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How Japan's and China's Connectivity Visions Intersect in Central and Eastern Europe: Ambitions and Ambiguities

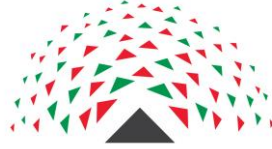
Takeshi Miyai

Introduction

This paper analyzes the relationship between the connectivity strategy of Japan and China in Central and Eastern Europe. Today, the concept of connectivity is attracting attention. At ASEM in 2018, connectivity is concerned “about bringing countries, people and societies closer together. It facilitates access and is a means to foster deeper economic and people-to-people ties. International connectivity can take many forms, from transport links, energy and trade, to migration, language, cultural and research connections.” As the flow of events intensifies under globalization, building more equitable, open and sustainable connectivity has become a global agenda.

If we look at the Indo-Pacific region, there are now two competing visions. These are the "Free and Open Indo-Pacific" (hereafter, FOIP) initiative led by Japan and the United States, and the "One Belt, One Road" or “Belt and Road” initiative promoted by China (hereafter, BRI). Both visions are proactive in their aim to support infrastructure development and improve connectivity in the Indo-Pacific. The fact that the two great economic powers in the Indo-Pacific region are committed to improving connectivity in the region signifies an epoch-making shift in the diplomatic-strategic approach of both countries. If the two countries can work together to contribute to the sustainable development in this region and bringing people together, that is, of course, welcome.

But things are not so simple. With the trade war between the United States and China showing signs of a struggle for hegemony, the flagship initiatives of both sides are not necessarily and harmoniously compatible. In fact, many observers have expressed apprehension that China's BRI is centered on China's national interests and could lead to the



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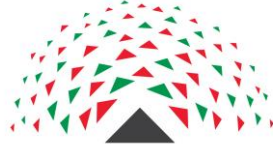
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expansion of China's sphere of influence by making the target countries "debt trap." Yet, as neighboring countries become increasingly dependent on China's investment and economy, which has become a new world's factory, it is doubtful that FOIP has become a vision to replace BRI. The tug-of-war between the two visions in the Indo-Pacific region will continue.

This paper focuses on how this tug-of-war manifests itself in Central and Eastern Europe. Aside from BRI, for which concerns for engagement in Central and Eastern Europe have long been stressed, there would be some doubt as to what effect the FOIP, which dubs the Indo-Pacific, will have in this region. However, Japan is one of the East Asian countries that has long been involved in Central and Eastern Europe. Moreover, in recent years, Japan has been working to strengthen the connectivity between Asia and Europe through its own platform and diplomatic engagements mainly with the EU, paying a specific attention to China's BRI. It is thus meaningful to estimate how far the tug-of-war in the Indo-Pacific region has expanded in Europe. It also provides important clues as to whether BRI and FOIP are compatible and whether they can work together in third countries.

This issue should be of importance for CEE countries, too. CEE countries' economy is deeply dependent on the EU member-states, particularly Germany. The question of the potential presence and contribution of Japan and China in this region should not be underestimated in the context of reconsidering the dependence of CEE countries on the EU and realizing sustainable development of this region. While this does not mean that either Japan or China will be the alternative to the EU, it is important to consider the relevance of two countries in diversifying the investment channels in this region.

This paper is structured as follows. The first two sections briefly explain what Japan's and China's connectivity strategies are, independent of the concerns of CEE countries. The third section considers how these two visions are interrelated in the Indo-Pacific region, asking whether FOIP and BRI are competitive or cooperative to each other. The fourth and fifth sections analyze China's and Japan's connectivity commitments to CEE countries, and the sixth section discusses their interplay in CEE countries. The recent moves of the EU on this



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issue are also discussed in this section. In the final section, some suggestions and proposals are provided.

1. Belt and Road Initiative

In the speech delivered in Kazakhstan in September 2013, President Xi Jinping for the first time proposed a plan to build a joint “Silk Road Economic Belt” in order to promote closer economic partnership, deeper mutual cooperation, and economic development among Eurasian countries.¹ Subsequently, in the speech to the Indonesian Parliament in October of the same year, President Xi proposed to build the “Maritime Silk Road of the 21st century” in a joint effort with ASEAN countries by the use of the China-ASEAN Maritime Cooperation Fund.² The “One Belt, One Road,” which combines the two, is positioned as the core of China’s new connectivity strategy based on the idea of recreating the ancient Silk Road, through which China played a pivotal role in the world economy.

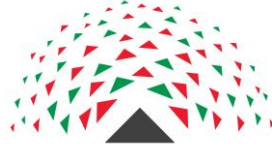
In March 2015, China launched the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,”³ which for the first time crystalized their vision and made it clear that the BRI was led by the central government. In May 2017, an international forum of the BRI was held in Beijing, with 29 leaders and major international organizations from around the world participating. In October 2017, at the 19th National Congress of the Communist Party of China, the promotion of BRI was incorporated in the constitution of the party, which is the supreme rule of China, and the BRI was positioned at the core of the Xi Jinping administration's external engagement strategy.

According to the “Vision and Actions,” the BRI aims: (1) to promote the connectivity of

¹ https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml (last accessed 27 November 2019).

² http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm (last accessed 27 November 2019).

³ http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (last accessed 27 November 2019)



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Asian, European and African continents and their adjacent seas, (2) to establish and strengthen partnerships among the countries along the Belt and Road, (3) to set up all-dimensional, multi-tiered and composite connectivity networks, and (4) to realize diversified, independent, balanced and sustainable development in these countries. It is confirmed that the BRI conforms to its basic principles, which are peaceful coexistence, open for cooperation, harmonious and inclusive, market operation, and mutual benefit. It also lists the five prioritized areas of cooperation, namely, policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bond.

BRI is an attempt by China to play a leading role in the economic development and integration of Asia in accordance with its growing economic and financial power. If we see it constructively, China is taking the initiative in supporting the development of infrastructure and strengthening connectivity in Asia and will promote the development and integration of the regional economy through revitalizing trade and investment. If China is to promote the BRI as an international public good, this vision should be welcomed. However, if China prioritizes its own economic interests, expands its political and geopolitical influence, and exploits it as a means to challenge the existing international order, it creates various problems and conflicts. We should seek to manage the BRI for the true benefit of the countries and to stabilize the existing international order.

Why did China launch BRI? What are the strategic motivations behind this? This can be answered from various aspects. First, as China's expanding economy, population, and military capabilities have changed its position in the international system, it is seeking to reorganize the international economic order under its own initiative. In fact, it is undoubtedly true that China has become a superpower comparable to the United States, and is at the forefront of the challenge to U.S. hegemony. According to Xuetong Yan, the China's agenda turn from "Keeping a Low Profile" to "Striving for Achievement" and from "China remedy" to "Chinese Dream" is the most important shift in the Xi Jinping administration,



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demonstrating the global ambitions that China now has.⁴

Behind this change in attitude is the United States' response to China. Observing China's growing influence in East Asia, the Obama administration adopted a strategy of "Pivot to Asia" and set out to build an economic order without China. It was a direct response to this strategy that led China to advocate connectivity outside Asia. One commentator noted that the U.S. policy of containing China, including the TPP, has prompted China to "Pivot to Europe."⁵

Moreover, the expansion of external involvement through BRI is attributable to structural changes in the domestic economy. In particular, China, which has excessive productive capacity in the infrastructure sector, can discharge its supply capacity through BRI. Building infrastructure through this will also serve China's strategic interests, especially when it relates to strategic bases and supply routes.

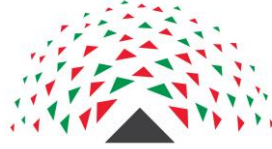
While BRI initially targeted Eurasian countries that connect Asia and Europe, but now it is expanding to Africa and Latin America. This can be attributed to the fact that many developing countries were attracted to the China-funded development of infrastructure. The total scale of BRI investment is unknown, but according to one estimate, China's total foreign investment and construction contracts over the 5 year period from 2014 to 2018 are estimated to more than \$1 trillion dollars, and more than half of the investments is estimated to have gone to BRI participating countries. That's 53% of the total. The average annual amount for the BRI region is \$1,180 billion.⁶

Various doubts and criticisms have been raised about BRI. First, there is criticism that BRI

⁴ Xuetong Yan, "From Keeping a Low Profile to Striving for Achievement," *The Chinese Journal of International Politics*, 7 (2), 2014, pp. 153–184.

⁵ See Theresa Fallon, "China's Pivot to Europe," *The Journal of the National Committee on American Foreign Policy*, 36(3): 175-182.

⁶ Kawai Masahiro, "'Ittai-Ichiro' Kousou to 'Jiyuu De Hirakareta Indo-Taiheiyou' Kousou," in *2019 World Economy Research Report*, Tokyo: The Japan Institute of International Affairs, 2019. Available at http://www2.jiia.or.jp/pdf/research/H30_World_Economy/H30_jiia_world_economy_research_report.pdf (last accessed 27 November 2019)



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projects are prioritized based on China's geopolitical and geo-economic interests rather than on the economic rationality and convenience of the target country. Ports that China has acquired operational rights through BRI, such as Hambantota Port in Sri Lanka, Gwadal Port in Pakistan, and Piraeus Port in Greece, are key sea lanes from China to Europe. As a result, there is a suspicion that China is trying to establish a strategic foothold by developing infrastructure such as railways and ports in various parts of the world through the BRI project, thereby creating a de facto sphere of dominance for China.

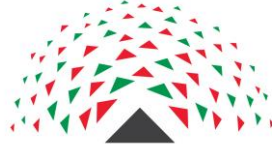
Second, the transparency and openness of BRI projects have been questioned. Although the Chinese government has described BRI as open and fair to foreign countries, Chinese companies have often won the main contracts. According to Jonathan Hillman, 89% of China's overseas infrastructure business is contracted by Chinese companies.⁷ This makes a clear contrast with the fact that only 29% of Chinese firms have won contracts for projects undertaken by multilateral development banks, such as Asian Development Bank and the World Bank.⁸ A commentator mocked the situation and gave another expression to OBOR, which stands for One Belt, One Road: "Our Bulldozers, Our Rules."⁹

Third, there is a problem that the infrastructure loan from China is not provided with due consideration about the debt repayment capacity of the recipient country. For example, the government of Sri Lanka, which had financed most of the construction costs of the port with a loan from China, was unable to repay the debt, in exchange for debt relief, the government decided to lend 85% of the Hambantota port's shares to a Chinese state-owned enterprise for 99 years and transfer the port's operating rights. This situation has drawn criticism within Sri Lanka that its sovereignty has been violated as a result of debt trap.

⁷ "China's Belt and Road Initiative: Five Years Later," Statement Before the U.S.-China Economic and Security Review Commission, January 25, 2018. Available at https://csis-prod.s3.amazonaws.com/s3fs-public/publication/ts180125_hillman_testimony.pdf (last accessed 27 November 2019)

⁸ Kawai, *supra* note 6.

⁹ "Our bulldozers, our rules," *The Economist*, 2 July 2016. Available at <https://www.economist.com/china/2016/07/02/our-bulldozers-our-rules> (last accessed 27 November 2019).



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These concerns have become widespread, particularly in the Indo-Pacific region, where many BRI projects are underway. As a result, in recent years, there have been moves to reconsider the relationship with BRI in response to changes in leadership such as the change of government. The experience of Sri Lanka has led ASEAN countries to associate BRI with territorial sovereignty, and the fear of debt bomb has led them to review the economic viability of related projects and the likelihood of debt repayment.

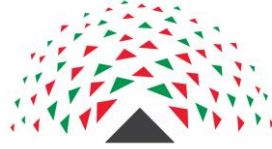
Malaysia is a good example. Under the previous government of Prime Minister Najib, Malaysia agreed on various large-scale infrastructure development projects with China, including East Coast Railroad. The general election of May 2018 resulted in the first ever change of government, and the newly inaugurated Prime Minister Mahathir announced a review of such projects. The prime minister then said he would renegotiate the East Coast rail project for profitability and that the high-speed rail link between Kuala Lumpur and Singapore would postpone the project. However, the successful renegotiation led Prime Minister Mahathir to show his support for BRI.¹⁰

As seen in Malaysia's switch from criticism to support, the Chinese government has been flexible in responding to international public opinion and doubts about BRI. As we will see in the later section, China is careful not to be aware that BRI is an expansionist and China-centric policy. In this regard, it is important for the countries concerned to negotiate with China to achieve the better governance of the BRI.

2. Free and Open Indo-Pacific Vision

At the 6th Tokyo International Conference on African Development (TICAD VI) held in Nairobi, Kenya, in August 2016, Prime Minister Shinzo Abe unveiled a "Free and Open

¹⁰ "Malaysia's Mahathir backs China's belt and road but insists on open trade routes," South China Morning Post, 26 April 2019. Available at <https://www.scmp.com/news/china/diplomacy/article/3007874/malysias-mahathir-backs-chinas-belt-and-road-insists-open> (last accessed 27 November 2019)



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Indo-Pacific" strategy.¹¹ It is said to be a strategy to maintain and strengthen the free and open maritime order based on the rule of law, by regarding as one the dynamism created by the intersection of the "Two continents" of Asia and Africa and the "Two oceans" of the Pacific and Indian Oceans.

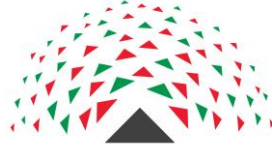
The three pillars of FOIP are: (1) the spread and consolidation of fundamental values such as the rule of law and freedom of navigation; (2) the pursuit of economic prosperity; and (3) the assurance of peace and stability in a region extending from East Asia to South Asia, the Middle East, and Africa. This vision aims to ensure peace, stability, and prosperity in the Indo-Pacific as a free and open region.

During his visit to East Asia in 2017, U.S. President Trump demonstrated that the "Free and Open Indo-Pacific" strategy became his new Asia-Pacific strategy, apparently bearing in mind China's BRI initiative and unilateral maritime expansion. This reverses the traditional pattern of Washington making foreign policy decisions followed by Tokyo, which took the lead this time. India welcomed the move and supported the strategy, which was joined by Australia. Japan, the United States, Australia, and India, which jointly constitute the Quadrilateral Security Dialogue (QUAD) became the core of this strategy.

Initially, ASEAN members and other Asian developing countries resisted the expression of the "Indo-Pacific" strategy led by Japan, the United States, Australia, and India. It seems that they were forced to choose between Japan (or the United States) and China, because the expression 'strategy' was recognized as a strategy to counter China's BRI. As a result, Japan changed its expression from "strategy" to "vision" in order to suppress the impression that it was a countermeasure against China.

At the core of Japan's FOIP is what Japan calls 'Quality Infrastructure.' At the "The Future

¹¹ Address by Prime Minister Shinzo Abe at the Opening Session of the Sixth Tokyo International Conference on African Development, 27 August 2016. Available at https://www.mofa.go.jp/afr/af2/page4e_000496.html (last accessed 28 November 2019).



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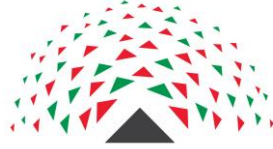
of Asia at the 21 International Conference" held in May 2015, Prime Minister Shinzo Abe announced the *High-Quality Infrastructure Partnerships* and advocated the need for high-quality infrastructure investment.¹² 'Quality infrastructure' is defined as an infrastructure which may seem expensive at first glance, but it is easy to use, durable, environmentally friendly, and disaster-ready, making it cheaper in the long run and helping to create local jobs, improve skills, and improve livelihoods. In other words, it refers to the concept of building infrastructure that can be maintained economically, environmentally, socially, and financially.

The idea of 'Quality Infrastructure' has successively gained supports. Approved at the G7 Ise-Shima Summit in 2016, it led the "G7 Ise-Shima Principles to Promote High-Quality Infrastructure Investment" to emphasize the importance of high-quality infrastructure internationally, and the following 5 principles were agreed. (1) Ensuring effective governance, reliable operation and operation, economy and safety from the perspective of life cycle costs, and resilience to the risks of natural disasters, terrorism, and cyber attacks; (2) Creating jobs, building capacity, and ensuring technology and know-how transfer in local communities; (3) Responding to social and environmental impacts; (4) Ensuring consistency with economic and development strategies, including climate change and environmental aspects at national and regional levels; and (5) Promoting effective resource mobilization through public-private partnership (PPP).

The FOIP has several challenges. First of all, there is the question of how to strike a balance between this vision and China's BRI, while at the same time cooperating with it. For most countries involved in the two visions, it is not a choice between the two. They want to work with both FOIP and BRI and don't want to be forced to choose one.

Among the major ASEAN countries, many regarded the FOIP initiative led by Japan, the United States, Australia, and India as an underestimation of the role of ASEAN itself,

¹²"The Future of Asia: Be Innovative," Speech by Prime Minister Shinzo Abe at the Banquet of the 21st International Conference on the Future of Asia, 21 May 2015. Available at http://japan.kantei.go.jp/97_abe/statement/201505/0521foaspeech.html (last accessed 28 November 2019).



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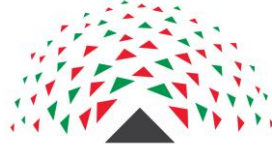
although it is located at a strategic point connecting the Indian Ocean and the Pacific Ocean. This is because it is unlikely that the "Indo-Pacific" concept will work effectively without ASEAN. At the moment, there is a gap in ASEAN relations with China, but most ASEAN countries are trying to strike a balance between the United States and China or between Japan and China. From this perspective, Japan needs to provide attractive projects in order to incorporate other Asian developing countries into the "Indo-Pacific" concept, while at the same time cooperating wherever possible with China while pointing out the problems of BRI.

Compared to China's BRI, the progress of the FOIP is somewhat behind schedule. Under the BRI, mega projects such as the 6 major economic corridors have been launched, and many other infrastructure projects are under way in the fields of energy and transportation. On the other hand, FOIP has no clear action plan yet to invest in infrastructure to enhance regional connectivity.

The advantage of FOIP is its value and brand. As the principles to promote High-Quality Infrastructure Development acquired large acceptance from many developed countries, its value seems warranted. The vision also coins with the EU's connectivity strategy, as the EU asserts that sustainable, comprehensive and rules-based connectivity, whose values are very similar to FOIP, is necessary for the enhanced prosperity, safety and resilience of people and societies in Europe and Asia.

If the FOIP is not to end up as a mere vision, it must be realized and effectively implemented. In other words, it is important to give economic substance to this plan, through concrete actions to achieve it including strengthening infrastructure connectivity, expanding trade and investment, and infrastructure financing.

3. BRI and FOIP: Are They Competitive or Coordinative to Each Other?



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How are BRI and FOIP related? Are they competitive, or coordinative to each other? Initially, the Japanese government did not take either positive or negative stance toward BRI. Japan changed its stance in 2017, when Prime Minister Abe expressed the conditional support for BRI. Abe recognized the BRI as having the potential to connect East and West as well as the diverse regions found in between, and made it clear the condition for supporting the BRI.

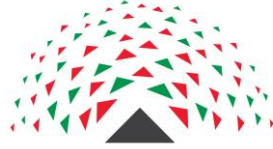
In the concrete terms, there are four conditions: openness (infrastructure should be open for use by all), transparency (procurement process should be transparent and fair), economic viability, and financial sustainability (debt finance should be repayable and not harm the soundness of the debtor nation's finances). After all, FOIP's conditional support has been created in the face of criticism directed at previous BRI projects, and in that sense makes BRI harmless.

Prime Minister Abe added his expectation that the BRI would fully incorporate such a common frame of thinking, be in harmony with the free and fair trans-Pacific economic zone, as well as contribute to the peace and prosperity of the region and the world. Thus, while recognizing the BRI's potential, the Japanese government set clear conditions for lending support to the initiative, and at the same time outlined the necessary requirements for Japan's engagement with it.

In October 2018, Japan and China agreed to promote joint ventures between Japanese and Chinese companies in third countries. The Japanese government again outline four conditions must be met before a Japan-China joint project can be launched in a third country: (1) economic rationality; (2) openness; (3) transparency; and (4) sustainability of the finances and debts of borrowing countries.

This forum was held by the political and business worlds of Japan and China, and 52 memorandums of understanding between Japanese and Chinese companies were concluded. According to Premier Li Keqiang, these deals totaled \$180 billion.

It is expected that this will serve as an opportunity to expand Japan-China cooperation in



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Southeast Asia, South Asia, and Eurasia. As trade friction between China and the United States intensifies, China is trying to draw Japan into BRI in order to improve its relations with Japan. It appears that Japan intends to improve the stalled Japan-China relationship and flesh out the FOIP.

It is important to note that the countries advocating FOIP are not so unified. While the United States has shifted its policy toward China from "strategic engagement" to "strategic competition," Japan has shifted its policy toward China from "competition" to "cooperation." Although this shift does not change the status of FOIP as a competitor to BRI, Japan's strategy seems to be to encourage BRI operation more in accordance with international standards through third country cooperation with China.

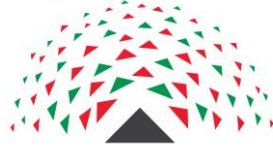
4. BRI in CEE Countries

This section analyzes the BRI in CEE countries. When President Xi launched BRI, he certainly did not have Europe in mind. Yet, CEE countries have gradually been considered as the pivot. At least in the beginning, there were good reasons for CEE countries to engage with China.

The first reason for this is the dissatisfaction these countries have with the double standards of Western European countries in the EU.¹³ Above all, Chinese investment has been directed to countries such as the UK, France, Germany, and Italy on a much larger scale than that directed to Central and Eastern Europe.

Second, the EU's various decisions and policies are under the influence of Germany, which has the largest economy in the region, and China's proposal could be an alternative.

¹³ François Godement and Abigaël Vasselier, China at the gates: A new power audit of EU-China relations, European Council on Foreign Relations, 2017. Available at https://www.ecfr.eu/publications/summary/china_eu_power_audit7242 (last accessed 27 November 2019).



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Moreover, through participating the framework of the "16+1," there would be an expectation for the Balkans to be on an equal footing with EU member states.

Third, from the perspective of the Balkans, EU membership is still far away, and it has been pointed out that they have sought an alternative partner.

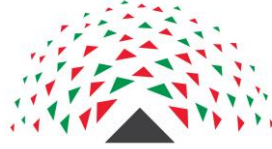
In recent years, however, there has been growing skepticism about China in this region. This is because even though China has made various promises, there is a large gap between them and what actually has been realized, and it is doubtful how much China intends to carry out. In fact, the investment in the three major powers of France, Germany, and the United Kingdom still accounts for about half of Chinese FDI in Europe.¹⁴ By comparison, investment in Eastern Europe is still small, accounting for less than 5%. In 2018, Eastern Europe (Austria, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia) accounted for only about 1.5% of China's total FDI. Thus, from the perspective of Europe as a whole, investment in Central and Eastern Europe does not appear to have increased as much as expected.

Moreover, even among Central and Eastern European countries, there is a considerable variation in the intensity of investment from China.¹⁵ Among the "16 + 1" countries, for example, Hungary received the most investment from China, with cumulative investment of around 24 billion from 2000 to 2018. Poland came in second with around 14 billion, followed by the Czech Republic (about 10 billion euros) and Romania (900 million). However, even among the participant countries of the same "16 + 1", Estonia, Latvia, Lithuania, and Slovakia amounts to around 100 million euros or less, indicating that the degree of China's involvement varies greatly.

Let us give an overview of the investment in China by Hungary, which has received the

¹⁴ Thilo Hanemann et al., *Chinese FDI in Europe*, Rhodium Group (RHG) and the Mercator Institute for China Studies (MERICS), 2019. Available at <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe-2018> (last accessed 28 November 2019).

¹⁵ Hanemann et al., *supra* note 14, p. 12.



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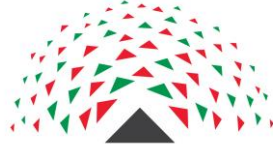
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largest investment among CEE countries. According to Matura, from Hungary's point of view, relations with China can be characterized by a well-known proverb, "Is the glass half empty or half full?"¹⁶ Hungary, on the other hand, has received the largest amount of FDI in Central and Eastern Europe. In 2017, the two governments upgraded their bilateral relations to a comprehensive strategic partnership. The country also has the only Chinese and Hungarian bilingual elementary school in Central and Eastern Europe, where Bank of China's Central and Eastern European headquarters are located. On the other hand, Hungary has not achieved remarkable success in attracting new investment in recent years. The Hungarian government appealed to China in 2011 under the policy of "Open to East" but has not succeeded in attracting large-scale investment since then. Moreover, about three-fourths of the sum of Chinese FDI came from China's Wanhua Group buying chemical company BorsoDchem.

A landmark agreement reached between China, Hungary, and Serbia was the railway modernization agreement between Belgrade and Budapest. The first train was supposed to be running by 2017, but construction on the Hungarian side had not even begun. There is also an issue of the low level of risk on the part of the Chinese side and the low level of profit on the Hungarian side. The railway, valued at around 15 billion euros, will be financed 85% by loans from the Export-Import Bank of China, and will be built mainly by China Railways Group and China Railways Company. The 2.5% annual interest rate will be paid by Hungary, while the railroad built by the Chinese company will be used mainly to export freight from China to Hungary through the Greek port of Piraeus. There is therefore little direct benefit to Hungary and no immediate benefit.

The relationship and stances towards china in CEE countries appear to be driven by political rather than economic concerns. For instance, Prime minister Orban has been trying to secure

¹⁶ Tamas Matura, "Chinese Investment in Hungary: Few Results but Great Expectations," in John Seaman et al. (eds.), *Chinese Investment in Europe: A Country-Level Approach*, the European Think-Tank Network on China, 2017.



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influence over the EU and other member states by presenting China as an alternative to the EU. In January 2018, he even said that "If the EU does not pay, we will look back at China." This action is a bluff and it is unlikely that Hungary will indeed pull back from the EU and join hands with China.¹⁷

From this perspective, even in countries such as Hungary and Poland, which are relatively profitable to China, the relations with China are gradually being viewed from a pragmatic perspective.

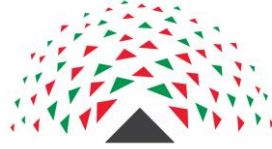
The 'debt trap' concern is not the case for most CEE countries, especially those with EU membership, because China's economic presence is still comparatively insignificant, and they can access to the EU funds. However, for non-EU Balkan countries that do not have access to EU funds, the debt trap concern might be real. For instance, Montenegro agreed with China to construct the highway roads linking Serbia. This project is funded by a loan of 800 million euros from the Export-Import Bank of China, and the construction work will be carried out by the China Transport Construction Company. As a result, Montenegro's national debt is expected to rise to 78% of GDP in 2019, and the IMF notes that without a plan to build highways, the debt would have fallen to 59%.¹⁸

5. FOIP and CEE countries: Towards a Higher and Deeper Coordination?

How is Japan working with Central and Eastern European countries in the area of connectivity? Among East Asian countries, Japan has long invested in Central and Eastern Europe. Direct investment in Eastern Europe grew in tandem with the democratization movement in Central and Eastern Europe in the late 1980s. Since the 1980s, Japanese

¹⁷ Tams Matura, "Hungary: Along the New Silk Road across Central Europe," in van der Putten et al.(eds.), *Europe and China's New Silk Roads*, the European Think-tank Network on China, 2016.

¹⁸ International Monetary Fund, "Montenegro," IMF Country report No.18/121, 2018.



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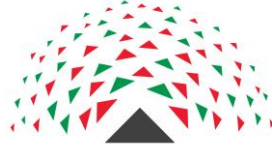
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companies such as Suzuki Motor Corporation and Matsushita Electric Industrial Co., Ltd. have been eager to invest, and from the latter half of the 1980s to the first half of the 1990s, actual plant construction and direct investment were carried out. The second wave was triggered by the accession of Central and Eastern European countries to Europe. Japanese companies expanded their production bases in various ways because they could produce products without tariff barriers. Japan's economic engagement with the countries of Central and Eastern Europe is sustained and stable, and even today its total direct investment is larger than that of China. It should be emphasized that Japan has made a lot of Greenfield investments and created a lot of jobs.

However, while much of Japan's direct investment has been concentrated in the electric machinery and automobile industries, investment in infrastructure development and connectivity has not made much progress. As for infrastructure development projects, investment in power plants and sewage facilities has been made through grant aid and official development assistance, but there have been no examples of flagship projects such as the railway construction between Belgrade and Budapest of the BRI. Therefore, Japan's investment in infrastructure development in Central and Eastern Europe through FOIP remains a vision.

On the other hand, in recent years, Japan has begun to take an active stance on infrastructure development in Central and Eastern Europe, mainly in cooperation with the EU. Since around 2010, the Japanese government has positioned the overseas deployment of infrastructure systems as a pillar of its growth strategy and international deployment strategy. In May 2013, the "infrastructure system export strategy" was decided, and an order for infrastructure system of about 30 trillion yen in 2020 was set as an achievement goal, and infrastructure export has been promoted in cooperation with the public and private sectors. Japan announced that it would contribute actively to the development of high-quality infrastructure in each country and region in terms of both hardware and software, in order to strategically meet the demand for infrastructure in the world and to ensure the realization



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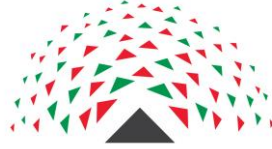
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of Japan's economic revitalization, as well as to strengthen the economic and social infrastructure of each country and ensure the stability and prosperity of the region, as well as to achieve the goals of the United Nations' SDGs (Sustainable Development Goals).

As part of this effort, Japan has been strongly involved in international standardization of infrastructure development through its participation in multilateral frameworks and platforms such as the G7, the Group of 20, and the V4. At the Group of Seven Ise-Shima summit in May 2016, Japan led efforts to establish the principle of "High-Quality infrastructure investment" which includes such compliance items as creating local jobs and ensuring economic efficiency. This was reflected in the summit declaration of the Group of 2016 summit held in Hangzhou, China, in September 20. "G- 20 Principles for High-Quality Infrastructure Investment" is an extension of this. Japan, the chair of the meeting, took up the issue with the aim of checking China's BRI, which is believed to be causing excessive debt problems in emerging economies, in line with major industrialized countries.

At the V4 plus Japan Summit held in April 2019, Prime Minister Abe and the leaders of the V4 countries confirmed the importance of promoting free trade including World Trade Organization (WTO) reform, economic growth, promoting quality infrastructure investment and data governance in order to maintain and strengthen the rules-based free and open economic system. Therefore, while we can expect that Japan is now seeing CEE countries as an important area of investments for high quality infrastructure.

Furthermore, in September 2019, Prime Minister Abe and European Commission President Juncker signed a partnership agreement to work on building infrastructure between Europe and Asia in such areas as transportation, energy and digital. By this agreement, Japan will formally join a €60 billion European Union initiative to boost connectivity between the European Union and Asia. With the support of Japan and the EU, the Partnership aims to improve connectivity and build infrastructure with third country partners in the Western Balkans, Eastern Europe, Central Asia, the Indo-Pacific and Africa. The 60 billion euro funding for the EU-Asia Connectivity Plan comes from the EU, as well as from several development



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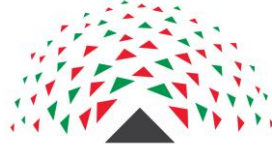
banks and private companies. Japan has also indicated its intention to mobilize private funds for the project.

6. FOIP and BRI in CEE Countries and its Future: Towards a Fusion of the Visions

So how are FOIP and BRI linked in Central and Eastern Europe? First of all, it should be emphasized that competition and competition in actual development projects have not emerged between Japan and China. In cooperation with the EU, Japan has been trying to restrain China from expanding its influence in Europe, but Japan and China are making concessions to each other. Competition in Central and Eastern Europe is more of a tug of war over the framework of engagement than a choice between China and Japan. The importance of the presence of both countries in the real societies of Eastern Europe is not as great as that in the visions of China and Japan. In fact, there has been no fierce tug of war between Japan and China, and both are segregated in fragmented engagements.

This tug of war is somewhat different from that in the Indo-Pacific region. In the Indo-Pacific region, Japanese and Chinese companies have been competing for project orders, particularly for high-speed railway construction. In particular, the defeat of a Japanese company in the order for a high-speed railway between Jakarta and Bandung in Indonesia forced a major shift in Japan's infrastructure export strategy. Indonesia, traditionally a pro-Japan nation and the largest beneficiary of ODA in Southeast Asia, chose the Chinese proposal over the Japanese one, symbolizing the decline of Japan's soft power in the region and giving rise to the lesson that it would be unwise to 'compete' with China in the infrastructure development.

This shift from 'competition' to 'cooperation' in the Indo-Pacific region will be reflected in infrastructure development in Central and Eastern Europe. In particular, Japan, in close cooperation with the EU, would repeatedly urge China to make investments in line with



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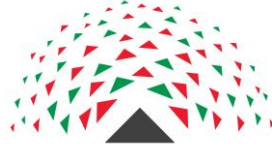
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international standards, such as the "High-Quality infrastructure investment" rather than containing China's expansion of influence. At the same time, Japan will seek market cooperation with China.

Importantly, China has begun to show a willingness to compromise with Japan's proposal and adherence to the principle of exporting infrastructure, as it has obtained agreements from major countries and organizations. In fact, China has repeatedly stated that BRI should be carried out under efficient and transparent procedures to address growing international concerns. As we have seen, while the contribution of the AIIB to the overall BRI programme is not very high, it is true that its implementation is improving against international standards. This is probably because China wants to ensure the legitimacy of the vision it leads, rather than using power politics to export infrastructure.

Market cooperation in third countries is expected to develop as a result of this compromise. The Third Country Maker Cooperation Forum, mentioned earlier, brings together 52 MoUs, ranging from power and distribution, IT to trade and rail. In relation to infrastructure investment in Central and Eastern Europe, what is instructive is the Japan-China cooperation promoted by the Thai government in the development of the Eastern Economic Corridor. In 2018, high-speed railway development in this project was expected to be a flagship example of Japan-China third-country market cooperation. As a result, Japanese companies decided to withdraw from the project due to the problems of profitability and sustainability, but JBIC is reportedly considering financing with soft loans. In addition, Japan's JICA has already started a feasibility study on the smart city project, which is attracting attention as a new feature of Japan-China cooperation.

This type of Japan-China cooperation has several advantages. First, through joint financing and joint ventures, the Japanese side can monitor the recipient country to prevent it from falling into a debt trap. This is an advantage for China to avoid unjust criticism. Second, they can leverage their strengths. In terms of high-quality infrastructure exports, Japan's strengths are its process control and engineering know-how, as well as its reliability and reliability in



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project implementation. On the other hand, in order to meet the enormous demand in the developing regions, the cost performance of construction and manufacturing by Chinese companies, and their overwhelming financial power and government guarantees are clear strengths. Third, through such market cooperation, the two countries can demonstrate to the world that their vision of improving connectivity is consistent with rules, fair and open.

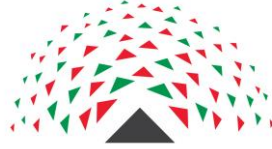
According to Alisher Umirdinov, Japan's "stubbornness" on high-quality infrastructure has led China to acknowledge and correct the deficiencies and opacity of BRI¹⁹. In fact, at the second BRI Forum held in April 2019, the concept of high quality advocated by Japan was repeated many times.²⁰

Looking into the future, we envisage *high-quality* Belt and Road cooperation in enhancing connectivity by promoting development policy synergy, infrastructure development, unimpeded trade, financial cooperation and people-to-people bond, thereby enhancing practical cooperation for the well-being of our peoples.

We will strive to build high-quality, reliable, resilient and sustainable infrastructure. We emphasize that high-quality infrastructure should be viable, affordable, accessible, inclusive and broadly beneficial over its entire life-cycle, contributing to sustainable development of participating countries and the industrialization of developing countries. We welcome developed countries and international investors to invest in connectivity projects in the developing countries. We emphasize the importance of economic, social, fiscal, financial and environmental sustainability of projects, while striking a good balance among economic growth, social progress and environmental protection.

¹⁹ Alisher Umirdinov, "Generating a Reform of the BRI from the Inside: Japan's Contribution Via Soft Law Diplomacy," *RIETI Discussion Paper Series* 19-E-076, September 2019. Available at <https://www.rieti.go.jp/jp/publications/dp/19e076.pdf> (last accessed 27 November 2019).

²⁰ Belt and Road Cooperation: Shaping a Brighter Shared Future Joint Communique of the Leaders' Roundtable of the 2nd Belt and Road Forum for International Cooperation, 27 April 2019, Beijing, China. Available at https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658766.shtml (last accessed 27 November 2019), quoted in Alisher Umirdinov, *supra* note XXXXX.



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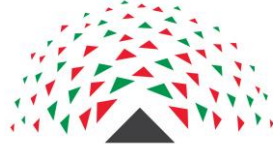
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By bringing economic substance to the FOIP, it appears that it will be possible to make the initiative more effective and to encourage improvements to the BRI. However, to make significant progress, it is desirable for Japan, China, and the EU to return to a multilateral framework of trade and investment and to be more deeply committed to their vision. By promoting joint projects in third countries based on international rules and creating synergies based on mutual comparative advantages, Japanese and Chinese companies can expect to improve the quality of their BRI projects, while at the same time contributing to the development of the "Indo-Pacific" concept. This will encourage China to act in accordance with international standards and rules, raising the possibility of moving toward the fusion of the BRI and FOIP.

For Central and Eastern European countries, the policy challenges of breaking their dependence on the EU and seeking alternatives remain a major concern. Therefore, the absence of the expected presence of Japan and China in the current situation should be considered in conjunction with the practical question of how to achieve mutually beneficial economic development through cooperation. And of course, this question is also posed to Japan and China, as to how they can materialize their visions for enhanced and sustainable connectivity between Asia and Europe.

Central and Eastern European countries can be an important platform for cooperation between Japan and China. We have already seen that the two visions of Japan and China are not necessarily mutually exclusive and competitive, and have shifted in recent years, in particular, to the direction of joint sustainable operations. CEE countries have their own platform of communication with both Japan and China, which other EU member-states do not have. Could we imagine the situation where these platforms are used for a coordinative venture between Japan and China in CEE countries? This is just a speculation, but this is possible and desirable.

Conclusion



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With its vision of FOIP, Japan is seeking cooperation and cooperation with China, which is promoting BRI. This is because Japan found it difficult to promote its connectivity strategy without China and found it difficult to compete with China in this field. However, as Japan gropes for cooperation with China, it has stubbornly urged China to encourage open and transparent infrastructure investment in line with international standards in order to prevent the debt trap of the BRI and to curb unsustainable development. China, which responds sensitively to international opinion and focuses on securing the legitimacy of BRI, has in fact repeatedly emphasized building connectivity through quality infrastructure. Needless to say, it is not clear whether China, which is strategically pursuing BRI, will actually invest in line with international standards and lose its comparative advantage.

This paper has examined how such a tug of war between Japan and China can be observed in Central and Eastern European countries. In practice, the tug-of-war should be viewed as a "competition" that remains discursive, rather than a "competition" at the project level. However, this does not mean that Sino-Japanese involvement in Central and Eastern Europe is irrelevant. For the sustainable development of Central and Eastern Europe, it is important to cooperate not only with the EU but also with Japan and China. In this regard, Central and Eastern European countries, which have their own platforms for dialogue with both countries, have the potential to become a hub region for further cooperation between Japan and China in Europe in cooperation with the EU.

At a time when the U.S. and China compete and struggle for hegemony by power, it is difficult for Japan and Europe to take the global leadership alone. Rather, it is at this time that Japan and the EU, which seek cooperation through rules rather than power, must act to strengthen its strategic partnership that creates a rules-based and sustainable order and encourages their cooperation to resolve global issues. Otherwise, the principles of rules-based international order and high-quality infrastructure would be lost as hollow in the power-struggle for global hegemony.