



Japan's Grand Strategy to Counter China: An Analysis of the "Partnership for Quality Infrastructure"

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On 21 May 2015 Japanese Prime Minister Shinzo Abe announced that his government along with the Asian Development Bank will jointly provide approximately US\$110 billion to support in "innovative" and "quality" infrastructure investment in Asia over the next five years (Fensom 2016). This initiative which is called the "Partnership for Quality Infrastructure" (PQI) was declared at the 21st International Conference on the Future of Asia, held in Tokyo (MOFA 2016).

It is aimed at pursuing both "quality" and "quantity" through four key pillars. The first pillar involves expanding and accelerating assistance through Japan International Cooperation Agency (JICA). The second involves collaboration with the Asian Development Bank (ADB). The third pillar

calls for enabling institutions like Japan Bank of International Cooperation (JBIC) and Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN) to fund for projects with high risk profile (MOFA 2016) and lastly, the fourth pillar aims to promote quality infrastructure investment through site visits, seminars, international forums, etc. (Fensom 2016). The policy statement of the PQI also gave a few examples of such quality infrastructure investments by Japan like the Delhi Metro project, Mongolia's Ulan Bator Railway Fly-over and Vietnam's Nhat Tan Bridge (Ministry of Foreign Affairs of Japan 2016).

This paper attempts to look at the Japanese PQI vis-à-vis the OBOR initiative of China

and the Indian responses to this initiative in view of its several challenges. Towards the end, an attempt is made to analyze the prospects of the PQI taking into consideration the proliferation of various infrastructure initiatives in Asia.

Background to the PQI

The genesis of the PQI can be traced to the Japan Revitalization Strategy (JRS) which was approved by the Japanese Cabinet in June 2013. The JRS comprised of the third “arrow” of the “Abenomics” program or the new growth strategy of Prime Minister Shinzo Abe to revive the Japanese economy from economic deflation (*Nippon.com* 2013). Through this initiative the administration aims to achieve 3 per cent nominal and 2 per cent real GDP growth rate over the next ten years.

Taking a dig at China, Abe spoke against the creation of a market where counterfeit and pirated products displace advanced technologies

There are also three action plans under JRS of which the third plan, “Strategy of Global Outreach” aims at tapping into expanding global markets (Prime Minister of Japan and His Cabinet, 2013). This articulation of “creating new frontiers for growth” is given a more concrete shape through the PQI initiative which appears to be relatively more amenable to taking on risky projects with faster loan procedures (Basu 2016).

Japan’s Grand Plan?

One of the stated goals of this initiative is to expand Japanese presence in emerging economies by making use of its strengths

such as technological capabilities, high performance products, high quality infrastructure, etc. (MOFA 2013). By emphasizing on quality, Japan is also taking a dig at China whose projects and technology are widely considered to be much inferior to Japan. While announcing the PQI plan, Abe made a swift criticism at the Asian Infrastructure Investment Bank (AIIB) for its lack of transparency and governance standards, by saying that “Excessive economic activity by the government sector must not elbow its way past the diverse ideas of the private sector. We must not create a ‘bad money drives out good money’ type of market where counterfeit and pirated products displace advanced technologies” (Fensom 2016). Moreover, the timing of this announcement also comes at a time when China is aggressively promoting its OBOR project.

Moreover, Shinzo Abe’s foreign policy with regard to China is also quite aggressive relative to his predecessors. For instance, Abe became the first Japanese Premier to visit all the five Central Asian republics and he did so with a sizeable business delegation barely a few months after launching the PQI (Walker and Azuma 2015). Tokyo was also among the contributors to the ASEAN promoted “Master Plan of ASEAN Connectivity” and has pledged to develop one land and one maritime corridor there. Additionally, Japan has also announced in July 2015, a three year, US\$6.1 billion dollar aid package for five Mekong countries close to the Chinese market. Moreover, Abe has also planned to reform the ADB to make offers of assistance simpler, less time consuming and remove the requirement of government guarantees for undertaking risky projects. This is being done apparently in response to the AIIB (Szcudlik 2016).

Additionally, Japan has also found support from Malaysia during Prime Minister Najib Razak's visit to Tokyo in May 2015 when ties between both the countries were elevated to a "strategic partnership" from the stage of "enhanced partnership" in 2010 (Parameswaran 2015). Among the list of areas that both sides agreed to cooperate on in the Japan-Malaysia strategic partnership, one key area was infrastructure development on which both sides agreed to collaborate on creating "quality infrastructure" for which Japan has already evinced its interest to participate in building a high-speed railway project between Malaysia and Singapore (Parameswaran 2015).

Moreover, in the Africa-Japan Business Investment Forum held in September 2015, Abdalle Hamdok, the Deputy Executive Secretary of the Economic Commission for Africa also expressed his continent's willingness to enter into collaborations with Japan by saying that "Africa is aspiring to build a partnership with Japan for a win-win situation" (Uneca.org 2015).

He also mentioned that one of the flagship projects of Agenda 2063¹ is to connect all African capitals and commercial centres through Africa's Integrated High Speed Train Network and identified it as a potential area of opportunity for Nipponese businesses to engage in (Uneca.org 2015). Japan is also increasingly challenging China in the region by first, raising its proposed investment fund to US\$110 billion as opposed to the China led AIIB's planned capital of US\$100 billion. The Japanese are also very receptive to taking on sensitive projects with total disregard to Chinese concerns. A case in point is the Japanese

¹ Agenda 2063 is a vision and action plan calling on all sections of African society to work together to build a united and prosperous based on shared values and a common destiny (Agenda2063.au.int 2016).

decision to invest in infrastructure projects in India's Northeast region including Arunachal Pradesh with the goal of strengthening India's connectivity with the ASEAN and to counter any incentives of the BCIM corridor (Maini 2016).

The Japanese are very receptive to investing in the sensitive infrastructure projects in India's Northeast region including Arunachal Pradesh

In addition, Japan is also getting involved in long-term projects in Asia by offering loans at cheap rates such as the Mumbai-Ahmedabad high-speed rail link project in India where Japan has offered credit of up to US\$12 billion as soft loan (Country.eiu.com 2015). In contrast, Chinese investments have become the subject of criticism over high interest rates and corruption allegations, as in the case of Sri Lanka most prominently (Pattanaik 2015).

Japan's Approach to AIIB: Adversarial or Skeptical?

While Japan is aggressively trying to promote its PQI initiative overseas, it is also at the same time taking a very careful approach towards the AIIB by not rejecting it outright but by keeping the door open for joining it in future. Japan has also publicly stated that it desires greater cooperation between the AIIB and the ADB, although Tokyo has been careful enough to stress that the rules and procedures that the AIIB eventually adopts will finally matter for such cooperation (Parameswaran 2015). Japan has also expressed its hope that the Bank will meet international standards and "will play a role as an institution that would

contribute to sustainable development in the Asian region” (*The Japan Times* 2015).

Yoshihide Suga, Japan’s Chief Cabinet Secretary and the top government spokesperson stated this clearly by saying that “Japan would like to closely watch the operations of the AIIB from these perspectives” and only then would consider participating with the AIIB to promote “high quality” infrastructure projects in Asia (*The Japan Times* 2015).

Similar concerns over the AIIB have also been raised by some other states like the US which initially attempted to block its creation. During his visit to China in March 2015, US Treasury Secretary Jack Lew argued that the AIIB must “share the international community’s strong commitment to genuine multilateral decision-making and ever-improving lending standards and safeguards” (Keatley 2015).

The Japanese initiative of PQI can help India in transitioning from a balancing to a leading power in the region

These concerns are not entirely irrational too as Chinese investments are often criticized for not creating enough jobs in the developing countries and their record of lending to authoritarian regimes and allegations of Chinese companies using bribes as a means to win projects has also given a bad name to Chinese investments (Keatley 2015). For instance, Chinese-funded projects have already suffered setbacks in a few countries like Myanmar (the Myitsone dam project) and the Phillipines (the National Broadband Network and Northrail Projects) for serving no local purpose and on grounds of

corruption (Pitlo III 2016). Japan, on the other hand, has been more able to address the concerns of the regional governments by refraining from adopting a rigid approach to infrastructure development (Parameswaran 2015). Abe has also struck a balanced note in his speech by saying that Asia should pursue both quality as well as quantity ambitiously (Parameswaran 2015).

India’s Involvement

India has been getting increased attention from the West because of its size and strength which makes it the only power in Asia besides Japan that can counter China. The burgeoning partnership between India and Japan has already led to India becoming the largest recipient of the Japanese Overseas Development Assistance (ODA) programme. Moreover, India and Japan are also involved in a strategic defence and economic partnership. This was highlighted in Prime Minister Shinzo Abe’s visit to India in January 2014 when Indian Prime Minister Manmohan Singh invited Japan to invest in India’s Northeast, including in Arunachal Pradesh (Maini 2016). Moreover, after losing out to China in an Indonesian high-speed railway project, Japan had also offered attractive loan terms and Shinkansen technology for the Mumbai-Ahmedabad high speed railway project during Shinzo Abe’s visit to India in December 2015 (Basu 2016).

However, India faces a dilemma in dealing with both China and Japan. It is the second-largest stakeholder in the AIIB and also a member of the BRICS New Development Bank, both of whom are expected to be important lenders to projects falling under Chinese initiatives like OBOR. India is also a member of important multilateral forums like BRICS and the SCO, which include

among others, Russia and China that have territorial disputes with Japan.

In spite of such factors, India has displayed more receptiveness towards the Japanese PQI as opposed to the Chinese initiatives. Due to the increasing convergence of interests between India and Japan, India has also decided to allow Japan to build a 15MW diesel power project on the strategic South Andaman Island (Maini 2016). Moreover, since India's own plans such as Project Mausam remain limited in scope, this Japanese initiative can help it in transitioning from a balancing to a leading power in the region.

Conclusion

There has been a proliferation of infrastructure investment projects in Asia due to increasing demands of fast growing economies like India, China, and ASEAN, etc. It is a common desire of these states to improve connectivity with each other but there are also intense rivalries and suspicions about each other's intentions to gain primacy in the region. As such, because of these twin factors, states and regional blocs like China, Japan, India, ROK (Republic of Korea), and ASEAN, etc. are involved in their own infrastructure initiatives making the Asian landscape more complicated (Szcudlik 2016).

Unlike Chinese initiatives such as the OBOR or AIIB which have garnered a lot of global attention, Japan's increasing presence in both South Asia and Southeast Asia have taken shape in a much more discreet and low-profile manner. Japan is also striving for a greater role in Asia by pursuing a targeted and narrower approach with its focus on "High Quality Infrastructure" (Kebede 2016). The PQI initiative, for which Japan is willing to mobilize both

public and private resources has also got the firm backing of the *keidanren*, the most powerful business lobby in Japan, which has been issuing policy proposals for the initiative since 2013 based on the surveys carried out by its member companies (Keidanren 2016).

While states like Japan and India have sufficient foreign reserves and political capital to develop these initiatives, due to the tremendous trust deficit with China however, it is difficult to imagine genuine cooperation taking place. Also, since most of the Asian states are in desperate need of investments in infrastructure, many have agreed to be part of Chinese initiatives like OBOR due to the lack of availability of investments from other sources. The entry of the Japanese into the picture is certainly expected to bring a paradigm shift to the dynamics of connectivity in the Asian landscape.

Indian participation in Chinese initiatives is risky as it enables Chinese access to Indian markets while letting the boundary problem to fester indefinitely

A prime example is India, which has been very receptive to Japanese investments but has adopted a wait-and-watch policy towards the Chinese proposals. What makes this Japanese initiative more attractive is that Japan's terms of financial assistance are feasible and it is also ensuring that the benefits accrue to other countries too for which it is willing to make long term investments (Kebede 2016). Moreover, while China plans to connect its domestic economy with the rest of the world through

the OBOR project, Japan, on the other hand, is willing to promote integration of other countries such as India with their neighbours (Mohan 2016).

For India, meanwhile, there are also tremendous risks involved in participating in Chinese proposals like BCIM and the Nepal-India-China trilateral as it would enable China to access the Indian market without even delineating the Line of Actual Control or the disputed boundary between them. That might lead to the resolution of the boundary problem pending for even longer (Pulipaka 2016). Therefore, it can be argued that for India, there are much greater incentives in going for Japan-led initiatives like the PQI rather than participating in Chinese initiatives. ■

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