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A Necessary Challenge: Japanese Response to China's Economic Rise and America's Retreat

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Abstract— Dependent on China economically and reliant on the US for national security, Japan has frequently been portrayed as a waning economic power squeezed between two major powers with few policy options, save from cautiously striking for a balance in between. From this perspective, growing competition and even confrontation between China and the US exacerbate Japan's dilemma, increasing the risk of Tokyo's China policy, be it leaning toward engagement or balancing. This paper, however, challenges this popular perception. Building upon the argument that China's growing assertiveness and America's relative decline have awakened Japan from a reactive participant to a proactive ally, this paper examines how these critical challenges have compelled Japan to adapt, innovate, and experiment with new strategies and foreign economic policies. I argue that the rapidly changing geopolitical environment presents Japan with a unique opportunity to stand out as a leader and significant power.

For Japan, China's rapid rise was an unprecedented new experience since the modern nation's founding in the nineteenth century. For much of the past one and a half centuries, Japan was the only modern and powerful state in East Asia on par with the Western powers that created and dominated the world (Hoshino & Satoh, 2012). Even after its utter defeat in 1945, Japan's miraculous economic recovery with US assistance elevated it to the East Asian flying geese model leader. However, China's emergence since the early 1990s is creating a new regional paradigm that challenges Japan's historical position and confidence. When China entered a period of high-speed economic growth in the early 1990s, Japan's economy stagnated after the asset price bubble burst. Since 2010, China's strong economic performance following the 2008 financial crisis and Chinese leaders' perception of waning US power and influence emboldened Beijing to pursue more assertive foreign policies that further challenged Tokyo's economic, political, and security interests. Gradual changes in the balance of power in Asia has fostered a popular portrayal

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of Japan as a waning power squeezed between China and the US and a pessimistic view of Japan's future as the tension between China and the US escalates.¹

However, this paper argues that China's growing assertiveness and uncertain US commitment to Asia-Pacific have benefited Japan. In response to China's growing assertiveness and fear of America's retreat, Japan is adopting a more proactive economic foreign policy, including reassessments of bilateral trade relations with China, reconfigurations of investment and aid strategies to developing nations, and further engagements with like-minded allies and partners in the Indo-Pacific and beyond. In doing so, Tokyo is doubling down on its commitment to the liberal rules-based order and positioning itself as a significant participant and leader.

Moreover, this paper argues that as much as the ongoing Covid-19 pandemic and rapid changes in geopolitics in the Asia-Pacific are challenging to navigate, these challenges also present Japan with unique new opportunities. Growing suspicion from Western countries on China's advanced technologies such as 5G offers Japan a chance to take the leadership role in telecommunication. Reconfigurations in the global value chain as companies move their production plants from China to Southeast countries will also benefit Japan given its close relationship with ASEAN nations and its long-running developmental assistance. Finally, as the relationship between China and Western democracies further strained following the imposition of national security laws on Hong Kong and Beijing's growing military pressure on Taipei, Japan will find opportunities to bridge China and the West. We should thus envision Japan's future as a new leader in the Indo-Pacific, and a linchpin between China and the West rather than a waning power squeezed uncomfortably between China and the US.

This paper will first discuss in details Japan's dilemma, then analyse how China's rise and overstep concurrent with the US retreat from the Indo-Pacific have benefited Japan and awoken it to new economic opportunities, and finally explore how the rapid changes in the regional and international order offer Tokyo a unique window to become an active participant and leader in the post-pandemic world.

Keywords Japan · Japanese foreign policy · China-Japan relations · Alliance politics · Foreign economic policy ·

1. Japan's dilemma: Alliance politics and rising China

The notion that Japan faces strategic dilemmas is not a new one. From the neorealist perspective, since the moment Washington incorporated Tokyo into its alliance network in 1951, Japan has been striking a balance between entrapment and abandonment as the former resembles the lack of US support for Japan during a crisis and the latter prescribes a scenario in which the alliance system drags

¹ This popular notion is perhaps best reflected by the phrase “板挟み,” which literally means squeezed between two boards.

Tokyo into an unnecessary conflict to support the US (Envall, 2017; Green, 2002). Constitutional restrictions on Japan's military capability determine Tokyo's reliance on Washington for national security and intensify the fear of abandonment, especially when Japan faces imminent threats from North Korea and China.

When President Trump's victory in the 2016 election shocked US allies with his "America First" policy, transactional view of the US alliance networks, and economic unilateralism and protectionism, no leader tried as hard as Japanese Prime Minister Shinzo Abe at cultivating a close personal tie with the mercurial US president. Trump regularly spoke out against Japan on his campaign trails, criticising it for unfair trade practices, including currency manipulation, and free-riding on its military alliance with the US (Teraoka & Goto, 2020). Though Trump's rhetoric vis-à-vis Japan has improved since 2016 partially because of his close personal tie with Abe, which the Japanese Prime Minister poured over US\$2.2 trillion investing in, Tokyo still faces its long term fear of abandonment from an unpredictable and unreliable administration in Washington. In 2019, Trump requested Tokyo to quadruple its payments for the US military stationed in Japan, from the recent average of approximately US\$1.7 billion to US\$8 billion (Nussey, 2019). Moreover, while Trump has toned down his criticism on Japan as a currency manipulator and the US-Japan bilateral trade deal signed in 2019 did not touch upon the automobile tariff or granted the US a better-than-TPP level of access to Japan's agricultural market, tariff against Japanese steel and aluminium remained in place, and Washington has yet to remove Tokyo from its list of currency manipulators (Smith & McClean, 2019; US Department of the Treasury Office of International Affairs, 2020). The personal relationship between Abe and Trump has certainly eased some of Tokyo's anxiety over Washington's scepticism on the US-Japan alliance, but even as America's closest ally in Asia, Japan remains insecure.

On top of the security dilemma arising from alliance politics, Japan faces increasing challenges striking a balance in its relationship with a rising China. After a brief honeymoon period in bilateral relations in the 1980s and early 1990s, China's behaviours in the early 1990s raised Japan's alarms. They convinced Tokyo to reconfigure its policy to continue benefiting from commercial ties with China without jeopardising its security and political interests. To that end, Japan pursued bilateral relations with China under the *seikei bunri* (separation of economic and political interests) principle. While the strategy temporarily resolved Japan's dilemma, China's rapid emergence and growing appetite only worsened Japan's predicament. As China seeks to move up the global value chain, direct competition between the two countries increased, and Japan's concern over intellectual property (IP) theft and illegal technological transfers grew. At the

same time, Japan faces increasing challenges from China in its leadership role in global governance. Following Japan's footsteps, China has sought to harness its economic power and build a global image as a responsible great power contributor to global governance. As Beijing poured more capital into its infrastructural investment projects overseas, Tokyo saw its influence in Southeast Asia and Africa challenged by emerging China.

In recent years, rising tension between China and the US over trade and political and security issues have further exacerbated Japan's strategic dilemma, as many scholars and commentators suggest.² Tokyo has to strike a balance in its relationship with Washington and Beijing, respectively and must find a position between China and the US. On the one hand, Japan has no foolproof method of guaranteeing its national security without a robust defence posture with the aid of the US; on the other hand, China's well-being is crucial to a mature economy plagued with an ageing, shrinking population and a shortage of policy solutions. Japan's geographic proximity to and economic interdependence with China means that Tokyo cannot afford to ignore or alienate either Beijing or Washington, so as whispers of decoupling between China and the US grow in credibility, Japan stands at a risky position between two great powers it dared not to lose or offend (Sugiyama & Johnson, 2020).

In light of the rapidly changing international order that brought a sequence of dramatic events in 2020, starting with the COVID-19 pandemic, some scholars have challenged the portrayal of Tokyo as a loser in the tug-of-war between Washington and Beijing. As the global pandemic revealed critical flaws in China's authoritarian governance and questioned America's global leadership, countries such as Japan and South Korea that successfully weathered the crisis gained soft power and global influence (Sasaki, 2020; Traub, 2020). These views, however, fail to fully challenge the perception of Japan as a waning power squeezed between the US and China. The optimism mentioned above about Japan's future reflects a rather opportunistic outlook of Japan and thus does not address the deeper issue at stake. This paper, however, offers a different understanding of Japan by arguing that China's growing appetite for assertive foreign policy has prepared Japan to transform from a reactive power to a proactive state capable of shaping the regional and global order.

2. Engagement with caution: Japan's trade with China

Throughout the past forty years, bilateral trade ties have stood out as one of the most stable elements the China-Japan relations. Although Tokyo reconsidered its

² Some examples of this include Kesavan (2020), Young (2020), Goto (2020), and Rich & Inoue (2020).

China policy despite increasing challenges from Beijing, trade flows between the two countries remain relatively steady. Even before the two countries established formal diplomatic ties in 1979, Japan cultivated commercial ties with secluded China. When obstacles to closer bilateral cooperation cleared in the 1970s, China and Japan enjoyed a honeymoon period of close coordination as Tokyo pursued a constructive engagement strategy with Beijing. Both sides share similar strategic goals of constraining the expansion of the Soviet influence in Northeast Asia (Hornung, 2014). Against this backdrop of aligned interests and warming bilateral ties, Japan “focused on strengthening reform-minded leaders in China, assisting internal stabilisation, and re-establishing China as a key bilateral trading partner” (Hughes, 2009). Between 1972 and 1989, Japan’s exports to China rose from JP¥187.5 billion to JP¥1.2 trillion while imports from China grew from JP¥151.3 billion to JP¥1.5 trillion.³ Warming bilateral ties came to a temporary halt in 1989 following the Tiananmen Incident as Japan joined the rest of the G7 countries, though more reluctantly, in imposing heavy economic sanctions on China (Murata, 2006). However, as the Japanese government did not wish to completely isolate or alienate China and domestic business pressured for a warmer relationship with China, Japan pushed for an end to the international sanction on China and resumed engagement with Beijing (Hornung, 2014). Once Japan lifted the sanction, bilateral commercial ties flourished. By 1995, the total trade volume between the two countries rose to over JP¥5 trillion (Trade Statistics of Japan, n.d.-b).

Though the Tiananmen Incident did not fundamentally change Tokyo’s engagement policy toward China, it soured China’s image amongst the Japanese public, whose favorability toward China plummeted from 68.5% to 51.6% between 1989 and 1990 (Takahara, 2017). Beijing’s subsequent actions—launching the Patriotic Education Campaign that reinforced anti-Japanese sentiments, conducting nuclear tests, and threatening Taiwan with missile exercises—greatly alarmed Tokyo to reconsider its China policy. At the same time, however, bilateral economic ties flourished. Japan supported China’s entry into the World Trade Organization (WTO) in 2001 and cooperated with China to establish the Chiang Mai Initiative in 2012. In the early 2000s, Japan viewed China as a factor driving its economic recovery through trade and feared the threat of China’s possible economic downturn (Japan External Trade Organization, 2003; Ministry of Economy, Trade, and Industry, 2004). At the same time, though Tokyo’s hardening stance on political issues has ripple effects on its economic ties with China, such as fluctuation in official development assistance (ODA), the

³ For Japan’s trade data prior to 1979, see Trade Statistics of Japan (n.d.-a). For Japan’s trade data since 1979, see Trade Statistics of Japan (n.d.-b).

upward trajectory of bilateral trade volume continued without much impediment. In 2002, China surpassed the US as Japan's largest source of import and later became its largest trading partner in 2007 (Japan External Trade Organization, 2008).

In the early 2010s, growing concerns over China's increasing assertiveness alarmed Japanese policymakers. China's willingness to use its economic prowess to achieve political ends also convinced Japan to take proactive steps to lessen its economic dependence on China. For example, in bilateral rare earth trade, Japan depended heavily on China until 2009 as the latter held a near-monopoly, producing over 95% of the global supply (Tse, 2011). As a major importer of rare earth minerals, Japanese dependence on China never fell under 85% (Hornung, 2014). Japan's anxiety intensified after China suspended its rare earth exports after the 2010 boat collision incident near the Diaoyu/Senkaku Islands. Japan immediately diversified its rare earth trade in response to China's economic offence, seeking new supply chains from France, Vietnam, and Estonia (Hornung, 2014). In 2011, Japan's Sojitz Corporation, with Japan Oil, Gas and Metals National Corporation (JOGMEC), invested \$250 million in an Australian company, Lynas Corporation. The deal between Sojitz and Lynas promised a steady supply of rare earth to Japan from Australia, and the latter now supplies Tokyo with nearly one-third of its total imports (Sojitz, 2010). As a result of Japan's diversification efforts, by 2012, only 57.9% of Japan's rare earth come from China, and the number has remained below 60% mostly since then (China Power, 2020). Tokyo also invested more than JPY161 billion (\$1.5 billion) to encourage industry to find substitutes, and Japanese automakers such as Honda and Toyota have successfully developed hybrid car motors that significantly reduce or eliminate rare earth elements.⁴

Though cooling bilateral relations saw signs of thawing amidst growing pressure on China from the US, Japan is engaging China cautiously. Tokyo knows that a stable relationship with a booming China has direct benefits to Japan's economic recovery, and at the same time, it has learned the lesson to avoid overdependence on China, be it production sites for Japanese companies or reliance on scarce resources such as rare earth.

In October 2018, Prime Minister Abe visited China for the first time since taking office in 2012, hoping to "elevate the bilateral relationship to a new stage" (Ministry of Foreign Affairs of Japan, 2018b). The meeting concluded with both parties pledging further cooperation, especially in economic activities. Bilateral trade volume increased by 9.2% in 2018 and 7.4% in 2019, breaking the previous

⁴ For examples, see Swift Bray (2019), Bomgardner (2018), and Shiraki and Tajitsu (2016).

decreasing streak (Japan External Trade Organization, 2019). In 2018 China and Japan resumed the China-Japan High-Level Economic Dialogue after an eight-year hiatus, further attesting to thawing bilateral economic collaboration (Ministry of Foreign Affairs of Japan, 2018a).

At the same time, however, Japan remains cautious in its renewed engagement with China. Tokyo pressed to decrease rare earth dependence on China, especially after China touted its plan to weaponise its dominance in the rare earth trade against the US. Though Japan has yet to realise the potential of a semi-permanent reserve of rare earth elements discovered in 2018, it has sought to further reduce reliance on China by diversifying its supply chain and increased recycling from waste (Hanafusa, 2020). Tokyo has also partnered with the US and EU in a series of proposals submitted to the WTO's Council on Trade in Goods to protest against China's frequent heavily subsidising state-owned enterprises (SOEs) (Brunsdon, 2020). The three parties also further raised alarms over China's pressuring Western companies to transfer technology to access the Chinese market. While Japanese companies have long suffered losses due to intellectual property (IP) theft and forced technology transfer from China, Tokyo has largely downplayed such a risk in the 2000s (Rose, 2010). Despite warming economic ties with China, Japan's increasing displeasure indicates a more cautious attitude in its renewed engagement.

In the past decade, China's growing assertiveness have increased the cost and risks of Japan's engagement policy, compelling Tokyo to carefully balance the wish to benefit from China's vast market and tap into its economic growth with the need to safeguard its interests. As China demonstrates more vital willingness to weaponise its economic prowess—cutting off tourism and retail trade with South Korea after Seoul welcomed the Terminal High Altitude Area Defense (THAAD) system and embargoing Norwegian salmon as a response to Oslo's awarding the Nobel Prize to dissident and activist Liu Xiaobo—Japan is no stranger to China's wrath. However, as much as China's emergence and oversteps have posed challenges to Japan, they have also readied Tokyo to revise its China policies and adopt a proactive approach that best protects its interests while engaging China economically. When China threatened to punish the US with the rare-earth trade in 2019, some commentators argued the ineffectiveness of Beijing's assault by citing its failure to constrain Tokyo a decade earlier (Huang, 2019). This approach, however, understates Japan's efforts at reducing its dependence on China. Even as the EU and South Korea have diversified their imports of certain rare earth compounds, such as cerium, to reduce reliance on China, they remain almost entirely dependent on China for rare earth metals and alloys (China Power, 2020). Thus, only Japan has successfully protected itself from overdependence on China among these major economies. In 2018, China

contributed to more than 90% of rare earth metals and alloys imports from South Korea, the EU, and the US, whereas Japan only sourced 48.5% of its imports from China (China Power, 2020). The US and European countries should thus recognise and learn from Japan's success as Tokyo's policy of cautious engagement offers new wisdom to building stable and constructive relations with China, especially during turbulent times.

3. Quality versus quantity: Competition in global governance

Prior to China's emergence in the early 2010s, Japan was the unquestionable leader in developmental assistance in Asia. With its post-war economic miracle, Japan quickly became a critical contributor to global governance and public goods. Globally, Tokyo worked closely with the World Bank and the International Monetary Fund (IMF), graduating from a borrower state in the late 1960s and gradually solidified its reputation as a creditor and a vital shareholder (The World Bank, n.d.). Regionally, Japan spearheaded the Asian Development Bank (ADB) and proposed the creation of an Asian Monetary Fund (AMF) in response to the 1997/98 Asian financial crisis.

Following Japan's footsteps, China pursued similar tactics to boost its global image as a responsible great power. Since the 1990s, China has sought closer ties with Southeast Asian countries, amending previously strenuous relations and signalling its willingness to cooperate within a multilateral framework (Saunders, 2016). Though a latecomer in its relationship with the Association of Southeast Asian Nations (ASEAN), China took the lead in 2000 when then Chinese Premier, Zhu Rongji, proposed the creation of an ASEAN-China Free Trade Agreement (ACFTA), followed by Japan two years later. Since 2000 China's share in ASEAN's total trade increased dramatically, contrasted with the steady decline of Japan's share.⁵ In 2009, China took over Japan as ASEAN's largest trading partner, and ASEAN rose to become China's top trading partner in 2020, surpassing the US in 2019 and the EU in May 2020 (Medina, 2020).

At the same time, Rapid capital accumulation and success in weathering regional and global financial crises further encouraged China to establish itself as a credible and vital source of development finance, challenging Japan's long-held leadership role in the region. China launched its official finance program providing aid and loans to developing in 2000. While the exact number of China's developmental assistance remains vague given Beijing's lack of transparency, data collected by the AidData lab shows a significant increase in China's official

⁵ For data on China's trade with ASEAN, see General Administration of Customs (n.d.). For data on Japan's trade with ASEAN, see Kawai (2013).

finance in the early 2010s (AidData, n.d.). In 2013, Chinese President Xi Jinping further committed China to provide development assistance by touting his ambitious grand strategy of “One Belt, One Road” (also known as the Belt and Road Initiative, or BRI), financed by the Asian Infrastructural Investment Bank (AIIB). Incorporating Southeast Asian countries under its 21st Century Maritime Silk Road, China has increased its investment and assistance to ASEAN states, most prominently in transport and energy infrastructure. Between 2013 and 2018, China launched more than a dozen infrastructural projects under the BRI framework in Southeast Asia, with the costliest project—the East Coast Rail Link in Malaysia—valued at US\$13.47 billion (Jusoh, 2018). China has also increased its FDI flows to ASEAN from \$3.5 billion in 2010 to US\$11.3 billion in 2017 and shifted its energy into more diverse sectors, including infrastructure and real estate (Jusoh, 2018).

China's increasing influence and activities in Southeast Asia have decreased Western investment. While ASEAN countries could traditionally rely on Western supports—via bilateral financing or multilateral development banks—to finance their development programs, by the mid-2010s, Japan remained the only significant source of finance (Dollar, 2020). When ASEAN is estimated to need approximately US\$3 trillion for infrastructure investment between 2016 and 2030, no Western donor pledged more than \$1 billion per year, and the total contribution made by the six primary Western sources—Australia, Japan, ADB, World Bank, the US, and South Korea—amounted to barely 2% of ASEAN's needs (Asian Development Bank, 2017; Dollar, 2020).

China's robust economic expansionary strategies have challenged Japan's confidence in the belief that ASEAN is “a market where Japan can never lose and be behind” (Yoshimatsu, 2017).⁶ Direct competition between Beijing and Tokyo heated up in 2015 after China outbid Japan for the high-speed rail project in Indonesia. The Sino-Japanese rivalry expanded to Africa as Beijing hopes to gain more significant influence among developing countries outside its immediate surroundings. Recognising that it cannot compete with Beijing merely in terms of the quantity with Tokyo's tepid economic performance, Japan has reformed its ODA program in Southeast Asia and Africa to address past non-string attached assistance packages (Solís, 2020).

⁶ In the past decade, China posed a threat not only to Japan's economic influence by becoming the largest trading partner with most ASEAN states, but also its soft power as Beijing began coordinating propaganda campaigns painting Abe as an ultranationalist and Japan as the provocative and unpredictable military power in the region with revisionist agenda (Oros, 2017).

Compared to assistance packages offered by most Western countries, China's official finance lacks transparency, and more than 75% of it between 2000 and 2014 failed to meet the ODA standard set by the Organization for Economic Cooperation and Development (OECD) (China Power, 2017). It also helps explain the appeal of China's proposal in the eyes of many developing nations. Without any specifying requirement in promoting better governance, respecting human rights, and reducing government corruption, China's "no-strings-attached" model attracts many leaders of developing countries, especially those whose legitimacy does not rest on the general will of the public. By masking its irresponsible official finance with the clause of "non-interference in domestic politics of other countries," China poses a risk to the efforts made by Western countries, including Japan, to shape the behaviours of illiberal developing countries through economic incentives.

Faced with growing challenges from China, Japan has rearticulated its official finance strategy that prioritises quality over quantity. In 2015, the Abe administration launched the "Partnership for Quality Infrastructure: Investment for Asia's Future" strategy, promising the provision of US\$110 billion, jointly with the ADB, for "high-quality infrastructure" investment in Asia over the next five years. In 2016, Prime Minister Abe announced the "Expanded Partnership for Quality Infrastructure" directed toward the G7 Ise-Shima Summit. The proposal pledged \$200 billion over the next five years to finance infrastructure projects worldwide, indicating an expansion in the targeted area and the scope of infrastructure (Ministry of Foreign Affairs of Japan, 2016). Since 2015, Japan has also emphasised its goal of promoting universal values through its ODA program, reorganising its four issues of priority—poverty reduction, sustainable growth, addressing global issues, and peacebuilding—under three umbrella terms focusing on "quality growth," universal values, and sustainability in its white papers on ODA (Ministry of Foreign Affairs of Japan, 2020a).

Japan further demonstrated its support for the confidence in the liberal economic order and quality infrastructure through its scepticism toward BRI's standard of governance. Even as China and Japan negotiated increasing bilateral cooperation in international development and Tokyo signalled its willingness in joining the AIIB, Japan has not walked away from its commitment to quality infrastructure that has evolved out of growing challenges from China and has become a flagship of Japan's ODA program. Even as China poured money and resources into infrastructure projects in Southeast Asia, Japan still has a leading role in terms of ODA in most Southeast Asian countries. Though ASEAN's reluctance to align exclusively with Washington's strategy of balancing against Beijing and a broad perception of China as the country with most economic influence in Southeast Asia as opposed to the US or Japan attest to Beijing's growing economic clout in

the region, appreciation for China's economic growth has yet to translate to trust (Stromseth, 2019).⁷ As Beijing's official finance came under further scrutiny from the international community over the quality and sustainability of its infrastructural assistance, Beijing has sought to cooperate with Tokyo to boost its image and credibility (Yeung, 2018).

Despite mounting challenges, Japan has successfully differentiated itself by promoting and adhering to its vision of quality infrastructure. Although China's economic power often shadows Japan's influence in the region, Tokyo has not lost Southeast Asia to China, for it remains a trusted partner and essential donor to ASEAN states. If anything, competition from China has compelled Japan to distinguish itself and build a brand to its official finance that now plays a vital role in guaranteeing high-quality assistance to developing countries that promotes long-term solutions, quality, and sustainability.

4. Thickening Tokyo's networks: From reactive to proactive foreign policy

For Japan, hedging and balancing against China's rise and overstep was not an easy experience, significantly when the US, its most important ally and partner, is gradually retreating from its commitment to the Asia Pacific. Preoccupation with the Middle East diverted America's attention from the region, and the nationalist call of "America First" further diluted US involvement in East Asia. Moreover, the US alliance system in the Indo-Pacific is characterised more by each country's strong bilateral ties with the US than by an overarching multilateral framework or close coordination among US allies. Throughout much of the post-war period, strong US presence in the Indo-Pacific and the unique status of Japan as short of a specific country in many ways restricted and discouraged proactive foreign policies from Tokyo.

Since the 2000s and more prominent since the 2010s, Japan has sought to expand and deepen cooperation with its neighbours in the Asia Pacific, both politically and economically. In a 2006 speech explaining his vision of an "Arc of Freedom and Prosperity," then Japanese Minister of Foreign Affairs, Asô Tarô (2007), explained the need for Tokyo to "broaden the horizons of Japan's diplomatic activities" and engage with potential partners to promote market economy and democracy. Though Japan soon shied away from the commitment to becoming the beacon of universal values of democracy, human rights, and the rule of law declared in Asô's vision that has China and Russia in mind without any overt

⁷ A survey conducted in 2019 shows the majority (51.5%) of respondents from ASEAN countries have either "no confidence" or "little confidence" that China will "do the right thing" to contribute to global peace, security, prosperity, and governance, whereas 65.9% of respondents expressed confidence in Japan (Tang et al, 2019).

indication, the pillars Japan put forth to sustain such a policy remain (Taniguchi, 2010). Subsequent administrations continue to strengthen ties with key potential partners, including India and Australia, and regional players in Southeast Asia and Central Asia.

While the US-Japan alliance remains the most important bilateral relationship for Japan, Tokyo proactively reaches out to key allies and partners to strengthen its strategic position. Rekindling some of the grandiose vision and commitment to universal values put forth by the “Arc of Freedom and Prosperity,” Japan proposed the ambitious blueprint of the “Free and Open Indo-Pacific” Strategy, pledging to uphold the rule of law, democratic values, freedom of navigation, and economic connectivity in the vast region linking Indo-Pacific and Africa (Ministry of Foreign Affairs of Japan, 2020b). Besides building defence ties with countries like Australia and India, Japan has boosted economic connectivity with like-minded countries. Between 2000 and 2009, Japan concluded eight economic partnership agreements (EPA) with Southeast Asian countries and ASEAN. An EPA followed it signed with India in 2011 and Australia in 2014. Japan also expanded its focus beyond the Indo-Pacific as Asō envisioned by concluding a free trade agreement (FTA) with the European Union (EU) in 2018.

Moreover, closer cooperation with Canberra, New Delhi, and Brussels has empowered Tokyo to hedge and balance against China. In 2019, Japan signed a deal with the EU to set development standards worldwide, vowing to serve as “guardians of universal values” and providers of quality infrastructure (Emmott, 2019). The deal formalised Tokyo’s involvement in a new EU-Asia “connectivity plan” set to be backed by €60 billion (US\$65.48 billion). The proposal focuses on providing transport, energy, and digital infrastructure to Africa and the Balkans, critical regions for China’s BRI.

Moreover, Japan is seeking to shape China’s behaviour as a part of its balancing strategy. Recognising the undesirable impacts alienating Beijing can bring and the long-term threats posed by unchecked Chinese coercive economic practices, Japan strikes to induce cooperative behaviours and further economic reforms from China. In 2016, Japan signed and later ratified the Trans-Pacific Partnership (TPP), a centrepiece of US President Obama’s strategic pivot to Asia that aims to ensure that “the United States—and not countries like China—is the one writing this century’s rules for the world’s economy” (Somanader, 2015). By setting global regulations on free trade China has yet to meet, the TPP strengthens economic connectivity among rule-abiding countries, reduces China’s bargaining power, and shapes China’s future behaviours if Beijing wishes to continue benefiting from the liberal economic order. When President Trump pushed for protectionist policies under his “America First” slogan and pulled the US out of

the TPP, the agreement loomed with future uncertainties. As the US retreated, Japan took over the baton and spearheaded the effort in reorganising the deal into the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), which retained most of the clauses of the PPT save 22 provisions added at US insistence.

Although the vacuum created by the US abandonment of the TPP opened doors for China to promote the Regional Comprehensive Economic Partnership (RCEP), an alternative to TPP to boost its exports and set labour and environmental standards, the quick rebranding of the CPTPP achieved the same goal President Obama has envisioned, albeit without participation from the US. The ratification of the CPTPP convinced reform-minded leaders in China to further internal economic reforms (Lin & Katada, 2020). More importantly, China's official attitude toward the TPP/CPTPP has changed significantly since formal negotiations started in 2010. Chinese elites have tilted their opinion toward potential membership (Green & Goodman, 2015). Voices favouring participation have become more prominent since the ratification of the CPTPP. In September 2019, the director of the Center for China and Globalization, Wang Huiyao (2019), published an opinion piece suggesting that China should join the CPTPP on *Global Times*, a state-owned media known for its more radical, nationalist opinions, sending a strong signal that official opinion is leaning toward participation. In September 2021, China officially petitioned to join the CPTPP, though China can hardly anticipate a fast accession (Solís, 2021).

For Japan, its proactive economic partnership strategy reflects similar approaches in its trade and ODA policies in light of China's emergence and growing assertiveness. It seeks to build constructive relations with China through engagement and cooperation and at the same time balance against China's coercive practices by reducing its economic dependence and joining like-minded countries. While the formation of the CPTPP bloc eyes on China's unfair, non-transparent, and coercive economic behaviours, it nevertheless seeks not to contain and isolate China completely. The agreement never bars China from joining and participating, though Beijing needs to take a big step in its economic reform to meet the new standard. Future Chinese accession to the CPTPP, under the condition that the standard remains as rigorous as possible, would benefit rather than threaten the pact and its existing members. In Prime Minister Abe's words, China's future participation would significantly impact the Indo-Pacific region (Perlez, 2015). This mutually non-exclusive two-pronged approach highlights Japan's power and influence in the contemporary challenging international environment. Although Japan still fears abandonment from the US, worries economic overdependence on China, and faces the dilemma as a middle power situated, often uncomfortably, between the two great powers, its proactive

responses to China's rise and oversteps have empowered Japan to become a leader in the Indo-Pacific and a guardian of universal values and the liberal order.

5. Post-COVID world: New challenges, new opportunities

Though the shadows of the COVID-19 pandemic still hang and future uncertainties loom, the unprecedented global crisis will accelerate the rapid shifts in the global order. As the origin of the pandemic, China is put under the spotlight amidst this unprecedented transformation. Since the initial outbreak, China has been offensive with its propaganda and information campaign to boost its image as the saviour while belittling Western democracies as failures. Beijing also took the rare opportunity of chaos and confusion to march on Hong Kong and put further military pressure on Taiwan. China's assertive policies have met with resistance from many Western democracies, furthering rifts in bilateral relations.

For Japan, the pandemic was not an easy challenge. Within weeks of the initial outbreak in Wuhan, the country has already tasted the economic devastation brought by the imminent global health crisis. Although Japan successfully weathered the initial and second waves, avoiding massive domestic outbreaks experienced by the US and Western European countries, Tokyo finds itself in an economic mire. Expecting an uplifting year of economic growth brought by the Olympics, Japan increased its consumption tax to 10% in September 2019 only to confront postponement of the event and shrinking domestic and international consumption due to the pandemic (BBC, 2019). After real GDP contracted in Q4 2019 after the tax raise, weak domestic consumption and external demands brought by the pandemic struck another heavier blow at the Japanese economy as real GDP shrank 7.82% in Q2 2020, translating to a sharp 27.8% annualised decline (BBC, 2020). Japan's failure to handle the Covid-19 pandemic also struck heavy blows on the administration's legitimacy and confidence in Japan's slow recovery.

Moreover, the rising tension between China and Western countries has intensified Japan's dilemma. Beijing's perception of Western democracies in decline, as indicated by their dilatory response to the pandemic despite prior warnings and sluggish economic recovery, emboldened China to defend its contested political interest assertively and expand its economic influence. When China cautiously restarted its economic engine and resumed the production of medical supplies that have become a global scarcity, Beijing used its advantage to boost its international image and increase its leverage against its competitors, namely the US. However, China's propaganda campaign was soon revealed as a significant blunder. The abhorrently low quality of Chinese products raised alarms and suspicions from Western countries regarding the hidden risk of the current global distribution of

production and investment resources (BBC 2020). China's assault on Hong Kong's autonomy and the rule of law further pitched London, Ottawa, Canberra, and Washington against Beijing and the current liberal economic order that has benefited China immensely. Thus, Japan faces the potential risk of a more aggressive China that seeks to push against Western offences and increasing rifts between China and the West, leaving Japan awkwardly and dangerously in the middle.

However, the pessimistic view of Japan's future is overblown as many advocates for this outlook overstate Japan's dilemma vis-à-vis China's rise and underestimate Japan's assets and capabilities. Shifts in global order catalysed by the pandemic open new opportunities for Japan to act and lead in the post-pandemic world. This new window is no mere serendipity that falls upon Japan during an unexpected global crisis; instead, Tokyo has prepared itself for a moment like this through its decade-long policy reforms, innovations, and experiments in response to potential threats posed by a rising China.

6. Deescalating the war on technology: Flexible and open 5G technology

A key component to China's "national rejuvenation" campaign was Xi Jinping's call for building a great technology power. To replace its national image of "made in China" with "designed in China," Beijing launched the Made in China 2025 plan and encouraged many domestic companies to invest in the research and development of cutting-edge technology. Since declaring the goal of becoming the next technology powerhouse globally, China has achieved tremendous success in telecommunication, especially in fifth-generation, or 5G wireless networks led by ZTE and Huawei. As China spearheaded the global launch of 5G networks, several Western countries, led by the US, have raised concerns over whether Chinese vendors should be allowed to participate in 5G deployments, a matter keen to national security interests. In August 2018, President Trump signed the Defense Authorization Act, effectively banning Huawei and ZTE from the US government and government contractors (Shu, 2018). Washington has also pushed its allies to adopt similar policies against Huawei, which sparked intense debates in many European and Asian countries seeking a middle ground between China and the US (Woo & O'Keeffe, 2018). Japan, New Zealand, and Australia were the first three countries to follow the US lead, effectively banning Huawei before the end of 2018 (BBC, 2018a; Japan Times, 2018; McDuling, 2018). Washington also successfully persuaded several European telecom service providers such as BT to pull Huawei equipment out of its core network even countries like the UK remained undecided (BBC, 2018b).

Amidst rising tension between China and the US on the technology front, Western democracies have toughened their stance on network security regulations and

launched special task forces to investigate and evaluate potential security risks of partnering with Huawei. Without outright banning Huawei's equipment or forcing its member states to follow a specific guideline, the EU advocated for stricter regulations and more recently issued a statement saying that European companies such as Nokia and Ericsson can replace Huawei completely in developing 5G infrastructure (Bellamy, 2020). EU's suggestive warning against Huawei came amidst growing pushback against the Chinese company. In July 2020, UK Prime Minister Boris Johnson ordered Huawei equipment to be purged entirely from Britain's 5G network by 2027, a sharp turn from his initial endorsement in late 2019 and a more moderate stance in early 2020 that granted Huawei a limited role in Britain's 5G mobile network (Shipman & Kerbai, 2019; Sandle & Stubbs, 2020; Sandle & Faulconbridge, 2020). Britain's decision was soon followed by France's decision to refrain telecoms operators from renewing their licenses for Huawei 5G equipment once they expire, effectively removing Huawei gears by 2028 without an outright ban (Rosemain & Barzic, 2020).

Increasing international pushback against Huawei offers Japan a window of opportunity to assert its leadership in the next generation of telecommunication. Taking a step further than Huawei and its competitors such as Nokia and Ericsson, Japanese company Rakuten is spearheading a novel approach involving open radio access network (RAN) equipment. In February 2019, Rakuten launched the world's first end-to-end fully virtualised network that allowed for Open RAN, requiring fewer hardware investments that break the conventional lock-in system that specifies strict compatibility between software and hardware (Rakuten, 2019). By promoting Open RAN, countries can benefit from this more flexible approach as it lowers the initial cost of introducing a 5G provider, allows more equal and accountable competition between companies, and prevent monopoly that has sparked geopolitical tension in the first place (Schoff & Kamijima-Tsunoda, 2020). The opportunity is ripe for Japan to develop next-generation telecommunication that is open, flexible, and accessible.

7. Shifting global value chain: A market Japan can never lose

New challenges from the ongoing pandemic also raised the question of supply chain dependence as China's economic shutdown put the global supply of protective gear to almost a halt. Multinational companies outsourcing many of their factories to China also suffered losses as China's factories closed down and workers were sent home. As ironic as it seems, the pandemic has taught many multi-billion-dollar companies one of the most basic facts in investment—diversification. For decades, China's cheap labour cost, friendly business environment, and top-tier infrastructure have attracted foreign businesses to set up factories and built its reputation as the world's factory. However, in recent years,

rising labour costs and political uncertainties are convincing companies to move their production plants elsewhere. Between 1998 and 2018, China's manufacturing labour costs rose from less than US\$0.5 per hour to US\$5.51 per hour, surpassing Mexico in 2009 and is now twice the level as labour cost in Vietnam.⁸ Even with its advantage in cost, quality, human resources, and infrastructure unmatched by any other country, companies are leaving China to reduce costs and risks, and the pandemic has quickened the pace of the manufacturing exodus.

Awakened by China's sudden economic shutdown, US technology giants such as Apple, Microsoft, and Google moved some hardware production and assembly to Vietnam and Thailand. In a more concerted effort, Japan pledged JP¥248.6 billion (US\$2.34 billion) to reform Japan's supply chains, bringing several high value-added production centres back to Japan and diversifying others to several countries, including ASEAN states (Ministry of Economy, Trade, and Industry, 2020). Though China expressed concerns over the exodus of Japanese firms, Japan's US\$2 billion supply chain reform, even if considered a rebalancing strategy by Tokyo, is not a significant move against China (Kawashima, 2020). Japan's policy to relocate production bases arguably have less to do with China precisely than the simple fact that Japan wishes to avoid reliance on a single country. More importantly, not all Japanese companies are readying themselves to withdraw from China and most of those leaving produce pharmaceutical and medical supplies.

However, regardless of foreign companies' intentions to move production out of China, Beijing has to face factories closing down and unemployed workers. At the same time, Southeast Asian countries will see a more prominent role in the global value chain. Aside from the obvious economic benefits brought by the influx of foreign capital and employment opportunities, ASEAN states will likely see an increase in the demand and return of their infrastructure projects, which will significantly reduce the transportation cost. As a significant player and trusted partner in Southeast Asian countries' infrastructure development, Japan's strategic, high-quality official finance will have far-reaching impacts, benefiting the developing countries and foreign companies investing in the region. Japan's long-term investment and close partnership with ASEAN states are paying off as Southeast Asia command more significant influence in the global arena. Even as China pours money and resources to cultivate better ties with Southeast Asian countries, Beijing's success is limited, for the economic dependence has yet to be translated into trust. Although the pandemic has brought China and ASEAN closer as the latter replaced the EU as China's largest trading partner in 2020, China's charm offensive is not a complete

⁸ Data collected from China Statistical Yearbook and IHS Market Technology.

success. In April 2020, China invited ASEAN to a joint video conference on the pandemic, “perhaps to show off its massive support for the economic consortium” (Sasaki, 2020). Though ASEAN agreed to China’s proposal, it also extended to invitation to Japan and South Korea, showing high levels of trust with the two democracies, but not China (Sasaki, 2020).

Despite increasing challenges from China, Southeast Asia remains a market Japan cannot lose. Though ASEAN’s economic dependence lends China powerful influence in the region that sways ASEAN from fully embracing US policy of balancing against China, Beijing has yet to form clout that can replace Japan’s historical presence. More importantly, with new economic opportunities ahead of ASEAN and Japan’s increased investment in the region under its strategic ODA strategy, Tokyo, not Beijing, is poised to be the leader of the Indo-Pacific and a pivotal contributor to the future of ASEAN.

8. Bridging China and the West: Japan as a link

Since escalating tension between the US and China brought bilateral relations to a nadir, discussions on the US-China decoupling have commanded incessant attention. As the 2020 US presidential election draws near, debates on US foreign policy in the next four years will centre on the question of how to deal with China. Interestingly, both Trump and Biden have voiced clear intentions to harsh America’s stance against China, albeit differently. In other words, regardless of who will win the election in November, amelioration of US-China relations seems unlikely shortly. The coronavirus pandemic has also had chilling effects on Sino-European ties as the EU increasingly views China’s propaganda efforts as hostile and aggressive, further accentuating the systemic rivalry—a term introduced by the EU in March 2019 (Corre and Brattberg, 2020). However, at the same time, the probability of a complete decoupling of Beijing and Washington, or more broadly between China and the West, remains scant. Though one may find many similarities between US-China competition and confrontation and the US-USSR relations during the Cold War era, such comparison is not self-evident. Even as rising populism and nationalism challenges the liberal world order, globalisation cannot simply be undone. China, for example, cannot afford to walk away from the liberal economic order. Even as Xi Jinping sought to harness support by appealing to rising nationalist sentiments in China, economic performance and prosperity remain the fundamental source of legitimacy of the Chinese Communist Party.

As trade frictions escalate between China and Japan, Beijing has sought warmer ties with Tokyo. Challenges from the pandemic further brought the two countries together as both sides demonstrated unexpected magnanimity when many states behaved in their self-interests (Li and McElveen, 2020). As China’s relations with the West, especially the UK, Canada, and Australia, further worsened following

the passage of the Hong Kong national security law, China has prodded closer ties with Japan as Chinese foreign minister Wang Yi urged pushing forward China-Japan bilateral exchanges and cooperation during a phone conversation with his Japanese counterpart Tohimitsu Motegi (Xinhua, 2020).

Warming Sino-Japanese ties during episodes of worsening ties between China and Western democracies is not an unprecedented phenomenon. After the Tiananmen Incident in 1989, Japan served as the bridge and linchpin between China and the West, advocating for lifting sanctions on China and spearheaded re-engagement efforts with Beijing. For China, Japan's geographic proximity, cultural affinity, and economic capacity make it the perfect candidate to contact and reach out during difficult times with Western countries.

In light of escalating tension regarding the future of Hong Kong, Japan will likely play an even more critical role as the indispensable bridge between China and the West. Emboldened by its perception of China's rapid rise and the West's gradual decline, Beijing adopts a more assertive and adamant attitude toward issues relating to its national sovereignty. Western democracies, at the same time, have also toughened their stance on China. The passage of the Hong Kong national security law raised grave alarm among the commonwealth nations and soured China's ties with the UK, Australia, and Canada. Beijing's breach of the "one country, two systems" principle and the 50-year pledge of market economy and democracy raised the question of Hong Kong's freedom and autonomy. Since the colonial era starting from 1840, Hong Kong has played an indispensable role as a critical channel between China proper and the outside world. Hong Kong stands at the crossroads between China and the West as a free port and later a global financial hub. However, the recent encroachment on Hong Kong's autonomy and independence severely jeopardised optimism for the island's future.

At the same time, China cannot afford complete isolation from the West, primarily when it depends on international trade and investment to maintain its economic growth. China's petition to join the CPTPP sends a clear and powerful signal even as China refuses to tone its political behaviours and rhetoric. Whether Chinese leaders have accounted for the costs of losing Hong Kong as a vital link between China and the West when deciding to push for the national security law, Beijing will search for an alternative, and among all its neighbouring countries, Japan is the best candidate. In 1989 Japan took a path independent from the rest of the G7 countries, advocating for restraints and leniency in sanctioning China (Murata, 2006). Though the China-Japan tie will unlikely return to the pre-1989 honeymoon phase as Tokyo watches Beijing's actions cautiously and favorability toward China among Japanese remains low, Japan is still reluctant to isolate China. The new pattern of warming bilateral ties suggests the potential for both parties to maintain constructive relations in the future (Kennedy & Goodman,

2020). In the new global order marked by increasing great power competition and confrontation, Japan can turn its dilemma as a middle country between China and the US into an asset by redefining its role as a leader in the new global order and a bridge facilitating integration and cooperation between China and the West.

9. A necessary challenge: Japan's foreign economic policies in the era of US-China rivalry

Without any doubt, China and the US play non-negligible roles in formulating Japan's domestic and foreign policies. Japan maintains strong economic, political, and defence ties with the US, and the fear of abandonment in the face of changing geopolitical conditions in the Indo-Pacific pushes Tokyo to seek closer cooperation with Washington. As one of Japan's largest trading partners, China's economic health directly impacts Japan's economic performance, and this dependence shapes Tokyo's fundamental approach vis-à-vis Beijing that opposes complete decoupling or isolation. As US-China relations continue to deteriorate and the possibility of reverse seems distant regardless of who will win the White House in November, Japan's China policy will continue to pose serious challenges to the government in Tokyo.

Since 1979, Japan's strategy vis-à-vis China has shifted from engagement to a strategic hedge, incorporating elements of both engagement and balancing. More specifically, Japan's current strategy predicated upon four pillars: economic pragmatism, binding engagement, dominance-denial and indirect balancing (Vidal & Pelegrín, 2018). Driven by the *seikei bunri* principle, Japan pursued a "business first" approach economically while strengthening its defence posture through internal and external balancing behaviours. At the same time, Japan sought to shape and restrain China by binding it to a variety of regional and international institutions, thus forcing China to engage with less powerful countries multilaterally and preventing it from using the divide and conquer tactics.

Although Japan's hedging strategy vis-à-vis China incorporates nothing new to policymakers in the US and European countries—most Western countries have adopted similar policies toward China during the post-Cold War era—responding to China's rise has shifted Japan from a reactive, status-quo power to a proactive player ready to defend its strategic interests. Despite its constitutional limit on military capability and its stagnant economic performance, Japan has transformed its role from a passive ally of the US to an active power in the Indo-Pacific (Envall, 2017). In addition to a series of policy initiatives to strengthen Japan's national security posture—from internally modernising its military and reinterpreting its constitution to externally buttressing defence ties with the US

and other allies. Since 2010, Japan has reduced its economic overdependence on China, revised its ODA strategy to better suit its national security interest, and invested in multilateral platforms that challenge China's dominance in the region while shaping Beijing's future behaviours.

Japan's strategy is not only significant in the domestic contexts, for it also offers critical wisdom to how the West should respond to China's no-longer-so-peaceful rise. Though the logic of balancing against a great power by forming alliances is hardly new, the approach is much needed in the contemporary world where the beacon of freedom and democracy no longer shines, and the guardians of universal values are no longer fighting in unison. As Washington walks away from its allies, Tokyo discovers a new path of empowerment by engaging with like-minded democracies and reemphasising its pledge to protecting universal values. With visions such as the "Arc of Freedom and Prosperity" to the "Free and Open Indo-Pacific Strategy," Japan has significantly expanded its role in the international community, the scope of its foreign policy, and its commitment to the values of freedom, democracy, and the rule of law. As China's coercive diplomacy raises red flags regarding its official "peaceful rise" rhetoric and pledge to become a responsible great power, Japan's strategy is preparing Western countries to face mounting challenges from China. More importantly, Japan's balancing behaviour differs from the alliances formed during the Cold War as Tokyo does not seek to contain or isolate Beijing. Japan's vision supports China's participation and contribution but demands deeper reform measures and rule-abiding behaviours to set a level playing field for all countries.

China's rise and America's relative decline have posed serious challenges to Japan, but this dilemma has been a beneficial and even necessary challenge. The emergence of China as a rival compelled Japan to adapt, innovate, and experiment with new strategies and policy options previously imagined by the reactive, status-quo power. The retreat of the US, on the other hand, convinced Japan to build up its comprehensive capabilities and assume a more proactive role domestically, regionally, and internationally. The new opportunities presented by the changing global order are no mere chance work; instead, China's rise has awakened Japan to grasp these new opportunities. Long viewed as a reactive power slow to adapt to changing geopolitical circumstances, Japan is becoming a proactive player, engaging and shaping the changing global environment.

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