions within China and with countries along the BRI. Promoting balanced national economic development itself is a good approach, but this may create a side effect. The reason is that regional development may encourage regional governments to continue to invest in infrastructure projects and industrial development despite efforts to shift away from investment to consumption and from large-scale heavy manufacturing to high-tech,

energy-saving, and compact manufacturing and services.

The final potential is for China to put more emphasis on the importance of the rule of law by becoming an investor in the BRI countries. Under the BRI, China has been trying to strengthen trade and investment relations with the 64 BRI countries. Their collective GDP is about the same as China's, their total population is much larger, and their per capita GDP is much smaller. Thus the BRI countries are generally poorer than China and their investment climates are not necessarily better. This means that Chinese investors will face financial, economic and sovereign risk in the BRI countries, and will have to strengthen their capability to analyze financial and country risks of the BRI countries and design policies to mitigate those risks. The Chinese authorities will find it necessary to enhance regulatory and legal cooperation with the BRI countries so that the latter would put in place more transparent domestic rules and regulations, strong contract enforcement, and the protection of property rights. This can have the advantage of China becoming more aware of the importance of the rule of law, which may accelerate China's own reforms to strengthen the rule of law domestically.

Challenges for the BRI

There are several challenges for the BRI.

First, the most important challenge is to reduce concerns that the BRI is intended to expand the geopolitical and even military sphere of influence of China. Such concerns are held by many countries, particularly by some ASEAN and Central Asian countries, India, Japan, and the United States. It is important for China to show that the BRI is not intended to expand China's geopolitical and military influence but to provide genuine international public goods in the form of infrastructure and connectivity.

The second challenge is to rectify the bilateral nature of the BRI processes and ensure that the BRI benefits all countries. Currently the BRI is based on bilateral discussions and negotiations, and is not quite multilateralized yet. For example, the China–Pakistan Economic Corridor has raised India's territorial concerns in Kashmir. If India could have expressed views in a multilateral framework, the Economic Corridor projects could have been designed differently. So multilateralizing the whole process would be quite important to coordinate different countries' national interests and make the BRI truly beneficial to all countries.

The third challenge is to introduce a good framework for assessing or evaluating the performance of major BRI projects. China has announced six major land economic corridor projects, including the China–Pakistan Economic Corridor. There is no framework to assess the performance of these projects. So perhaps global institutions such as the World Bank

could help China and the other 64 BRI countries in setting up a results framework to enable everyone to objectively assess the performance.

The fourth challenge is to set international standards related to projects, trade and investment, such as environmental standards, social standards, procurement transparency, trade and investment rules, and e-commerce. Perhaps this is the area where countries like Japan can help.

Japan's approach

Prime Minister Shinzo Abe sent his official delegation to the BRI Forum for International Cooperation held in Beijing in May 2017. He sent Mr. Toshihiro Nikai, Secretary General of the LDP, which gave a positive sign to the BRI. Then in June, PM Abe gave conditional support for the BRI. The conditions are that the BRI should be harmonious with a free and fair Trans-Pacific economic zone, make infrastructure facilities open for use to everyone, have transparent and fair procurement rules, and should finance only economically and financially viable projects so that the borrower country can repay debt.

PM Abe is now proposing summit meetings with President Xi Jinping, which are urgently needed. This year is the 45th anniversary of Japan–China diplomatic normalization. Next year is the 40th anniversary of the Japan–China Peace and Friendship Treaty.

At the same time, however, PM Abe is hedging, by working with India. The Asia–Africa Growth Corridor initiative, which is based on the "Free and Open Indo-Pacific Strategy," is perhaps designed to jointly counterbalance China's Maritime Silk Road idea.

What's going to happen next? PM Abe's positive attitude toward the BRI is certainly going to encourage Japanese private firms to actively participate in some of the BRI projects. So far, without the political endorsement of the Japanese government, Japanese companies have been quite reluctant to join the BRI projects, as they have not been sure if the Japanese government would help in the event of major disputes in projects. Now they will become visibly active. However, we have yet to see if there would be a Japan–China joint BRI project.

Is Japan going to join the AIIB? The AIIB has been quite successful since the launch of its business in January 2016. The AIIB has approved 28 projects altogether for 10 countries with a total amount of US\$3 billion, attracted 80 members (including 24 prospective members), has been working with the traditional MDBs such as the World Bank, the ADB, and the European Bank for Reconstruction and Development, and has adopted good environmental and social safeguards. The AIIB has also obtained the highest credit rating from the three major rating agencies, S&P's, Moody's and Fitch. Whether Japan is going to join the AIIB depends on whether PM Shinzo Abe, assuming he will win in the coming election, and President Xi Jinping can establish a good relationship. They have never sat for more than

one hour discussing the future of Asia and the future of the China–Japan relationship. The two leaders have to discuss these issues, exchange views, respect differences in views, and build a sense of mutual trust. In addition the peoples of the two nations have to build mutual trust. Once this is done I think there is a possibility that Japan will join the AIIB. Mutual trust between the two countries and between the two peoples would have to be restored for that purpose.

Thank you very much.