

Will the AIIB Trigger Off a New Round of Rivalry in Economic Diplomacy Between China and Japan?

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Will the AIIB trigger off a new round of rivalry in economic diplomacy between China and Japan?

Shogo Suzuki, University of Manchester, UK

Abstract

The establishment of the Asian Infrastructure Investment Bank has had a significant impact on economic diplomacy in East Asia. The AIIB is substantially funded by China, and there are some anxieties that it will come to rival and eclipse the Asian Development Bank, where Japan plays a key role. Will the AIIB trigger off a new round of rivalry in economic diplomacy between China and Japan? Does the AIIB actually have the capacity to 'squeeze out' the ADB and diminish Japan's role? These will be the questions addressed in this paper.

Introduction

The rise of the People's Republic of China (PRC) is perhaps one of the most significant developments we have witnessed in international politics in recent years. While China has, in some senses, been a 'global player' through its possession of nuclear weapons and its permanent seat in the United Nations Security Council, its transition to becoming a 'great power' was long seen as incomplete. In the political realm, it tended to keep a low profile, behaving very much as a 'norm taker', playing a passive role in international governance, and very rarely taking on leadership roles.

Meanwhile, China's living standards remained low, and its military power—while significant—remained out-dated and no match for the US. Most importantly, its economic power remained limited, despite its tremendous potential. China relied heavily on Western aid and investment to build up its industrial base, and most often concentrated on light industry geared towards producing cheap, low-standard consumer products for the Western market.

Such depictions of China no longer fit reality. The PRC is now the second largest economy in the world, and is gradually moving on to produce products that were the exclusive monopoly of the developed world. It has also become a key donor of aid, as well as a significant competitor to the industrialised world in infrastructure projects in the developing world. Its military power is also on the rise, prompting fears of a 'China threat'. Perhaps most importantly, these developments have given it the confidence to speak out more vocally against the current hegemon, the US, and become a 'norm producer', forwarding alternative visions of global order that could directly challenge the hegemonic status the US has enjoyed since the end of World War II.

One state—other than the US—that is often said to be observing these developments with a growing sense of anxiety is Japan. Japan became the regional hegemon in the late-nineteenth century, after becoming the first non-European state to fulfil the 'standard of civilisation' and attain equality with the West. Even after its military defeat in 1945, it long maintained its position as the

second largest economy until it was overtaken by China in 2010. Japan has a number of disputes involving the interpretation of the past (known as the 'history issue') as well as the ownership of the Senkaku/Diaoyu Islands. But aside from this, there appears to be strongly entrenched assumption that the two states are locked in a state of rivalry, which could have implications for the security and stability of East Asia. Given Japan's constitutional constraints for rearmament and 'matching' Chinese military power, the main arena for this so-called 'rivalry' is said to be in the non-military field, such as economic aid, competition for markets, and so on. Japan was the undisputed 'economic giant' of Asia, being the leading aid donor and instrumental in establishing regional financial institutions that were intended to serve as vehicles for projecting Japanese national interests. Now, China, with its alternative visions of global order could be challenging Japan's regional dominance.

One development which epitomises this new trend is Beijing's proposal to set up the Asian Infrastructure Investment Bank (AIIB). The bank, which is aimed at providing funds for the region's growing demands for infrastructure construction, is often seen as epitomising China's current dissatisfaction with the status quo, which gives the US and its allies disproportionate power in the governance of international finance. While its main target is often seen to be the leading international financial institutions (such as the International Monetary Fund), there is a possibility that Japan's own regional influence will be threatened, given that economic power has long been one of Japan's key sources of influence in the region. How do the Japanese see the Chinese economic challenge, then? Is China seen as a threat to Japan's status as a regional power? Does this translate into an emerging Sino-Japanese rivalry?

This paper is a preliminary attempt to shed some light to these questions. It will proceed by exploring the concept of 'rivalry' and its use in the literature of International Relations, and then examine the case of the AIIB to explore whether Sino-Japanese rivalry has developed in the economic sphere. It will do so by looking at how the proposals for the institution are debated in both countries, and whether the AIIB is regarded as an essential part of a broader attempt to unseat Japan's position as the leading economic power of the Asia-Pacific region. The preliminary conclusions of this paper are that the AIIB is actually *not* conceived by the Chinese as a deliberate means to steal Japan's influence in the economic realm. Rather, the AIIB is a solution to China's dissatisfaction with the *American*-led international financial order, as well as its own domestic challenges. Similarly, Japan's concerns about the AIIB are more to do with fears of excessive financial burdens placed on Japan, rather than a result of fears over loss of Japanese regional influence. This, in turn, suggests that it remains premature to state that there is an emerging 'rivalry' between China and Japan, at least in the sphere of global/regional governance.

Definition of Rivalry

While the term 'rivalry' is frequently used term in the field of International Relations (IR), it has not always been clear as to what the term exactly denotes. There have, however, been more recent attempts to provide some clarity in this concept. Much of the emphasis on rivalries have tended to be on militarised conflict. Goertz and Diehl, for instance, introduce a definition that stipulates that rivalries exist when the states in question have at least 'five or seven militarized

disputes' between them, as well as 'at least twenty or twenty-five years between the outbreak of the first dispute and the termination of the last dispute'. Finally, 'no more than ten years between them *or* in some conceptions the issues around which the disputes revolve must be the same or unresolved.'¹

This definition, however, runs into some difficulties when applied to the case of China and Japan today. Despite the frequent assumption that 'Japan and China are historical rivals in East Asia',² if we use Diehl and Goertz's definition, between the years 1815-1976, Sino-Japanese 'rivalry' only took place between 1874-1937.³ Given that militarised conflict between the two states had not occurred since the sixteenth century prior to 1894, it seems somewhat inappropriate to call the bilateral relationship as characterised by rivalry. The same could be said about the current relations between the two states, given that there have been no cases of militarised conflict since 1945.⁴

There are, however, other ways of conceptualising rivalry. William R. Thompson, for instance, has pointed out that an excessive emphasis on enduring, militarised disputes are likely to lead us to 'mistake long-running problems for genuine rivalries' (such as the long-standing standoff between the US and Cuba) and 'also miss some significant but more subtle rivalries that do not quite exceed some orthodox threshold for disputes.'⁵ Thus, Thompson suggests that the concept of rivalry needs greater clarification, and offers the following characteristics that we need to observe in our analysis. First, rivalries 'require some level of identification and recognition on the part of one or both sides to distinguish them from competitions...Rivals must brand each other as such and behave accordingly.'⁶ This means that we need to ascertain whether or not both sides 'regard their principal opponents as competitors, only external threats, or...as persistent sources of problems. Only in the first case...would the principal opponent also be regarded as a rival.'⁷

Thompson also proposes two different types of rivalries, moving away from Goertz and Diehl's definition that emphasises military conflict. The first type is 'spatial' rivalry, which is more to do with the control of particular territories. The other type, 'positional rivalry', involves 'conflicts about relative

¹ Gary Goertz and Paul F. Diehl, 'Enduring Rivalries: Theoretical Constructs and Empirical Patterns', *International Studies Quarterly* (vol. 37, no. 2, 1993, pp. 147–171), p. 160, emphasis in original; also see William R. Thompson, 'Principal Rivalries', *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 197

² Rex Li, 'Partners or rivals? Chinese perceptions of Japan's security strategy in the Asia-Pacific region', *Journal of Strategic Studies* (vol. 22, no. 4, pp. 1–25), p. 6

³ William R. Thompson, 'Principal Rivalries', *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 199

⁴ For this point, also see Steve Chan, *Enduring Rivalries in the Asia-Pacific* (Cambridge: Cambridge University Press, 2013), p. 3

⁵ William R. Thompson, 'Principal Rivalries', *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 197

⁶ William R. Thompson, 'Principal Rivalries', *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 200

⁷ William R. Thompson, 'Principal Rivalries', *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 201

positions at or near the apex of a power hierarchy.⁸ For the latter to occur, it is necessary that both sides have ‘some rough level of capability symmetry’ where ‘[t]he declining incumbent must also recognize the threat posed by the challenger’.⁹ In other words, both sides need to ‘see themselves as engaging in a contest’, and ‘see each other as especially deserving of attention and effort, so much so that their relationship assumes a central place in their respective policy calculations and agendas.’¹⁰ Secondly, ‘[p]ositional rivalries also imply some minimal threshold of capability for the disputants. They need at least enough resources to be able to aspire to regional or global leadership. What that minimal threshold is will vary by arena.’¹¹ To this, we can also add the third condition, which is that states involved in positional rivalries are more likely ‘to be motivated intensely to deny or defeat the other side, with the result that their relationship can be reasonably described as a “zero-sum” ...contest.’¹²

It is obvious that Sino-Japanese rivalry over economic policy—if it exists—is more likely to do with positional rivalry, where both sides seek to expand their regional/global influence through economic means. It does, however, not include commercial rivalry, which aims to exclude one another from vital markets.¹³ The highly complementary nature of the Japanese and Chinese economies means that attempts to exclude one side from a particular market is most likely to result in harming one’s self as well. As Richard Katz has noted:

Around 60-70 percent of the goods China imports from Japan are the machinery and parts needed to make China's own exports. China cannot cut off this flow, or risk disrupting it through conflict, without crippling its economy....A 2012 International Monetary Fund report calculated that for every one percent of growth in China's global exports, its imports from Japan rise by 1.2 percent. Take away those imports, and China's exports collapse.¹⁴

As far as symmetry in capabilities is concerned, China and Japan are the second and third largest economies in the world. They are also the most powerful states within East Asia (if we exclude Australia and New Zealand). They both have the capability to aspire to regional leadership in East Asia. This leaves us with the two remaining conditions necessary for rivalry to emerge: that

⁸ William R. Thompson, ‘Principal Rivalries’, *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 205

⁹ William R. Thompson, ‘Principal Rivalries’, *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 205. This point is also confirmed by Steve Chan, *Enduring Rivalries in the Asia-Pacific* (Cambridge: Cambridge University Press, 2013), p. 31

¹⁰ Steve Chan, *Enduring Rivalries in the Asia-Pacific* (Cambridge: Cambridge University Press, 2013), p. 30

¹¹ William R. Thompson, ‘Principal Rivalries’, *Journal of Conflict Resolution* (vol. 39, no. 2, 1995, pp. 195–223), p. 205

¹² Steve Chan, *Enduring Rivalries in the Asia-Pacific* (Cambridge: Cambridge University Press, 2013), p. 31

¹³ Ming Wan, *Sino-Japanese Relations: Interaction, Logic, and Transformation* (Washington DC: Woodrow Wilson Center Press, 2006), p. 339

¹⁴ Richard Katz, ‘Mutual Assured Production: why trade will limit conflict between China and Japan’, *Foreign Affairs* (vol. 92, no. 4, 2013, pp. 18-24). Electronic access on 18 October 2015 at <<http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,shib&db=ssf&AN=88213863&site=ehost-live>>.

is mutual recognition that the competition posed by the other side is qualitatively different from other competitors; and that this competition is seen in zero-sum terms. How do the two regional powers view each other? I will attempt to answer this question by examining Chinese proposals to establish the AIIB.

Altering the *status quo*: China and the AIIB

The first step to understanding this question would be to examine Beijing's motivations behind its plans to establish the AIIB. If the bank is part of an ongoing positional rivalry with Japan, we would expect the Chinese to make explicit references to Japan and its influence in regional/global financial governance. The AIIB would likely be positioned as a direct rival to the Asian Development Bank, which has traditionally had Japanese presidents and is widely seen as an organisation through which Japan exerts its political influence in the Asia-Pacific.

China's proposing of the AIIB has taken place in the context of nationalist hubris and a belief that the time is now right for a rising China to 'do something' (*you suo zuo wei* 有所作为) to shape the international order. Previously, the PRC's overarching guidelines for Chinese foreign policy was to keep a low profile, and not seek leadership' (*taoguang yanghui* 韬光养晦), biding one's time until China had sufficient power. However, the PRC's impressive economic growth, coupled with growing perceptions of American decline, have resulted in the emergence of a belief that China's growing power was now a political reality, and that this needed to be accepted by both the international community and China itself.

The Asian Infrastructure Investment Bank (AIIB) itself was inaugurated on 24 October 2014, alongside with 21 founding member states. The Bank's aim is purported to be the providing of funds 'to build roads, mobile phone towers and other forms of infrastructure in poorer parts of Asia'.¹⁵ It has been widely reported that part of the PRC's motivations to set up this institution was its desire to play a greater part in the governance of international finance, as well as its increasing exasperation at the slowness of reforms in the current major international financial institutions, which continue to be dominated by Western states and their allies.¹⁶ The intellectual climate of '*you suo zuo wei*', coupled with the PRC's more aggressive diplomatic behaviour in territorial disputes, has meant that this development has been seen as one of the most prominent of China's attempts to deliberately challenge the normative status quo in international finance.

However, much of the existing commentary has concentrated more on potential threats to Western, particularly American dominance. As far as international perceptions beyond China and Japan are concerned, Japan is at best a secondary 'target' for the PRC, while the main object of Chinese 'rivalry'—if it exists—is widely seen to be the United States. Consequently, the AIIB initiative

¹⁵ *The Economist*, 'Why China is creating a new "World Bank" for Asia', November 11 2014, <<http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>>, consulted on 17 December 2014.

¹⁶ *Asahi shinbun*, 'Chūgoku, shin kin'yū taisei nerau', 20 October 2014, p. 2; *The Economist*, 'Why China is creating a new "World Bank" for Asia', November 11 2014, <<http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>>, consulted on 17 December 2014.

has often been called a ‘whole economic and political package that provides an alternative to the creaking international structures shaped by the U.S. in the postwar period’; ‘an alternative universe’; or a renewed attempt to ‘build new, Sino-centric institutions from scratch’.¹⁷ Much of the criticisms from the US about the AIIB have been based on ‘a lack of clarity about AIIB’s governance. Critics warn that the China-led bank may fail to live up to the environmental, labour and procurement standards that are essential to the mission of development lenders.’¹⁸

Is the AIIB a Chinese challenge to Japan’s economic supremacy?

If non-Chinese and non-Japanese observers do not appear to be viewing the AIIB as part of a broader Sino-Japanese rivalry, what about the Chinese themselves? While the AIIB has proved to be controversial, it needs emphasising that it is still in its embryonic stage, and it is too early to tell if it really will fundamentally alter the norms of global finance, let alone challenge Japan’s political influence deliberately. Nevertheless, it is still worthwhile examining some Chinese publications intended for a domestic audience to see if discourses of ‘overthrowing Japanese dominance’ are indeed prevalent. If the Chinese did indeed believe themselves to now be in a position of power to challenge Japan’s regional position, we would expect greater emphasis on breaking up the Japan’s power bases in international finance through the AIIB. Is this, however, the case?

There is little doubt that the AIIB *did* result from the PRC’s dissatisfaction with the current political arrangement pertaining global finance in International Society. It was, argues June Teufel Dreyer, ‘[f]irst bruited in 2012-2013, after the developed world, putatively led by the United States, resisted expanding the quota, and therefore the votes of the People’s Republic of China...in the International Monetary Fund (IMF) and the World Bank’.¹⁹ Indeed, Wang Jian notes that a common interest in resisting foreign intervention—particularly the US—played a role in the lead-up towards the establishment of the AIIB.²⁰ Zhang Xiaolan also points towards an underlying dissatisfaction towards Western dominance in international finance, and argues that the AIIB would play a key role in addressing this. Zhang notes: ‘The developed countries have the biggest voices [in international financial institutions], and this blocks the circulation of resources and the distribution of benefits. The establishment of the AIIB will improve China’s right to be heard in international finance.’²¹ Their sentiments are

¹⁷ Andrew Higgins and David E. Sanger, ‘3 European powers say they will join China-led bank’, *New York Times*, 17 March 2015, <http://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html?_r=0>, consulted on 26 April 2015.

¹⁸ *The Economist*, ‘Why China is creating a new "World Bank" for Asia’, November 11 2014, <<http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>>, consulted on 17 December 2014.

¹⁹ June Teufel Dreyer, ‘The Asian Infrastructure Investment Bank: who will benefit?’, *E-Notes*, Foreign Policy Research Institute, April 2015, available at <http://www.fpri.org/docs/dreyer_-_aiib.pdf>, consulted on 27 April 2015.

²⁰ Wang Jian, ‘Yatouhang beihou de zhanlüe juezhu’, *Shehui guancha* (no. 12, 2014, pp. 44—45), p. 44

²¹ Zhang Xiaolan, ‘Goujian yazhou jichu sheshi touzi yinhang de sikao’, *Hong guan jingji guanli* (no. 3, 2015, pp. 85—92), p. 86

shared Bai Xiulan and Zhao Feisu, who state that the AIIB will play a positive role in accelerating the pace of reform in International Financial Institutions (IFI).²²

What is important to note here is that Chinese dissatisfaction is primarily directed towards the US, rather than Japan; and in this context, if the AIIB is intended to challenge the power balance of the status quo, the chief target is the American dominance. The US continues to hold an effective veto over the governance of the IMF, and its Congress has been the chief obstacle in reforming the distribution of voting rights. Japan does have a relatively favourable share of voting rights in the IMF, and could be said to be a beneficiary of the current status quo. However, it does not hold a veto within the IMF, and neither has a Japanese national ever been elected to the position of president: this chair has traditionally been reserved for European nationals.

Furthermore, it is interesting that Chinese analysts devote much more space to discussing pragmatic reasons for establishing the AIIB than overthrowing Japanese power in international/regional finance. First, they state that the AIIB would help in reducing China's ever-growing foreign exchange reserves, as well as creating markets for surplus Chinese materials needed for infrastructure construction.²³ Second, they state that the AIIB would also be beneficial for making the Chinese Yuan an international currency.²⁴ Finally, they state that the Bank would 'enhance China's influence, and create an image of China as a responsible great power, providing a very good international financial platform from which China can rise peacefully.'²⁵

In addition, there are other possible reasons quite unrelated to Sino-Japanese rivalry that have motivated the PRC to push ahead with the establishment of the AIIB.²⁶ James Kyngé and Gabriel Wildau point out that the Bank could be part of Beijing's plans to spread the risk of its foreign loans and aid. The PRC has used 'funds from its \$3.8tn in foreign currency reserves to boost relations with countries that sometimes have an anti-US agenda'.²⁷ Its aid famously does not come attached with demands for democratic political reforms that are often the hallmark for Western aid. Chinese aid projects frequently

²² Bai Xiulan and Zhao Feisu, 'Dui yazhou jichu sheshi touzi yinhang de xianshi fenxi', *Guoji jinrong* (no. 3, 2015, pp. 75–80), pp. 78–79

²³ Bai Xiulan and Zhao Feisu, 'Dui yazhou jichu sheshi touzi yinhang de xianshi fenxi', *Guoji jinrong* (no. 3, 2015, pp. 75–80), p. 77

²⁴ Zhang Xiaolan, 'Goujian yazhou jichu sheshi touzi yinhang de sikao', *Hong guan jingji guanli* (no. 3, 2015, pp. 85–92), p. 86; Bai Xiulan and Zhao Feisu, 'Dui yazhou jichu sheshi touzi yinhang de xianshi fenxi', *Guoji jinrong* (no. 3, 2015, pp. 75–80), p. 77

²⁵ Bai Xiulan and Zhao Feisu, 'Dui yazhou jichu sheshi touzi yinhang de xianshi fenxi', *Guoji jinrong* (no. 3, 2015, pp. 75–80), p. 77

²⁶ Apart from the sources cited below, a similar view is taken by Alan Beattie, 'Europeans in the AIIB: a sign of Chinese weakness', 26 March 2015, <<http://blogs.ft.com/beyond-brics/2015/03/26/europeans-in-the-aiib-a-sign-of-chinese-weakness/>>, consulted on 22 April 2015.

²⁷ James Kyngé and Gabriel Wildau, 'China: with friends like these', *Financial Times*, <<http://www.ft.com/cms/s/2/2bb4028a-cbf0-11e4-aeb5-00144feab7de.html#axzz3YdcZgx1n>>, consulted on 19 March 2015.

undertake large-scale infrastructure building projects that are seen as economically unviable by Western donors.²⁸

Yet, such economic diplomacy has not always been successful for the Chinese. For a start, Beijing has it has found it difficult to recover some of the loans. China's own sovereign wealth fund, 'the China Investment Corporation, which controlled \$575 billion in 2014, has been struggling with losses, partly because of mismanagement'.²⁹ Similarly, attempts to secure certain strategic goods in return for favourable loans or have backfired in places: there have been accusations that Chinese aid projects are tailored to benefit Chinese enterprises and 'grab' resources, resulting in rising anti-Chinese sentiments. As Ho-Fung Hung notes, 'in Zambia, where China invests heavily in copper mines, voters elected the candidate who ran on an anti-China platform'.³⁰ The dispensation of loans via multilateral financial institutions could lessen the financial risks that the Chinese would have to carry. Such justifications cannot not easily dismissed as mere political rhetoric designed to disguise Beijing's ambitions of overthrowing American hegemony.

Viewed in this light, the establishment of the AIIB looks more like a policy designed to deal with China's own short-term foreign and economic policies, rather than a long-term grand strategy ultimately aimed at unseating Japan, and ultimately the West from its dominant position. It is probably more of an indication that Beijing realises that any unilateral efforts by Beijing to change the distribution of power within the international community—presuming that the AIIB is intended to do this—is likely to raise suspicions of other members. By 'deliberately forgoing some of its leverage' through multilateralism, China is attempting to obtain 'the cover and legitimacy that will come from the participation of other countries'.³¹ Furthermore, the multilateral institutional design of the Bank would in fact limit the PRC's ability to adopt strategies that seek to weaken Japanese (and Western, for that matter) power, as it weakens China's political influence.³²

In sum, then, Beijing's AIIB initiative does not appear to fulfil the conditions required for positional rivalry with Japan. In fact, if the PRC *does* have a specific target for weakening another state's influence, it is the US who occupies this 'special position', not Japan. It is American power that is seen as *the*

²⁸ This is not to say that Chinese aid somehow comes without any strings attached: in aid programmes for turnkey projects or infrastructure building, the recipient is typically required to award contracts to Chinese enterprises to undertake the construction.

²⁹ Ho-Fung Hung, 'China Steps Back', *New York Times*, 5 April 2015, <http://www.nytimes.com/2015/04/06/opinion/china-steps-back.html?_r=0>, consulted on 22 April 2015.

³⁰ Ho-Fung Hung, 'China Steps Back', *New York Times*, 5 April 2015, <http://www.nytimes.com/2015/04/06/opinion/china-steps-back.html?_r=0>, consulted on 22 April 2015.

³¹ Ho-Fung Hung, 'China Steps Back', *New York Times*, 5 April 2015, <http://www.nytimes.com/2015/04/06/opinion/china-steps-back.html?_r=0>, consulted on 22 April 2015.

³² Ho-Fung Hung, 'China Steps Back', *New York Times*, 5 April 2015, <http://www.nytimes.com/2015/04/06/opinion/china-steps-back.html?_r=0>, consulted on 22 April 2015.

obstacle to China's rise. Crucially, this point seems also seems to be appreciated by some Japanese commentators, who point out that the Chinese are 'desperate to get the US to recognise a Sino-American bipolar order (G2)...the AIIB plan is an exercise of soft power designed to demonstrate China's readiness to shoulder international responsibility on the economic front, and achieve a G2 order.'³³ But are these sentiments widely shared across Japan? This is what we will turn to next.

Japanese reactions

A preliminary examination of Japanese reports on the AIIB seem to suggest that Japan's reactions are somewhat mixed, and there is no overt and clear sign that the new bank proposed by the PRC is axiomatically seen as a threat to Japan's own political influence in finance. For a start, there are numerous reports that identify that Beijing's primary aim is to alter the US-dominated global financial order, which means that as far as challenging the power balance is concerned, Japan may not be the primary target of the PRC's AIIB initiative.³⁴

Furthermore, it is pointed out that the current regional financial order—particularly the ADB, which (as mentioned above) has traditionally elected a Japanese president—simply cannot meet the demands for infrastructure in Asia, and having an alternative source of funding in the AIIB is not necessarily a bad thing.³⁵ In fact, many commentators have berated the Japanese government for not joining the AIIB, calling this a strategic mistake. Ōba Mie, writing for the *Asahi shinbun*, states that while Japan may not quite be used to new Asian order with China at the top, it makes better sense for Japan to participate in Chinese-led initiatives to alter the current *status quo* with the aim of changing it from within. Assuming that what China decides cannot be change would amount to a 'diplomatic defeat.'³⁶

As regards adopting a cautious attitude towards Japan participating in the AIIB, some do express concern that the bank would end up being dominated by the Chinese. Amidst reports that 75% of voting rights in the AIIB would be distributed to Asia, this has resulted in calculations that China's share of investments to the bank would reach a third of this 75%, 'almost twice that of Japan's percentage share of contributions within the ADB, which stand at approximately 16%.³⁷ However, it is worth noting that these fears are more to do with Chinese control of a *financial institution*, rather than the domination of the regional/global economic order. In fact, some reasons cited are often far removed from fears of Chinese hegemony. Instead, it is fear of excessive Japanese contributions that undergird many calls for caution. Japanese policymakers have calculated that if Japan joins the AIIB, it would be required to contribute '14.8%, second only to China, which would contribute 28.6%'. The cost of this would be initially be 'USD\$1.1 to 1.5 billion, which would then increase to 2.1 billion to 3 billion'.³⁸ Furthermore, there are still some lingering questions

³³ 'Kusaki mo nabiku', *Asahi shinbun*, 21 April 2015, p. 14

³⁴ *Asahi shinbun*, 7 March 2015, p. 11; March 13 2015, p. 9

³⁵ *Asahi shinbun*, 19 April 2015, p. 10

³⁶ *Asahi shinbun*, 9 April 2015, p. 15; also see *Asahi shinbun*, 16 April 2015, p. 17

³⁷ *Asahi shinbun*, 16 April 2015, p. 3

³⁸ *Asahi shinbun*, 10 April 2015, p. 3

over how the bank would be governed, and this is to some extent linked with suspicions over China's opaque political system:³⁹ One official at the Ministry of Finance has noted that if AIIB lending is largely decided by Beijing, the Japanese government would find it difficult to make itself accountable to taxpayers, who would ultimately foot the bill for Japan's contributions to the AIIB.⁴⁰

China's AIIB 'threat'?

To be sure, some Japanese commentators do see the AIIB primarily in terms of a zero-sum threat that could threaten Japan's influence. They question the extent to which the PRC would control the AIIB, which would eventually seek to eclipse the ADB, and with it, Japanese economic influence in the region. It is perhaps for these reasons that Japan opposed the use of words that included 'support' or 'welcome' for the AIIB in the APEC summit in November 2014,⁴¹ and there is also evidence to suggest that the Ministry of Finance, who has sent its personnel to serve as the presidents of the ADB, considered the Chinese-led AIIB as a "challenge" towards the post-war international financial order.⁴² The conservative nationalist journal *Rekishī tsū*, for instance, poses the question as to whether or not the AIIB is 'a selfish, me-me (*oresama*) bank dominated by a selfish me-me country (*oresama kokka ga gyūjiru oresama ginkō* 俺サマ国家が牛耳る俺サマ銀行).⁴³ In the same article, former Japanese ambassador to the Ukraine, Mabuchi Mutsuo declares that Beijing's reasons for setting up the AIIB are because 'they can't the Asian Development Bank (ADB) to behave in a way that China wants to'.⁴⁴

These concerns are based on the assumptions that China's AIIB initiative is deliberately aimed at Japan, and is designed to rob Japan of its influence in international financial policy. Furthermore, it is telling that the same critics of the AIIB lament Japan's refusal to join the East Asian Economic Group proposed by Malaysian prime minister Mahatir in 1990.⁴⁵ This would suggest that it is not any alternative international/regional financial organisations that are the problem: it is a Chinese-led initiative that is the problem. Such reactions do suggest that *Chinese* initiatives are seen as *uniquely* threatening to Japan's interests, and in this

³⁹ See *Asahi shinbun*, 18 April 2015, pp. 1 and 9; 17 April 2015, p. 2

⁴⁰ *Asahi shinbun*, 19 April 2015, p. 3

⁴¹ Yoshioka Keiko, 'Infura tōshigin chūgoku no yashin to dō mukiau', *Asahi shinbun*, 9 November 2014, p. 5

⁴² 'Ajia tōshigin ni doku sankā, shōgeki', *Asahi shinbun*, 12 April 2015, p. 1

⁴³ Yamashita Hidetsugu and Mabuchi Mutsuo, 'AIIB wa kokusai kinyū no genkō ka', *Rekishī tsū* (July 2015, pp. 150–163), p. 150

⁴⁴ Yamashita Hidetsugu and Mabuchi Mutsuo, 'AIIB wa kokusai kinyū no genkō ka', *Rekishī tsū* (July 2015, pp. 150–163), p. 155

⁴⁵ Yamashita Hidetsugu and Mabuchi Mutsuo, 'AIIB wa kokusai kinyū no genkō ka', *Rekishī tsū* (July 2015, pp. 150–163), pp. 161–163. This interpretation is strengthened by the fact that other Japanese observers are less sanguine about the EAEG, quoting Western criticisms that the plans were to build an economic block that excluded the US. In contrast, the AIIB has a much more inclusive institutional design, and in this sense is more favourable to Western/US interests as a whole. See Hinoki Masashi, 'AIIB sōki sankā shi tōmeisei kakuho o', *Asahi shinbun*, 16 April, 2015

sense fulfil the two aforementioned conditions needed for the emergence of rivalry (at least from the Japanese side).

However, whether or not these shrill warnings of the erosion of Japanese power in regional/international finance is debatable. At the very least, the 'loss' of Japanese regional influence may not be as great as some pundits may claim, and this in turn suggests that the 'zero-sum', competitive relations that the AIIB and ADB are alleged to have are perhaps exaggerated, or even imagined. While it is true that the ADB was initially created in 1966 'as a showcase of its new status in the world' and to 'serve its economic and commercial interests',⁴⁶ the bank has not fulfilled Japanese national interests to the extent that it was originally hoped. It was unable to get the ADB headquarters to be based in Japan (this went to Manila). Furthermore, Japan's voting share in the bank has actually *decreased* over the years, despite the fact that its contributions to the ADB had steadily increased. In 1972, Japan's voting share was 20.2%, but by 1993, this had fallen to 13.5%. In contrast, the United States (US), whose miserly contributions of 12.7% in 1993 were far less than Japan's (50%), had actually increased its voting share to 13.5% (almost on par with that of Japan) by the end of 1993.⁴⁷ This casts doubts as to whether or not the rise of the AIIB really is going to fundamentally erode Japan's influence in the ADB, when it actually does not have the influence many of the nationalist critics of the AIIB assume it does.

Another reason to doubt the 'loss of Japanese influence in the ADB' (and with it, Japan's power in regional finance) is the fact that the ADB has not become a simply proxy for the Japanese Ministry of Finance to exert its influence. In fact, Ming Wan's study of the ADB reveals that as the bank has matured, it has gradually begun to nurture its own institutional interests which are not always identical to those of the Ministry of Finance. Despite being seconded to the ADB from the Ministry of Finance, the presidents of the ADB have also developed separate interests and ended up promoting the bank's interests, rather than those of Tokyo.⁴⁸ It is telling that Japan's share of the procurements in the ADB, while still one of the largest, have fallen from 41.67% (between 1967-76) to 10.84% (between 1987-93).⁴⁹ By 2013, this had fallen to 0.21%.⁵⁰

When compared to Chinese discussions of the AIIB, Japanese debates do tend to show characteristics of rivalry, in the sense that the PRC is seen as a threat that is unique, and that it poses a zero-sum threat to Japan's own power within the region. But ultimately, the fact that Beijing's strategic gaze is more focused on the US means that Japanese perceptions of rivalry are one-sided, and ultimately not reciprocated by the Chinese. As far as Beijing's plans for the AIIB is concerned, Japan does *not* appear to be 'especially deserving of attention and effort, so much so that their relationship assumes a central place in their

⁴⁶ Ming Wan, 'Japan and the Asian Development Bank', *Pacific Affairs* (vol. 68, no. 4, 1995-6, pp. 509–528), p. 512

⁴⁷ Ming Wan, 'Japan and the Asian Development Bank', *Pacific Affairs* (vol. 68, no. 4, 1995-6, pp. 509–528), p. 513

⁴⁸ Ming Wan, 'Japan and the Asian Development Bank', *Pacific Affairs* (vol. 68, no. 4, 1995-6, pp. 509–528), pp. 516–517.

⁴⁹ Ming Wan, 'Japan and the Asian Development Bank', *Pacific Affairs* (vol. 68, no. 4, 1995-6, pp. 509–528), p. 515

⁵⁰ 'Aija tōshigin ni doku sankā, shōgeki', *Asahi shinbun*, 12 April 2015, p. 2

respective policy calculations and agendas.⁵¹ Instead, it is the US which takes this place.

Sino-Japanese rivalry over the global financial order: really?

The comparison of Chinese and Japanese perceptions of the AIIB seem to suggest that it is still too early to conclude that the two states are in a state of rivalry, at least within the realm of regional financial governance. As noted above, for a rivalry to emerge, it is crucial that both sides *mutually* recognise each other as grave threats to their power/security, and treat each other as central factors that feature in their respective strategic calculations. As far as financial governance is concerned, this does not appear to have taken place. This means that Sino-Japanese relations are actually *not* mired in a state of rivalry in the realm of global/regional finance. While a part of the Japanese political circles do see the rise of the AIIB as a grave threat to Japanese economic/diplomatic interests, they are by no means the majority. Furthermore, as far as Chinese calculations in the AIIB are concerned, the principal state that features in this is the US. Japan is seen as more of a secondary issue. Japanese sentiments of 'rivalry' are simply not reciprocated. While it is highly likely that both Japan regularly features in Chinese regional strategic calculations, Japan is probably one amongst other regional actors whose actions and interests have to be taken into account *after* the US.

It is not easy to pinpoint the reasons for this divergence in perceptions between the two countries. In the case of China, it could be argued that the long-standing influence of 'exceptionalism' has tended to steer China towards aspiring to global leadership, rather than being satisfied just with regional leadership. While regional leadership is important, the PRC has ultimately had bigger aspirations, and the recent nationalist hubris we have witnessed in the PRC means that Japan is no longer seen to 'matter' as much as the US as a potential obstacle to China's ambitions of global leadership. This is why the AIIB plans—insofar as they are meant to challenge the existing international financial order—appear to be much more geared towards challenging *American* dominance.

With regard to Japan, any sentiments of rivalry can be seen more in terms of a growing anti-Chinese nationalism within Japanese society. The perhaps surprising gap between the realities of Japanese influence within the ADB and the perceived 'loss' of Japan's power to the AIIB and/or China suggest that critics' disquiet about the AIIB may not exactly be based on realities, but rather more emotional factors. Indeed, it is telling that fears of China eclipsing Japan in regional finance are uttered primarily by conservative nationalists who are motivated by a strong sense of dissatisfaction at Japan's seemingly 'weak' foreign policy since the end of World War II. Sino-Japanese disputes over territorial or history issues are seen as primary examples of a hopelessly 'weak' Japan allowing itself to capitulate to the unjust 'bullying' of Japan, as well as a Chinese conspiracy to keep Japan perpetually weak and subservient, and prevent it from aspiring to any form of global or regional leadership. Given this alleged

⁵¹ Steve Chan, *Enduring Rivalries in the Asia-Pacific* (Cambridge: Cambridge University Press, 2013), p. 30

‘conspiracy’, it is inevitable that the AIIB *has* to be a sinister plot by Beijing to undermine Japan and its pet project, the ADB.

Conservative nationalists’ frustration towards a rising China and a seemingly weak, stagnant Japan have also resulted in attempts to reposition Japan as a ‘moralistic’ country that is fundamentally different from a bullying, selfish, and undemocratic PRC whose sole concern is the domination of Asia (and eventually the world). It is therefore not surprising that their commentaries fail to recognise the potential benefits the AIIB could bring: instead, conservative nationalists make sweeping, ethnocentric claims that ‘the Chinese fundamentally have no sense of public welfare’,⁵² and as such, the bank is doomed to fail.

The essentially nationalistic nature of these critics’ claims can be seen from their anti-Americanism, which is one characteristic of conservative nationalism in Japan. In the context of criticising the AIIB, it is perhaps predictable that their anger towards the PRC is quickly directed towards the US as well. The US, which also ‘bullied’ Japan into abandoning its attempts to demonstrate greater leadership in international finance through the ill-fated Asian Monetary Fund initiative, is seen as an equally selfish country that perpetuates its dominance in global financial governance, despite being the biggest debtor in the world. It is because of the ‘*Gespenst*’ of “giving special consideration to America (*taibei hairyo* 対米配慮)’ that Japan has failed to capitalise on its economic power to play a role of a regional hegemon, only to let this place be occupied by the PRC. Thus, Japanese nationalist condemnations of the AIIB quickly result in politically unfeasible, somewhat narcissistic desires for a Japan-centric regional financial order. Yamashita and Mabuchi conclude—rather conveniently ignoring Japan’s own imperialistic past—that ‘both America and China are unfair countries. That is the biggest problem. Japan’s national character and ideology have always been fair, so [Japan has] never been associated with hegemonism.’⁵³ On this basis, the two conclude that it is in fact a new financial system led by Japan, the world’s largest creditor, ‘which will be the most logical. It is Japan that has the real right to be the leading country of international finance.’⁵⁴

Concluding remarks

Given that Sino-Japanese ‘rivalry’—if it ever did exist in the first place—over global/regional financial governance appears to be a one-sided affair that is imagined primarily by conservative nationalists in Japan, it is perhaps premature to suggest that dynamics of Sino-Japanese rivalry would influence different regions on different levels of the international system—at least for now.

Furthermore, we should be mindful that even if the potential for such rivalries existed, hard economic concerns could provide powerful constraints on this dynamic emerging between the two states. It is difficult to imagine that both the ADB and AIIB are going to engage in a ‘lending war’ in a battle for regional influence by lavishing borrowing states with funds. Given that both are

⁵² Yamashita Hidetsugu and Mabuchi Mutsuo, ‘AIIB wa kokusai kinyū no genkō ka’, *Rekishī tsū* (July 2015, pp. 150–163), p. 156

⁵³ Yamashita Hidetsugu and Mabuchi Mutsuo, ‘AIIB wa kokusai kinyū no genkō ka’, *Rekishī tsū* (July 2015, pp. 150–163), p. 161

⁵⁴ Yamashita Hidetsugu and Mabuchi Mutsuo, ‘AIIB wa kokusai kinyū no genkō ka’, *Rekishī tsū* (July 2015, pp. 150–163), p. 159

multilateral institutions, it would not be easy for Beijing and Tokyo to get the bank to operate in accordance with their competition for power. Furthermore, while both states have adopted similar aid policies in the past (and even today, there is still some overlap),⁵⁵ their primary interests have been to avoid loss-making loans and investments.

In the case of infrastructure investment, if rivalry dynamics did exist, we would expect both sides to engage in frantic attempts to outbid each other for the sake of political and economic influence, possibly at the expense of financial profit. But there is evidence to suggest that this has not always happened. In Mexico, '[s]ixteen companies...including Mexico's Empresas ICA SAB, Japan's Mitsubishi Heavy Industries Ltd., Alstom SA of France, Bombardier Inc. of Canada', declined to bid for a USD\$ 4.3 billion contract to build a high speed railway link, leaving only the China Railway Construction group as the sole bidder. This indicates that economic realities should again play a large part in preventing any 'security dilemmas' for regional influence appearing on the economic front. Japan's firms are not state-owned enterprises (SOEs) that can operate at a loss for the sake of advancing Japanese national interests, so there are limits to which Japan can engage in a 'bidding war' with China. While China does not share this problem to the same extent, there are limits to which the state and state-owned banks can prop up loss-making SOEs (in fact, forced lending to unprofitable SOEs has rendered many Chinese banks insolvent by Western standards). In other words, even the PRC is not immune from financial considerations.

Therefore, it is probably more appropriate to say that both states are more likely to compete with one another as *competitors*, but not necessarily *rivals*. Both sides may not necessarily single each other out as a unique adversary whose gain would axiomatically mean some kind of loss for the self. There are other states who offer equally strong competition to both states' ambitions to further their economic influence and interest, and Japan and the PRC are simply one among many other competitors of equal standing. Japan's recent loss of lucrative contracts in Indonesia was reported as highly disappointing for Tokyo, and prompted a rather sharp rebuke from the Japanese chief cabinet secretary, Suga Yoshihide.⁵⁶ Yet, these setbacks are seen in other areas of the world where other states have competed for contracts with China, and Japan is not the only state that has lost out to Beijing's outbidding. Suga's remarks should perhaps be read as more of a nationalistic statement uttered in the context of growing anti-Japanese sentiment among Japanese conservatives, rather than an official indication that there exists a dynamic of Sino-Japanese rivalry.

Given the rise of China and the emergence of two regional powers in East Asia, it has become almost fashionable to say that there is an 'emerging rivalry' between China and Japan. The economic realm has been no different, with scholars voicing their concerns that 'there remains a substantial risk that China

⁵⁵ See James Reilly, 'China and Japan in Myanmar: Aid, Natural Resources and Influence', *Asian Studies Review* (vol. 37, no. 2, pp. 141 – 157)

⁵⁶ See Stephen Harner, 'Japan's Rail Project Loss to China: Why it Matters for Abe's Economic Diplomacy and for China's', *Forbes*,
<http://www.forbes.com/sites/stephenharner/2015/10/01/japans-rail-project-loss-to-china-why-it-matters-for-abes-economic-diplomacy-and-for-chinas/>

and Japan will end up competing over influence and access to national resources.⁵⁷ But is this really the case? To be sure, there is a possibility that the two states will compete, but if the AIIB case is to provide any insights, it is unlikely they will go so as 'rivals', locked in a highly adversarial, zero-sum competition. In fact, there is a greater possibility that we could talk ourselves into a rivalry: constant rhetoric of Sino-Japanese economic rivalry could trigger acute anxieties in either side, and end up creating a zero-sum competition that specifically targets the other side. Given that rivalries depend very much on mutual perceptions of a uniquely hostile relationship, it may be prudent to take a step back from imagining a rivalry where one does not exist. There are already plenty of security dilemmas within East Asia, but these have been confined primarily in the political/security realm. The last thing we need is for this to spill over into the economic front.

⁵⁷ James Reilly, 'China and Japan in Myanmar: Aid, Natural Resources and Influence', *Asian Studies Review* (vol. 37, no. 2, pp. 141–157), p. 154