

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

Takeshi Miyai¹

Abstract

In the Indo-Pacific region, there are now two competing visions. These are the "Free and Open Indo-Pacific" initiative led by Japan and the United States and the "Belt and Road" initiative promoted by China. This paper analyses how the tug-of-war between two visions manifests itself in Central and Eastern European countries. While Japan and China have recently rediscovered the strategic importance in this region, 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.

Introduction

Today, connectivity is becoming a key concept in national policy goals and foreign policy strategies. 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" (hereafter, BRI) initiative promoted by China. Both visions are proactive in their aim to support

¹ Visiting Research Scholar of VISEGRAD Fellowship 2019 at the Institute of Foreign Affairs and Trade (Budapest, Hungary) and Research Fellow of the Japan Institute of International Affairs. E-mail: miyai@jia.or.jp

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infrastructure development and to improve connectivity mainly in the Indo-Pacific. The fact that two great economic powers are committed to improving connectivity in this region signifies an epoch-making shift in their diplomatic-strategic approaches. It is unsurprising to hear discussion on whether they can work together to contribute to sustainable development in this region and bring people closer together.

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 harmoniously compatible. In fact, many observers have expressed that China manipulates BRI for China's national interests, and BRI may consequently expand China's sphere of influence by catching the target countries in a debt trap. This provides the impetus for Japan and the U.S. to promote their countervailing vision. Yet, as neighbouring countries become increasingly dependent on China's investment and economy, it would be misleading to consider FOIP and BRI as mutually exclusive alternatives. Therefore, it can be readily expected that 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 (CEE). Aside from BRI, which has explicitly stressed the importance of engaging with this region, one would wonder to what extent the FOIP, focusing on the Indo-Pacific, concerns this region. However, Japan not only has a long history of investment and assistance in this region, but recently has also engaged in strengthening connectivity in Eurasia in collaboration with the EU, paying attention to 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 to assess whether BRI and FOIP are compatible and if they can work together in third-countries.

This issue should be of importance to CEE countries, too. 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 economic dependence of CEE countries on the EU. 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 the two countries in diversifying the investment channels in this region.

Against this backdrop, this paper attempts to answer the following research question: *How can Japan's and China's connectivity visions intersect in Central and Eastern European countries?* To answer this question, this paper adopts an interpretive-empirical approach. 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 with each other. The fourth and fifth sections analyse 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 issue are also discussed in this section. In the final section, some suggestions and proposals are provided.

1. The 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. 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 through the China-ASEAN Maritime Cooperation Fund. The “One Belt, One Road,” which combines the two, was 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,”² which for the first time crystallised their vision and made it clear that the BRI was led by the central government. In May 2017, the first BRI forum was held in Beijing, with 29 leaders of the government 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, and the BRI was positioned at the core of the Xi Jinping administration's external engagement strategy.

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa

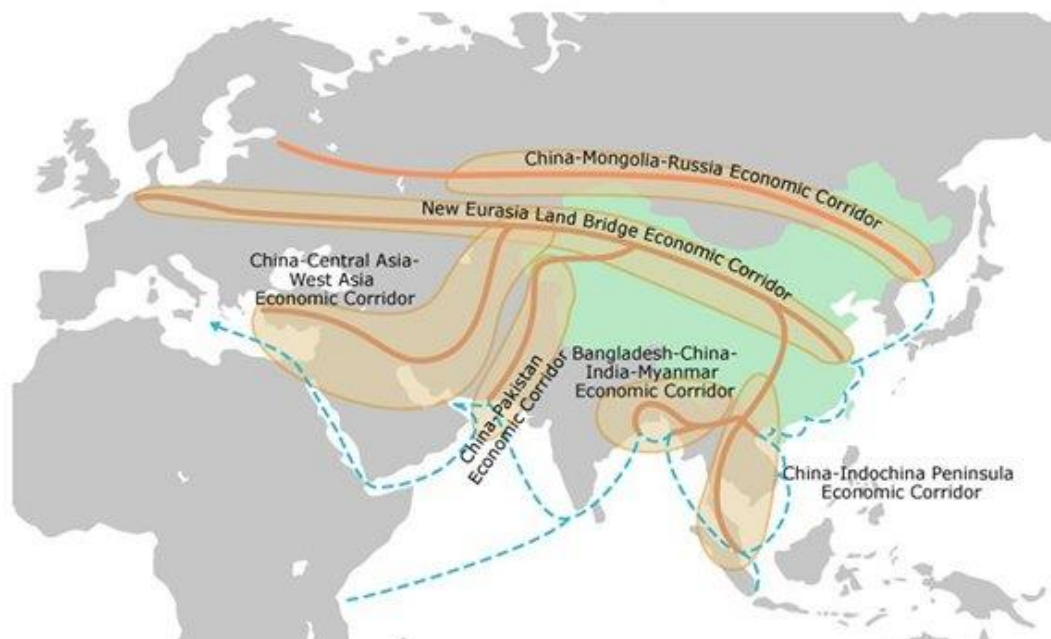


Figure 1: The Belt and Road Initiative's economic corridors. Source: Hong Kong Trade Development Council (HKTDC) Research. Retrieved from: <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm>

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

² People’s Republic of China NDRC, MFA, and Ministry of Commerce, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road“ Retrieved from http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

dimensional, multi-tiered and composite connectivity networks, and (4) to realise diversified, independent, balanced and sustainable development in these countries. It confirms the basic principles of the BRI, which promotes peaceful coexistence, is open for cooperation, is harmonious and inclusive, uses market operation, and provides mutual benefits. It also lists the five prioritised areas of cooperation, namely policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

Through BRI, China attempts to play a leading role in the economic development and integration of Eurasia in accordance with its growing economic and financial power. China is taking the initiative in supporting infrastructure development and strengthened connectivity in Eurasia. If China is to promote BRI as an international public good, this vision should be welcomed. However, if in reality, China is prioritising its own economic interests, expanding its political and geopolitical influence, and mobilising BRI to challenge the existing international order, BRI would cause various problems and conflicts. It is of importance to consider how we can manage the BRI for the true benefit of all countries and to stabilise the existing international order.

What are the strategic motivations behind BRI? First, China's expanding economy, population, and military capability have changed its position in the international system. With its growing power, China is seeking to reorganise 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 (2014), China's agenda-shift from "Keeping a Low Profile" to "Striving for Achievement" is the most important change in Xi Jinping's administration, demonstrating the global ambition that China now envisions.

Second, behind this change in attitude was 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. As Theresa Fallon (2014) notes, the U.S. policy of containing China, including the Trans-Pacific Partnership (TPP), has prompted China's "pivot to Europe."

Third, the expansion of external involvement through BRI is attributable to structural changes in the domestic economy. China, which has excessive production capacity in the infrastructure sector, can discharge its supply capacity through BRI. OECD (2018) estimates that annual investment needs range between USD 2.9 trillion and 6.3 trillion. The investment needs in transport and energy infrastructure constitute the largest share, comprising around 60% of global needs, and investment in Asia is estimated to account for USD 26 trillion until 2030 (OECD, 2018). As such huge needs cannot be met by the existing international institutions, it is no doubt that China's investments are necessary for achieving sustainable development. However, the key question is how they invest in these sectors.

BRI initially targeted Eurasian countries that connect Asia and Europe, but now it is expanding to Africa and Latin America. Many developing countries are attracted to the accessibility of Chinese infrastructure funding. 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 USD 1 trillion, and more than half of the investments are estimated to have gone to BRI-participating countries. The average annual amount spent on BRI projects is \$1,180 billion (Kawai, 2019).

Various criticisms have been raised about BRI. The first is that China prioritises its geopolitical and geo-economic interests over the economic viability and efficiency of the recipient countries. In fact, ports that China has acquired operational rights through BRI, such as Hambantota Port in Sri Lanka, Gwadar Port in Pakistan, and Piraeus Port in Greece, are located along the key sea-lane 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 through BRI, thereby expanding a de facto sphere of dominance for China (Brewster, 2017).

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 (2018), 89% of China's overseas infrastructure business is contracted by Chinese companies. 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 the Asian Development Bank and the World Bank (Hillman 2018). A similar criticism points to the financial provider: most of the financial resources for BRI projects are provided through traditional state channels, while new financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), provide a rather smaller share. The U.S.-China Economic and Security Review Commission estimates that 52% of the BRI funding is provided by state-owned commercial banks, 21% by the Export-Import Bank of China, and 26% by the China Development Bank.³ In contrast, finance by new financial institutions, such as AIIB and the NDB, has been very modest so far, constituting less than 2% of the total BRI investment (Figure 2). In 2016, *The Economist* mocked this situation, redefining “OBOR” (One Belt, One Road) as: “Our Bulldozers, Our Rules.”⁴

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

³ 2018 Report to Congress of the U.S.-China Economic and Security Review Commission, Washington: U.S. Government Publishing Office, November 2018, p. 276.

⁴ “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).

BRI Funding by Source
(Outstanding loans or equity investments at year-end 2016, US\$ billions)

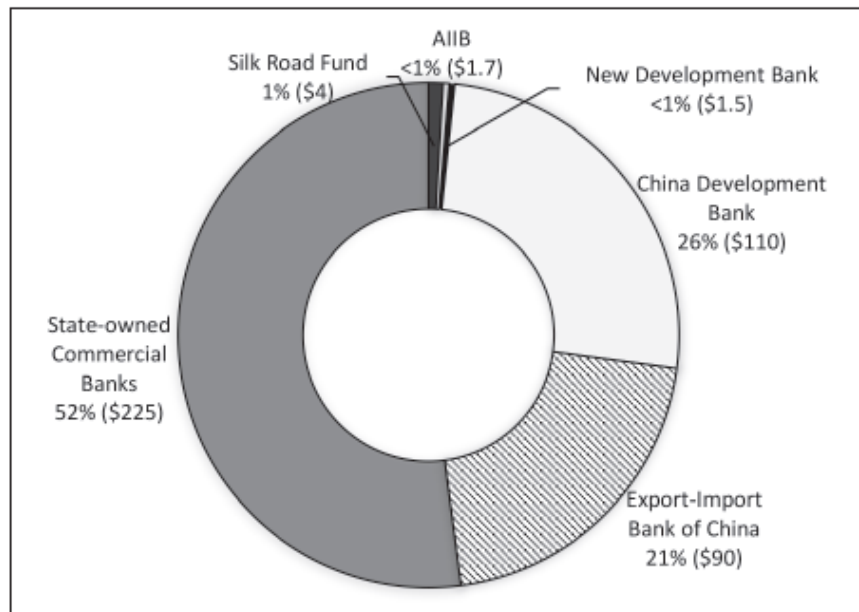


Figure 2: BRI Funding by Source. Source: 2018 Report to Congress of the U.S.-China Economic and Security Review Commission. Retrieved from <https://www.uscc.gov/annual-report/2018-annual-report-congress>

These concerns have become widespread, particularly in the Indo-Pacific region, where many BRI projects are underway. Indeed, the experience of Sri Lanka has led many ASEAN countries to review the economic viability of related projects and the likelihood of debt repayment. In recent years, many recipient countries began to reconsider their relationship with BRI. Malaysia is a good example. Under the previous government of Prime Minister Najib, Malaysia agreed to various large-scale infrastructure development projects with China, such as the East Coast Railroad. The general election of May 2018 resulted in the first-ever change of the government, and the new Prime Minister Mahathir announced a comprehensive review of such projects. The prime minister then said he would renegotiate the East Coast rail project and postpone the project. The successful renegotiation led Prime Minister Mahathir to show his support for BRI.⁵

⁵ “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)

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 below, China is careful to avoid connecting BRI to an expansionist and China-centric policy.

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 Indo-Pacific" strategy.⁶ It aims to maintain and strengthen the free and open maritime order based on the rule of law, focusing on the dynamism created by the intersection of the "two continents" of Asia and Africa and the "two oceans" of the Pacific and Indian Oceans.

FOIP has three pillars: (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 to counter China's BRI and unilateral maritime expansion. This reverses the traditional pattern of Washington making foreign policy decisions followed by Tokyo (Kawai 2019). India welcomed the move and supported the strategy, which was joined by Australia. Consequently, Japan, the United States, Australia, and India, which jointly constitute the Quadrilateral Security Dialogue, became the core participant countries of FOIP.

⁶ Address by Prime Minister Shinzo Abe at the Opening Session of the Sixth Tokyo International Conference on African Development, 27 August 27, 2016. Available at https://www.mofa.go.jp/afr/af2/page4e_000496.html (last accessed 28 November 2019).

At the core of Japan's FOIP is what Japan calls 'Quality Infrastructure' (hereafter, QI). At the 21st International Conference on the Future of Asia held in May 2015, Prime Minister Abe announced his pursuit of High-Quality Infrastructure Partnerships.⁷ QI is defined as infrastructure which may seem expensive at first glance, but is easy to use, durable, environmentally friendly, and disaster-ready, making it cheaper in the long run and helping to create local jobs and improve livelihoods. In other words, it refers to the concept of building infrastructure that can be maintained in an economically, environmentally, socially, and financially sustainable way.

The idea of QI has gained support from other countries. The G7 Ise-Shima Summit in 2016 approved the *G7 Ise-Shima Principles to Promote High-Quality Infrastructure Investment*, which lists the five principles for QI investments: (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).

FOIP has several challenges. First, 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 do not want to be forced to choose one. Initially, ASEAN members and other Asian developing countries resisted the expression of the "Indo-Pacific" concept led by Japan, the United States, Australia, and India. It seemed that they were forced to choose between Japan (or the United States) and China because the term 'strategy' was recognised as a strategy to counter China's BRI. As a result, Japan changed its expression

⁷"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).

from 'strategy' to 'vision' in order to change the impression that it was a countermeasure against China.

Secondly, 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 underway 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 by many developed countries, its value seems warranted. The vision also coincides 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 realised and effectively implemented. In other words, it is important to give economic substance to this plan through concrete actions including strengthening infrastructure connectivity, expanding trade and investment, and infrastructure financing.

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

How are BRI and FOIP related? Initially, the Japanese government did not take either a positive or negative stance toward BRI. Japan changed its stance in 2017 when Prime Minister Abe expressed conditional support for BRI. Abe recognised the BRI as having the potential to connect East and West as well as the diverse regions found in between, making clear several conditions for support.

In 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). This conditional support was created with the previous BRI criticisms in mind, aiming to make future BRI projects 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 recognising the BRI's potential, the Japanese government set clear criteria 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 outlined four conditions that 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. The agreement brought together 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 totalled \$180 billion.

It is expected that this will serve as an opportunity to expand Japan-China cooperation in 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" (Chang-Liao, 2019), 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

When President Xi launched BRI, he certainly did not have Europe in mind. Yet, China has gradually expanded the BRI to include CEE countries.

Traditionally, China's presence in Central and Eastern Europe has not been significant. For China, the advantages of the region are its relatively low-wage, high-quality labour, geographical proximity to Western Europe, and its potential for economic growth, all of which were more apparent with their accession to the EU. Of course, this does not deny that China finds strategic value in this region. However, China has kept its cooperative stance with the EU and taken a cautious approach to political discourse, hoping to avoid a forced choice between China and the EU.

China's active involvement was, at least initially, attractive to CEE countries. First, CEE countries had to look for new economic opportunities as direct investments and financing were dramatically slowed down within Europe after the European financial crisis in 2008. Second, because the EU's various decisions and policies are under the influence of Germany, China could be a potential partner for diversifying their investment channels. Third, CEE countries could expect to negotiate with China on equal footing through participating in the multilateral framework of the “16+1.”

In recent years, however, there has been growing scepticism about China in this region. While China has made various promises, there is a large gap between promises and reality. In fact, investment in the three major powers of France, Germany, and the United Kingdom still accounts for about half of Chinese FDI in Europe (Hanemann, Huotari, & Kratz, 2019). 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. The dissatisfaction these countries had with the “double standards” of Western European countries in the EU.

Moreover, even among Central and Eastern European countries, there is a considerable variation in the investment scales. Among the “16+1” countries, for example, Hungary received the most investment from China, with a 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 amount to around 100 million euros or less, indicating that the degree of China’s involvement varies greatly.

Hungary has received the largest Chinese investment among CEE countries. According to Tamas Matura, from Hungary’s point of view, relations with China can be characterised by a well-known proverb, “Is the glass half empty or half full” (Matura, 2017)? On the one hand, Hungary 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. On the other hand, while the Hungarian government has appealed to China in 2011 under the policy of “Opening to the East,” Hungary has not achieved remarkable success in attracting new significant investment since then. Moreover, about three-fourths of the sum of the Chinese FDI came from China’s Wanhua Group buying Hungarian 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 has not even begun. There is also an issue with 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.

The relationship and stances towards China in CEE countries appear to be driven by political rather than economic concerns. For instance, Hungarian Prime Minister Orbán has been trying to secure 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." However, this action seems to be a bluff, and it is unlikely that Hungary will indeed pull back from the EU and join hands with China. This is because the EU has provided more financing for Hungary and other CEE countries than China. Through the EU Structural Funds and Cohesion Fund, the EU co-financing accounted for 11% to 23% of these countries' annual GDP between 2007 and 2015, which is far greater than China's total FDI in this region. Even in countries such as Hungary and Poland, which are relatively profitable to China, relations with China are gradually becoming more pragmatic. As Agnes Szunomar (2017, p. 10) notes, "Hungary is willing to deepen pragmatic cooperation with China, however, for the time being this objective appears rather in the field of rhetoric and politics, while the economic results lag behind in recent years."

As China's economic presence in CEE countries is still comparatively insignificant, the 'debt trap' concern is not the case for most CEE countries, especially those with EU membership. However, this concern might be valid for non-EU countries. For instance, Montenegro agreed with China to construct highway roads linking to 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 the highway project, the debt would have fallen to 59% (IMF, 2018). Accordingly, Montenegro is now categorised as one of the eight countries of "particular concern" for severe debt distress due to future BRI-related financing (Hurley, Morris, & Partelance, 2018).⁸

⁸ The other seven countries include: Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.

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

How is Japan working with Central and Eastern European countries in the area of connectivity? Unlike other East Asian countries, Japan has long invested in Central and Eastern Europe (Szunomár & McCaleb, 2018). Japanese direct investments in Eastern Europe began with the democratization in Central and Eastern Europe in the 1980s. Japanese companies, such as Suzuki Motor Corporation and Matsushita Electric, invested from the latter half of the 1980s to the first half of the 1990s. The second wave was triggered by the accession of CEE countries to Europe. Japanese companies expanded their production bases in various ways because they could produce products without tariff barriers. Overall, Japan's economic engagements with CEE countries have been stable and sustained, and Japan's FDI in CEE countries is still substantially larger than China's.

However, Japan's direct investment has been concentrated in machinery and automobile industries, and Japan has no active investments in infrastructure development and connectivity-related areas. Certainly, there are several infrastructure projects, such as power plants and sewage facilities through grant aids and official development assistance (ODA), but there is no official flagship project in this region, such as the Budapest-Belgrade railway under BRI. Therefore, except for private investments, Japan's investments in infrastructure and connectivity development in CEE countries through FOIP remains in the planning stage.

On the other hand, in recent years, Japan has gradually taken an active stance on infrastructure developments in CEE countries, especially in cooperation with the EU. Since 2010, the exportation of infrastructure systems has been positioned by the Japanese government as the main pillar of its national growth strategy. In May 2013, *The Export Strategy for Infrastructure Systems* was approved, setting a total sales value of approximately 30 trillion yen (USD 280 million) by 2020. Since then, Japan has actively promoted the development of high-quality infrastructure in order to strategically meet

the demand for infrastructure around the world and to realize Japan's economic revitalization.

Most notably, Japan has been strongly involved in international standardization of infrastructure development through its participation in multilateral frameworks and platforms, such as the G7 and G20. At the G7 Ise-Shima Summit in May 2016, Japan led efforts to establish the principle of “High-Quality infrastructure investment.” This principle was also taken over in the summit declaration of the G20 summit in September 2016 (Table 1).

Table 1

G20 Principles for Promoting Quality Infrastructure Investment
Principle 1: Maximizing the positive impact of infrastructure to achieve sustainable growth and development
Principle 2: Raising Economic Efficiency in View of Life-Cycle Cost
Principle 3: Integrating Environmental Considerations in Infrastructure Investments
Principle 4: Building Resilience against Natural Disasters and Other Risks
Principle 5: Integrating Social Considerations in Infrastructure Investment
Principle 6: Strengthening Infrastructure Governance

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, we can expect that Japan is now seeing CEE countries as important areas of investment 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 the EU initiative of 60 billion euros 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 banks and private companies. Japan has also indicated its intention to mobilise private funds for the project.

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

So how are FOIP and BRI linked in Central and Eastern Europe? It should be emphasised that Japan and China are not competing for actual investments in Central and Eastern Europe. Certainly, in cooperation with the EU, Japan has been trying to restrain China from expanding its influence in Europe and has urged China to improve the transparency and viability of the BRI projects. However, the actual investments by Japan and China have not produced significant results, and in this sense, competition still remains at the level of discourse. The presence of both countries in this region are not as great as those in their visions.

Such visionary tug-of-war is different from that in the Indo-Pacific region. In Asia, Japanese and Chinese companies have been competing for project orders, such as high-speed railway construction. The defeat of a Japanese company in the order for a high-speed railway between Jakarta and Bandung in Indonesia triggered a major shift in Japan's infrastructure export strategy. When Indonesia, traditionally a pro-Japan nation and the largest beneficiary of Japanese ODA in Southeast Asia, chose the Chinese proposal over the Japanese one, it symbolised the decline of Japan's soft power in the region and imparted the lesson that it would be unwise to 'compete' with China in infrastructure development. In fact, given the discrepancy in funds and resources available for connectivity projects, it became unrealistic for the Japanese government to compete with China.

This shift from ‘competition’ to ‘cooperation’ in the Indo-Pacific region is observable in infrastructure development in Central and Eastern Europe. In particular, Japan, in close cooperation with the EU, has repeatedly urged China to make investments in line with international standards, such as the “High-Quality infrastructure investment,” rather than containing China's expansion of influence.

Importantly, China has begun to show a willingness to compromise with Japan's proposal and adherence to the QI principles, 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. While the contribution of the AIIB to the overall BRI projects is very modest, it is true that its implementation has been improved against international standards. It is clear that China attaches importance to ensuring the legitimacy of conducting BRI.

Market cooperation in third countries is expected to develop as a result of this compromise. It would be instructive to see how Japan and China try to cooperate with each other in the development of the Eastern Economic Corridor of Thailand. In 2018, high-speed railway development was expected to be a flagship example of Japan-China third-country market cooperation. While Japanese companies finally decided to withdraw from the project due to the problems of profitability and sustainability, JBIC is reportedly considering financing with soft loans and JICA has already started a feasibility study on the smart city project, which is attracting attention as a new feature of Japan-China cooperation.

Japan-China cooperation has several advantages. First, through joint financing and joint ventures, Japan can monitor Chinese investments to prevent a recipient country from falling into a debt trap. At the same time, China can avoid common criticisms about its opacity and inefficiency by involving Japan in its projects. Second, Japan and China can leverage their strengths. In terms of high-quality infrastructure exports, Japan has strengths in process control and engineering know-how, as well as its reliability in project implementation. The cost performance of construction and manufacturing by Chinese companies, and their overwhelming financial power and government guarantees are

necessary to meet the enormous infrastructure demands in Eurasia. Third, through such market cooperation, the two countries can demonstrate to the world that their vision of improving connectivity is consistent with fair and open rules.

Alisher Umirdinov (2019) argues that Japan's "stubbornness" on high-quality infrastructure has led China to acknowledge and correct the deficiencies and opacity of BRI. In fact, at the second BRI Forum held in April 2019, the concept of high quality advocated by Japan was repeated many times.⁹

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 bonds, 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.

The EU has adopted such a soft law strategy as well. In its *EU-Asia Connectivity Vision*, the EU not only adopts standards similar to the QI principle, but also has a partnership with Japan to promote QI. China is responding to these developments in a cooperative manner. *The 16 + 1 Summit* in April 2019 adopted the Dubrovnik Guidelines, reaffirming the importance of cooperation among participating countries in a manner consistent with EU legal policies and of high-quality infrastructure investments.

⁹ 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).

In fact, it is unclear to what extent such a soft law strategy can change the operation of BRI. However, it would be unrealistic for Japan and the EU, which have long maintained liberal democracy and multilateralism, to employ power politics to suppress China's influence. The strength of Japan and the EU lies in the so-called "normative power" and the power of regulatory standardization that makes the norm *a fait accompli*. Whether this strategy will work remains to be seen, but it should be stressed that this is an essential policy that Japan and the EU can take.

For CEE countries, the policy challenges of breaking their dependence on the EU and seeking alternatives remain a major concern. 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 materialise 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 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 a situation where these platforms are used for a coordinative venture between Japan and China in CEE countries? This is just speculation, but it is possible and desirable.

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.

Conclusion

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 emphasised building connectivity through quality infrastructure. It is not clear whether China, which is strategically pursuing BRI, will 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, it is difficult for Japan and Europe to take on 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 their strategic partnership that creates a rules-based and sustainable order and encourages cooperation to resolve global issues. Otherwise, the principles of a rules-based international order and high-quality infrastructure will be lost in the competition for global power.

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