



Asia Pacific Bulletin

EastWestCenter.org/APB

Number 320 | September 9, 2015

A Long Way from Sharing a Mountain: Japan-China Relations and the Creation of the AIIB

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Delegates from 57 countries gathered in Beijing as the founding members of the Asian Infrastructure Investment Bank (AIIB) on June 29, 2015. The Abe administration, however, decided to pass. The Japanese government's decision to hold off on joining so far has been a rational choice, particularly since it does not necessarily imply the abandonment of the option of cooperating with the China-led bank. Rather than rushing to join the AIIB, Japan should insist first that progress be made on the two governments' 2008 commitment to a "mutually beneficial relationship based on common strategic interests" on regional cooperation.

As Professor Michael Yahuda describes in his recent book, Japan and China are like two tigers that have to learn how to share the same mountain. However, their interaction over the creation of the AIIB suggests that learning to coexist peacefully and in a mutually beneficial manner when dealing with regional and global issues will not be a linear or easy process.

Japan remains reluctant to join the new institution, although many bureaucrats and pundits in Japan agree that criticizing China for creating the AIIB is not a wise way to handle this issue. The real issue for the rest of the world is how to exert influence on China's design of the AIIB. Some Japanese experts have insisted that Japan should become a founding member of the AIIB in order to push for reforms from inside. They also note that Japan should meet the expectations of Southeast Asian countries by monitoring and balancing China, not allowing it to gain too much power within the AIIB.

However, Prime Minister Shinzo Abe and the officials at Japan's Ministry of Finance have been reluctant to take the risk that a China-led bank with low levels of transparency might spend Japan's money extravagantly. Therefore, the Abe administration decided to forego participation in the AIIB as a founding member, but at the same time has announced US\$110 billion in aid for building "high-quality" infrastructure in Asia over the next five years. The Abe administration has thus opted to put pressure on China externally by differentiating the Japanese contribution from that of the China-backed AIIB.

Behind-the-Scenes Jockeying by Japan and China

Interestingly, the Japanese media reported that China was trying to persuade Japan to become a founding member of the AIIB from the spring through summer of 2014. Moreover, at the Japan-China summit meeting held in Jakarta in April 2015, President Xi Jinping made a point of explaining the Chinese view on "One Belt, One Road" and on the AIIB. In response, Prime Minister Abe reportedly maintained a cautious stance and pointed out that while Japan shares with others the recognition that there is a high demand for infrastructure in Asia, the government of Japan needs a clear explanation

Dr. Aki Sakabe-Mori, Assistant Professor of Humanities and Social Sciences at the University of Tsukuba, explains that "Without progress on overall political relations, the political conditions do not exist that would enable the Abe administration to make the decision to join the AIIB as a founding member."

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The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington.

APB Series Editor: Dr. Satu Limaye
APB Series Coordinator: Alex Forster

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from the Chinese side on the issues of institutional governance and the debt sustainability of the borrowing countries.

Some in the Japanese media and specialists have criticized the Abe administration for being overly deferential to the United States, which has also not become a founding member of the AIIB. However, it is worth considering carefully what China’s motivation is for wanting to have Japan as a founding member of the new bank. According to remarks made by President Xi in Kazakhstan and Indonesia in the fall of 2013, China envisages the creation of the AIIB as a Chinese initiative to build infrastructure in Asia. Moreover, despite the insistence of China’s ambassador to Japan, Cheng Yonghua, in his article in the *Nikkei Shimbun* that “One Belt, One Road” would provide a new platform for China-Japan cooperation, Chinese media reports have not included Japan in that concept so far. In sum, it remains unclear to what extent the Chinese side would be ready to work with Japan in materializing its new concept of a Silk Road on land and sea.

Why, then, did the Chinese government want Japan to become a member of the AIIB? First, China may have expected a Japanese financial contribution to generate a higher credit rating for the AIIB. If China could obtain Japan’s capital subscription, it would bolster the AIIB’s ability to lend funds at a low interest rate. Second, and more importantly, China might have been attempting to contain Japan’s opposition to the AIIB by inviting it to join. Ambassador Cheng insisted that he hoped Japan will support China’s concept of “One Belt, One Road.” Whatever the case may be, it appears that the Chinese side is concerned that Japan may exert a negative impact on China’s diplomacy toward neighboring countries. This means that Japan so far has been playing an important role from outside, putting pressure on China’s behavior in the AIIB.

Japan Can Work with China on Regional Cooperation

Japan’s efforts to differentiate its role and model from China may be viewed as two tigers engaged in competition for control of the mountain, rather than cooperation. Nonetheless, the joint press release of the 5th China-Japan Finance Dialogue, held in early June, shows that Japan and China agreed to promote infrastructure building in Asia *without* Japan’s becoming member of the AIIB. This means that both sides can, and will, continue their efforts to find common interests in regional cooperation in East Asia.

The Japanese strategy on cooperation in East Asia is intended to expand its regional role and to create a favorable environment in which the US-Japan alliance is widely recognized as a public good. The aim is to accomplish this through engagement on the development of a framework for regional cooperation. Therefore, the Abe administration has not abandoned the policy option of contributing to regional stability by engaging China to shape its choices. However, despite the fact that Japan and China in 2008 agreed “to promote regional cooperation in East Asia based on the three principles of openness, transparency, and inclusiveness,” in recent years there has been little done to promote that “mutually beneficial relationship based on common strategic interests.” Without progress on overall political relations, the political conditions do not exist that would enable the Abe administration to make the decision to join the AIIB as a founding member. In this context, one of the key indicators for Japan’s strategic calculations in relation to China will be the effort made by the Chinese side to implement the June 2008 agreement to make the East China Sea a “sea of peace, cooperation, and friendship” by concrete action rather than merely through words.

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