Strategic Ambivalence: Japan's Conflicted Response

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On the night of December 16, 2012, a confident Abe Shinzo met with the Japanese press shortly after a convincing general election victory for his Liberal Democratic Party that would restore him to the role of prime minister after five years in the political wilderness. One remark by Abe, a noted foreign policy hawk, stood out: "China is an indispensable country for the Japanese economy to keep growing. We need to use some wisdom so that political problems will not develop and affect economic issues."[1]

Abe's statement arose between two events that highlighted the "political problems" in Japan-China relations he was hinting at and the "wisdom" he intended to bring to those issues. In the summer of 2012, violent protests had broken out across China against Japanese commercial and diplomatic interests in response to an escalating tussle over disputed islands in the East China Sea.[2] Then, two months after his election-night remarks, Abe made his first trip to Washington as new prime minister and gave a seminal speech at the Center for Strategic and International Studies (CSIS) in which he declared, "Japan is back." He laid out a set of policies for ensuring that Japan did not become a "tier-two country" in regional and global affairs.[3]

These events underscore both the ambivalence Japan feels as it contemplates the rise of China and the Abe administration's determined strategy to address it. Tokyo is of two minds about the economic rise of China. On one hand, its large neighbor to the west offers Japan enormous economic opportunities: to serve the huge and growing Chinese consumer market, to provide technologies that China needs for its development, to create efficiencies in Japanese companies' supply chains, and even to join Chinese state-owned enterprises (SOEs) in building infrastructure across the Indo-Pacific region. China is also an essential partner in addressing transnational challenges from health pandemics to climate change. And some Japanese feel drawn to China by wistful thoughts of regional economic community involving the major powers of Asia – and not the United States.

On the other hand, Tokyo is deeply troubled by the darker side of China's rise. At a minimum, China is likely to be a formidable economic competitor that could overtake Japan in key industries of the future. Under President Xi Jinping, China has veered off the path of reform and opening, reinforced the role of the state in the marketplace, and doubled down on industrial policies, from massive subsidies to forced technology transfers. Beijing has used its growing economic clout to win influence in the Indo-Pacific region and beyond, and it has shown a troubling tendency to coerce its neighbors and trading partners. About one thing, Tokyo is clear: a Sinocentric order based on Beijing's preferred rules and norms of economic behavior would be seriously detrimental to Japan's interests.

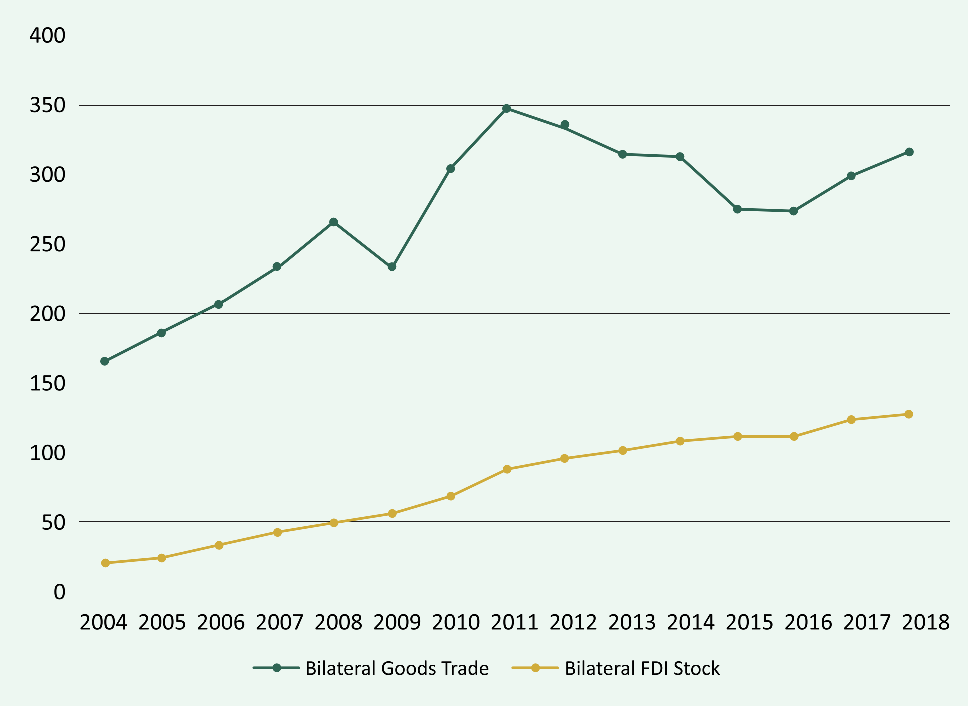
Against these opportunities and risks, the Abe administration has adopted a strategy that combines three main lines of effort: *enhanced diplomatic and economic engagement* with Beijing; *hedging and balancing,* including deepening integration with other countries of the Indo-Pacific region and attempting to keep the United States engaged in the Indo-Pacific region; and *leadership on regional and global economic rule-making.* The main strands of this approach are likely to continue after Abe leaves office, though uncertainty surrounds them all.

Japan-China Relations since Normalization

Economic ties between China and Japan have broadened and deepened dramatically since normalization of diplomatic relations in 1972. In that year, bilateral trade amounted to just $1 billion.[4] By 2018, China was Japan's largest goods trading partner, with $317 billion in two-way flows, representing over 21 percent of total Japanese merchandise trade.[5] Japanese businesses are especially reliant on two-way flows; capital equipment represents nearly half of bilateral trade, with consumer goods accounting for 28 percent and intermediate goods representing 18 percent. By sector, machinery and electronics make up 43 percent of trade, with chemicals a distant second at 8 percent.[6]

Investment ties have also deepened. At the end of 2018, China was the fourth-largest destination for Japanese foreign direct investment (FDI),[7] with $124 billion in total FDI stock. As of May 2019, 42 years after Beijing granted the first business permit to a Japanese company, there were 13,685 Japanese companies doing business in China, up from 10,778 in 2010, according to survey data. Although this number has fallen slightly from a 2012 peak, large Japanese companies expanded their exposure to China between 2016 and 2019.[8] One analyst estimates that 17 percent of the overseas profits of large, publicly traded Japanese firms come from China.[9] Meanwhile, Chinese companies have quickly increased their investment in Japan, with total mainland Chinese FDI stock in Japan growing 42 times between 1998 and 2018, albeit from a very low base.[10]

Figure 1. China-Japan Bilateral Trade and FDI Stock (USD Billions)



Source: JETRO Balance of Payments Statistics

Yet beneath this story of economic integration lies a complicated history. Unresolved territorial and historical tensions stemming from Japan's prewar colonization of China have clouded the relationship since normalization and have periodically disrupted economic ties. In an effort to bolster its own legitimacy in the eyes of its own public, the Chinese Communist Party (CCP) has occasionally "turned up the dial" of anti-Japanese nationalism, bringing uncertainty or physical harm to Japanese commercial interests in China.

Despite these strains, Tokyo has generally been one step ahead of Washington regarding engagement with Beijing. Japanese political scientist Kokubun Ryosei observes that, "Postwar relations [between Japan and China] have consistently preceded U.S.-China relations."[11] Tokyo normalized relations with Beijing and encouraged China to join the global economy before Washington did. Yet Japan also grew skeptical about the impact of China's growing strength earlier than the United States.

Following World War II, Japan aligned with the United States in recognizing the Republic of China on Taiwan as the legitimate government of greater China. Still, Tokyo maintained contact with Beijing through occasional private and quasi-governmental exchanges.[12] The "Nixon shock" of 1971, when President Richard Nixon failed to notify Japan before announcing a surprise visit to China, convinced Tokyo to develop a more independent foreign policy.[13] In September 1972, Japanese Prime Minister Tanaka Kakuei visited Chairman Mao Zedong and signed a joint communiqué normalizing relations, six-and-a-half years before Washington and Beijing formalized diplomatic ties.[14] Six years later, Vice Premier Deng Xiaoping visited Japan, and the two countries signed the Japan-China Treaty of Peace and Friendship.[15] While these documents set the framework for bilateral relations, they did not resolve sensitive political issues, such as Japanese wartime reparations or control of disputed islands in the East China Sea, known as the Senkaku Islands in Japan and as the Diaoyutai in China.[16]

In the decades following normalization, Tokyo sought to accelerate China's transition to a market economy through development aid and capacity-building assistance. In a 1979 speech in Beijing heralding a "new era" in bilateral relations, Prime Minister Ohira Masayoshi announced Japan's intent to help modernize China and lauded Beijing's nascent policy of reform and opening. To support this effort, Ohira announced $200 million in concessional loans to finance infrastructure projects across China, with further credit to come.[17] This began a close aid relationship, with China ultimately becoming the largest recipient of Japanese official development assistance (ODA) despite the lack of Japanese public support for the policy.[18] Early aid focused on large-scale modernization and traditional infrastructure projects to jump-start growth. Alongside this support, Chinese economic policymakers learned from and adopted elements of Japan's export-led economic development model. As China's economy grew, Japanese ODA shifted to focus on environmental protection, social development, and institutional capacity-building measures.[19] When Japan ended its aid program to China in 2018, Tokyo had contributed approximately ¥3.6 trillion ($33 billion) in total loan and grant aid.[20]

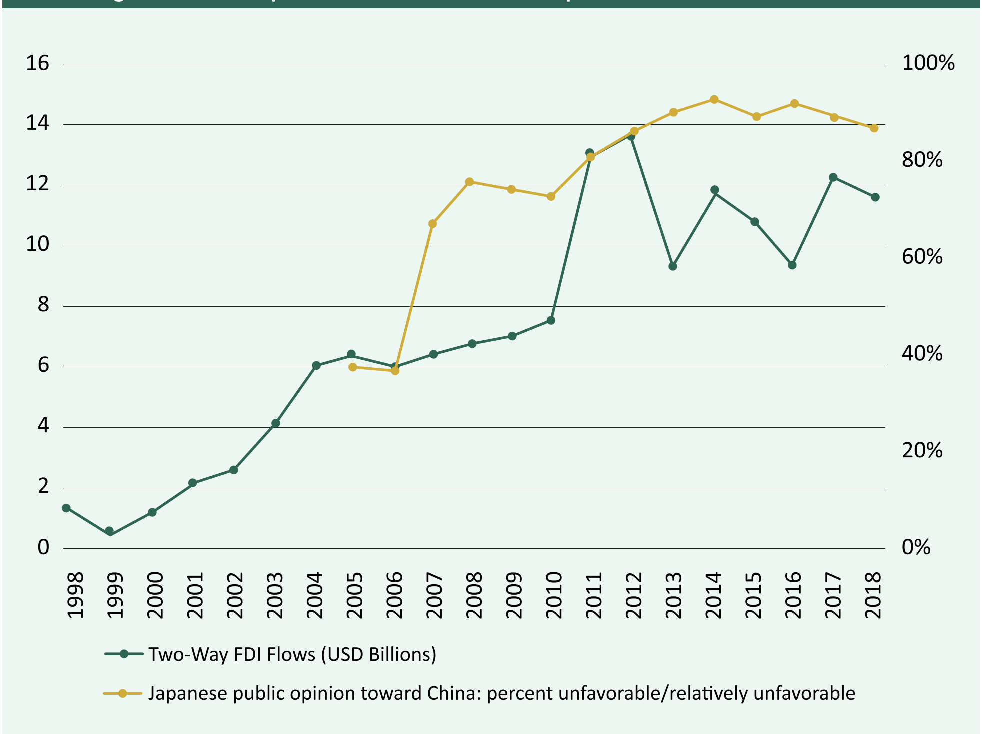
Despite growing economic ties, diplomatic setbacks have been a recurrent feature of the Japan-China relationship since normalization. Over the past decade, tensions have flared up several times in the East China Sea. After Japan detained a Chinese trawler captain in

September 2010 for fishing in waters administered by Japan but claimed by China, Beijing briefly blocked exports of vital rare earth metals to Japan before the captain was released.[21] During the 2012 crisis, mentioned earlier, Chinese protestors burned Japanese cars and vandalized Japanese businesses. As the situation deteriorated, Japanese factories in China were attacked and looted, forcing major companies, including Honda and Mazda, to temporarily halt production.[22] Observers claim that Chinese authorities encouraged some of the protests, a similar tactic used by Beijing to pressure Tokyo in previous disputes.[23]

While tensions have abated since 2012, Chinese vessels continue to operate off the islands with increasing frequency.[24] In addition, according to Japan's Defense Ministry, Japanese jets were scrambled to intercept Chinese military aircraft approaching Japanese airspace 638 times in fiscal year 2018, an increase of 27.6 percent from the previous year.[25]

Not surprisingly, these historical and territorial tensions have had an impact on Japanese public opinion about China. A spring 2019 Pew Research poll found Japanese public opinion was the most negative towards China out of 34 countries surveyed.[26] According to another poll released in October 2019, nearly 85 percent of Japanese had an "unfavorable" or "relatively unfavorable" opinion of China, down from 93 percent in 2014 but up from 36 percent in 2006.[27] Despite this, most Japanese have been able to compartmentalize bilateral political tensions while continuing to support deeper economic ties with China. There is an expression in Japanese that captures this bifurcated view: "*seirei, keinetsu,*" which roughly translates as "cold politics, hot economics."

Figure 2. China-Japan Bilateral FDI Flows and Japanese Sentiment Toward China



Source: JETRO Balance of Payments Statistics; Genron NPO

Against this backdrop, Abe has carefully cultivated a warmer relationship with Xi Jinping over the past several years. After an icy handshake on the margins of the 2014 APEC summit, he and Xi have since had a series of more cordial encounters.[28] The two leaders met on the sidelines of the Osaka G20 summit in June 2019 and hailed "a new and historic starting line" between the two nations.[29] They hope to sign a "fifth political document" when Xi visits Japan as a state guest sometime in 2020, codifying a common understanding of the benefits of economic cooperation and setting parameters for a more stable bilateral relationship.[30]

The Pull of China

The recent rapprochement derives not only from strategic calculations by the current prime minister but also from deeper gravitational forces that pull Japan toward China. Japanese companies simply cannot afford to ignore the world's most populous country and second-largest economy. From 2013 to 2018, China accounted for 28 percent of world GDP growth, by far the largest contributor to growth and more than double the U.S. share.[31] While China's economy is decelerating, it is still expected to account for a similar share of new global output over the next decade. Japanese companies are better positioned than European or U.S. competitors to take advantage of Chinese growth, given their geographic proximity.

Despite the scars of the 2012 protests, Japanese multinationals have heavily invested in China by opening new facilities to serve the Chinese consumer market. In 2018, Japanese companies invested nearly $11 billion in China, a 50 percent increase from 2010.[32] That figure included Toyota's announcement to increase production in China by 20 percent by expanding its Guangzhou and Tianjin facilities; similar investments had been cancelled in the wake of the 2012 protests.[33] As mentioned earlier, major Japanese companies now rely on China for nearly a fifth of their global profits.

Beyond manufacturing and retail, Japanese financial titans are eager to break into China's $42 trillion financial industry. In November 2019, Nomura received the first securities-trading business license to operate in Mainland China granted to a foreign-controlled joint venture.[34] Nomura and other Japanese firms now view China as a vital growth market and plan to expand their operations, especially as profits elsewhere stagnate.[35]

Not only is China a critical market, but it is also an indispensable part of global supply chains. Since Beijing joined the World Trade Organization (WTO) in 2001, Japanese companies have followed their global peers in sourcing more inputs from China. In 2018, China was Japan's largest source of intermediate goods, accounting for nearly 20 percent of total intermediate imports, up from 10 percent in 2001.[36] Japan is especially reliant on China in key industries; nearly half of Japan's machinery and electronic imports in 2018 came from China.[37] Similarly, Chinese goods were the largest origin of value added in Japan's gross imports in 2015 (the latest year available), surpassing the United States' share of value added in 2010.[38]

Beijing's efforts to lower trade barriers, which Tokyo has encouraged, have facilitated deeper integration. China's weighted-average most-favored-nation (MFN) tariff on Japanese goods fell from 13.4 percent in 2011 to 6.1 percent in 2017.[39] In 2018, Beijing lifted a ban on rice from Niigata prefecture (imposed following the Fukushima disasters in 2011) and approved rice imports from facilities in Hyogo and Hokkaido; as a result, Japanese rice exports to

China rose 76 percent that year.[40] There is still room for growth, and Abe hopes to encourage Beijing to lift remaining Fukushima-era restrictions on Japanese agricultural goods during Xi's eventual state visit.[41]

Several factors suggest economic integration will deepen in the short and medium term, albeit at a slower pace. First, as China's demographic woes come into focus, "Japan, Inc." can sell products and share expertise with an aging China. Japanese companies in the mobility and elder-care industries will be especially eager to enter the critical Chinese market. Second, Chinese financial opening will likely continue, presenting a significant opportunity for Japanese firms. The U.S.-China "phase one" trade deal signed in January 2020 promised significant concessions in financial services, and Japanese banks will lobby to ensure they reap some of the benefits and keep pace with U.S. competitors.[42] In addition, Japanese companies want to profit from China's infrastructure spending spree under the Belt and Road Initiative (BRI) and related projects. Political issues will surely weigh on further economic integration, but a successful visit from Xi would help to ease those concerns.

Apart from the commercial incentives for stronger ties, Tokyo views Beijing as an essential partner in addressing shared transnational challenges, including health crises, natural disasters, climate change, and security threats. Japan has often supported China to fight regional epidemics and limit transmission to the Japanese archipelago. In response to the 2002-2003 severe acute respiratory syndrome (SARS) epidemic, Japan sent medical teams to China and Vietnam and provided ¥387.8 million ($3.5 million) in medicine and equipment to the region.[43] The novel coronavirus outbreak underscored the importance of cooperation, especially since Japan was initially one of the hardest-hit countries outside of China and faced major supply-chain disruptions. Following the outbreak in Wuhan, Tokyo quickly sent medical supplies to China, several Japanese businesses and municipalities donated facemasks, and lawmakers donated part of their salaries to help.[44] These actions won rare praise in China and stood in stark contrast to the war of words between Beijing and Washington over the origins and name of the virus.

Longer-term, Japan and China share similar demographic challenges: both countries have rapidly aging populations and declining labor forces. As rising dependency ratios and the associated economic challenges become more acute, both countries will have an incentive to discuss policy and technology solutions. During its 2019 G20 presidency, Tokyo highlighted its efforts to adapt to aging societies and championed a workstream to share best practices on inclusive productivity and mobility. Abe carried aging issues into the December 2019 China-Korea-Japan trilateral summit, and the Trilateral Cooperation Vision for the Next Decade signed at that meeting urges cooperative policies that "promote healthy and active ageing."[45]

Tokyo has also worked with Beijing to respond to regional natural disasters. In the wake of the 2011 Great East Japan Earthquake and despite political tensions at the time, Japan, China, and South Korea agreed to enhance disaster prevention and relief coordination, including by conducting joint exercises and improving information-sharing procedures.[46] The three sides have met several times since to discuss preparedness. Notably, in 2017 the three adopted the Sendai Framework for Disaster Risk Reduction, a Japan-led, UN-endorsed document for shared disaster response.[47]

China and Japan have similar incentives to collaborate on climate change. While the 2011 Fukushima disaster and the resulting shift towards coal and natural gas have complicated Japan's progress on reducing emissions, Tokyo remains committed to the Paris Agreement. Progress on climate change is impossible without buy-in from China, which emits more carbon dioxide than the United States and European Union combined, and the U.S. retreat from the Paris Agreement has underscored the urgency of cooperation with China.[48]

Finally, Japan needs to engage with Beijing to manage shared security threats, primarily related to North Korea. Tokyo is especially concerned that the Trump administration will cut a deal with North Korea without notifying Japan first. To hedge against a "Trump shock," Tokyo has expanded lines of communication with Beijing and, until recent trade tensions, Seoul. Apart from North Korea, China and Japan have shared interests in fighting transnational terrorism. The two countries have held several counter-terrorism meetings, but cooperation has thus far been limited.[49]

Beyond the commercial pull of the Chinese market and Tokyo's need for Beijing's cooperation on major transnational challenges, lies another factor that has periodically exerted a gravitational force on Japan-China relations. There is an impulse in parts of the Japanese elite for pan-Asian economic integration – not led by the United States or subject to Western norms. This feeling is generally suppressed but has occasionally revealed itself in Japanese foreign policy. One of the most telling examples was in 1997, in the wake of the Asian financial crisis. Tapping into a widespread view in Asia that the "Washington Consensus" of fiscal discipline and structural reform in the countries most affected had fueled and then exacerbated the crisis, Japan proposed establishment of an "Asian Monetary Fund" with looser lending conditions than those imposed by the International Monetary Fund.[50] The effort was quickly quashed by the Clinton Treasury Department, but the impulse for an Asian-led financial safety net survived in the form of the Chiang Mai Initiative, a network of currency swap lines among regional central banks – with Japan and China putting up the biggest shares.[51]

A little over a decade later, pan-Asian sentiments arose again when the first prime minister under the interregnum led by the Democratic Party of Japan (DPJ), Hatoyama Yukio, offered his vision for an "East Asia Community."[52] Hatoyama's idea was to create a kind of European Union in Asia, based first on deeper economic integration then on enhanced political and even security ties. Hatoyama floated the idea in the fall of 2009 at the East Asia Summit, an annual regional gathering of the 10 members of the Association of Southeast Asian Nations (ASEAN) and, at the time, five other regional powers: China, South Korea, India, Australia, and New Zealand. Tokyo tried to reassure Washington that the goal was to pull China more deeply into regional affairs and not to distance Japan from its key treaty ally. However, the idea floundered in the face of opposition from the Obama administration as well as an unenthusiastic response from Asian partners, and by June 2010, Hatoyama was gone.

In both of these examples, Japan was clearly hoping to play at least a co-equal role to China in regional affairs. This was always a dubious aspiration, given China's growing economic clout and lack of interest in sharing leadership with Japan. But the incidents also revealed the limits of Japan's ability to strike out on its own in regional affairs without the consent and active participation of the United States. Hatoyama's successors would not make the same mistake.

The China Challenge

For all the incentives for partnership with China, Japan remains wary of its neighbor to the west. Competition has long been a feature of the bilateral relationship, but it has intensified with China's economic rise.

The new competition occurs on many levels, the highest of which is strategic. Just as it has for millennia, Japan resists the idea of a Sinocentric order in Asia. While most Japanese can accept that a country with a population 10 times the size of Japan's and with growing economic clout will inevitably play a more important role in regional affairs, Tokyo cannot accept playing second fiddle to Beijing. This is certainly true if China acts coercively and tries to impose its values and norms on others in the region. China's behavior in the 2010 and 2012 East China Sea incidents reinforced Japanese aversion to the idea of Chinese hegemony in the Indo-Pacific region. In a September 2013 speech, Abe said, "Japan should not be the weak link in the regional and global security framework where the U.S. plays a leading role."[53]

More specifically, Tokyo is wary of a China that gets too close to other powers in the region. It looks with concern upon Beijing's efforts to strengthen ties with Russia.[54] It also worries about a China that coddles its only ally in the region, North Korea; there is no greater strategic threat to Japan than a North Korean regime armed with nuclear weapons and a short- and medium-range missile capability to deliver them.[55] Japan is also troubled by Chinese inroads in Southeast Asia, a region in which massive Japanese direct investment and active diplomacy over the past several decades have given Tokyo a favored position to date.[56]

The competition between Japan and China extends to the economic realm. China is no longer simply an attractive market and factory floor for Japanese firms, it is also a fierce competitor. As many as 119 Chinese businesses made Fortune's 2019 Global 500 index of the largest companies, up from only 5 in the 1999 edition.[57] Over that time, Japan's share fell by more than half, from 107 in 1999 to 52 in 2019. While Japanese officials bristle at the Trump administration's aggressive trade tactics against China, they largely agree with the U.S. diagnosis that some Chinese companies benefit from an uneven playing field.

Working with the United States, Europe, and other likeminded partners within multilateral frameworks, Japan has supported efforts to curb Chinese unfair trading policies. Two weeks after the U.S. initiated a WTO action against China over alleged intellectual property theft, Japan filed to join as a third-party complainant, arguing that Chinese practices distort the competitive business environment.[58] Although that case has stalled, Japan is actively working with the United States and the European Union to address a broader set of issues related to China through trilateral cooperation. In January 2020, the group agreed to a proposal to strengthen WTO subsidy rules, ostensibly to discipline Chinese practices that violated the spirit, but not the letter, of the WTO disciplines.[59] The trilateral statement also reiterated the three sides' commitment to tackling forced technology transfer and establishing rules on electronic commerce, both with an eye to China.

Japanese anxieties about China's economic rise are especially acute in advanced technology sectors. Beijing's "Made in China 2025" industrial strategy targets 10 priority areas, several of which are dominated by Japanese companies: new advanced information technology, automated machine tools and robotics, modern rail transport equipment, and new-energy vehicles.[60] Japanese officials fear losing the commanding heights of emerging and foundational technologies that have fueled development and will be vital to future growth.[61] To address this concern, Japan's cabinet recently approved a bill that would give tax breaks to domestic firms investing in telecommunications and drone technology.[62] To stem Chinese acquisition of sensitive technology, last year Tokyo strengthened its investment screening regime and limited foreign students' access to certain research projects, modeled after similar rules adopted in the United States.[63] Tokyo is also one of the few countries to ban Chinese telecommunications companies Huawei and ZTE from building its fifth generation (5G) telecommunications network.[64]

Meanwhile, established Japanese infrastructure giants are often competing with upstart Chinese rivals for projects in regions where Japan was traditionally the primary source of infrastructure assistance, especially Southeast Asia. For example, in September 2015, the Indonesians awarded a high-speed rail project linking Jakarta and Bandung to a Chinese-led consortium, spurning a Japanese competitor and shocking Japanese officials.[65] In Africa, Beijing has used its Forum on China-Africa Cooperation to elevate big ticket infrastructure projects, stealing headlines from Japan's long-running Tokyo International Conference of African Development (TICAD). Not to be outdone by Xi, at the 2019 TICAD conference Abe vowed to surpass existing investment levels in Africa and stressed the benefits of sustainable lending and capacity building, an implicit contrast to Chinese financing.[66]

Some Japanese officials also worry that Beijing could soon use BRI linkages to help spread a digital yuan at the expense of the use and influence of the yen.[67] In response, they are encouraging the Bank of Japan to roll out its own digital currency, although central bank officials have equivocated.

Beneath the commercial competition in the marketplace lie major fault lines between Japanese and Chinese approaches to the rules and norms of economic activity. These include differences over the role of the state in the economy. To be sure, Japan's path to development in the last century was paved in part by government interventions in the market, and SOEs remain a significant feature of the Japanese economy. But the past few decades of Japanese economic policy have been marked by widespread privatization and deregulation, from telecommunications to financial services, and Tokyo has become a champion of greater disciplines on SOEs in trade agreements. By contrast, China has strengthened the role of the state in its economy and has been reinforcing interventionist policies in other countries.[68]

Sino-Japanese differences in approach to the economic rules of the road are also visible in the Abe administration's emphasis on high standards in infrastructure investment and on an open, market-based approach to digital governance. As discussed in the next section, Japan's international efforts in these areas are a thinly veiled effort to put a spotlight on the shortcomings of China's BRI practices and authoritarian tendencies in the digital realm.

Engaging, Hedging, Leading

The mix of gravitational and competitive elements in Japan-China relations poses a dilemma for Japanese diplomacy. On one hand, there is a strong incentive to maximize opportunities for cooperation and deepen economic integration; on the other hand, Tokyo wants to maintain a certain distance and manage downside risks in the relationship. In fact, even as it gets closer to Beijing, Tokyo is impelled to put a sharper edge on bilateral competition to prevent Chinese rules and norms from prevailing in the Indo-Pacific region and beyond.

Given these conflicting impulses, as mentioned above, Abe has adopted a three-pronged strategy toward China: first, stepped-up diplomatic engagement with Beijing, including more frequent exchanges of visits, launching of joint economic initiatives, and even increased confidence-building measures in the security arena; second, hedging and balancing, including active diplomacy with other democracies in the region and – critically – bending over backward to ensure continued U.S. engagement in Indo-Pacific affairs; and third, leading regional and global rulemaking efforts in the economic arena.

The diplomatic strand of the strategy got off to a slow start. Two years into Abe's second term as prime minister, he was able to muster only a half-smile during his chilly handshake with Xi Jinping at the 2014 APEC summit in Beijing. In the following five years, however, bilateral diplomacy has picked up substantially. Abe and Xi have met numerous times at international gatherings; Abe and his direct Chinese counterpart, Premier Li Keqiang, exchanged official visits in May and October 2018; and the two countries' foreign ministers have been frequent travelers to the other's capital. Although delayed by the novel coronavirus outbreak, Xi is scheduled to pay a much-anticipated state visit to Japan later in 2020, at which the two sides hope to sign a "fifth political document" strengthening the foundations of the bilateral relationship.

Several bilateral economic initiatives have already been launched during this period of increased diplomatic engagement. In April 2018, the two sides convened a High-Level Economic Dialogue for the first time in eight years.[69] Both capitals have engaged with each other through regional trade talks, including on-again-off-again trilateral talks with Seoul and the Regional Comprehensive Economic Partnership (RCEP).[70] Tokyo has also sought to capitalize on China's push to open financial markets. In December 2017, Japanese and Chinese financial authorities agreed to cooperate on audit oversight, which lowered renminbi (RMB)-denominated bond issuance barriers for Japanese companies.[71] Almost a year later, China and Japan announced a $30 billion currency swap line, the largest such deal conducted by Tokyo, and agreed on a host of other measures to further financial cooperation.[72]

Despite its refusal to join the Asian Infrastructure Investment Bank (AIIB) and initial skepticism about Xi Jinping's signature international economic endeavor, the Belt and Road Initiative, Japan has also leaned into BRI over the past two years.[73] Abe signaled a thawing of Japan's approach during the May 2018 visit of Li Keqiang when he said, "The possibility of cooperation will be explored on a case-by-case basis, under the proviso that openness, transparency, economic efficiency and financial soundness all accord to international standards."[74] At their meeting in China that autumn, Abe and Xi agreed to jointly pursue about 50 third-country infrastructure investments, including a major project focused on smart city development in Thailand.[75] On the margins of the same meeting, the Japan Bank for International Cooperation (JBIC) and the China Development Bank (CDB) signed a memorandum of understanding to provide joint loans for infrastructure projects in third markets.[76] Several prominent Sino-Japanese collaborative projects were launched or announced in 2019.[77]

The warming of bilateral ties has even extended to the security arena. In October 2019, Japan's Maritime Self-Defense Force and China's navy held their first joint military "goodwill exercises" in eight years.[78] Building on the cooperation, Japanese Defense Minister Kono Taro visited his Chinese counterpart, Wei Fenghe, in November 2019, the first visit to China by a Japanese defense minister since 2009. The two defense chiefs pledged to strengthen communication and accelerate efforts to launch a hotline to avoid accidental air and sea clashes.[79]

Some Japanese officials and scholars worry that Washington could view Abe's charm offensive with Beijing as undermining the U.S.-Japan alliance or the Trump administration's tough stance on China.[80] This concern is largely misplaced. Most knowledgeable Japan watchers in Washington understand the balancing act Abe is trying to maintain toward China. It is generally understood that Abe's *"honne-tatemae"* approach of putting on a façade of friendly relations *(tatemae)* masks his true feelings *(honne)* about the risks that a strong and assertive China poses. As a retired Japanese ambassador said, "We are not leaning into them; we are just trying to get the relationship back from negative to zero."[81]

Nevertheless, given Trump's 30-year concern about "ungrateful" allies – especially ones with large bilateral trade surpluses like Japan – Tokyo needs to be careful not to run crosswise of Trump on China policy. In addition, as Washington pursues an aggressive campaign to tighten controls on technology leakage to China (discussed below), Tokyo does not want to be seen by national security decisionmakers in Washington as at all untrustworthy because of its deepening economic and diplomatic ties with Beijing.

Abe's keen awareness of the risks of a rising China lies behind the second leg of his strategy: hedging. This has a number of dimensions. The first is frenetic diplomacy toward other countries in the Indo-Pacific region, especially democracies. Abe has traveled abroad more than any other Japanese prime minister, and a disproportionate number of these trips have been to other countries in the region. He has been to every Southeast Asian country – some multiple times –and has been a frequent visitor in Delhi and Canberra. Abe has a particular soft spot for India: in addition to frequent bear hugs with Prime Minister Narendra Modi, Abe has pursued a number of economic initiatives with the world's largest democracy, including Japanese funding for most of a $19 billion high-speed rail connection between Ahmedabad and Mumbai.[82]

The accent on rgional democracies is not accidental. Values-based diplomacy has been a consistent feature of Abe's prime ministership since his first term in office.[83] In 2007, Abe's foreign minister, Aso Taro, spoke of an "arc of freedom and prosperity" in Asia.[84] A white paper on Japan's ODA released in March 2013 prioritized democracy promotion over traditional Japanese aid priorities such as human security and hard infrastructure.[85] Then, in 2016, Abe announced his "free and open Indo-Pacific" vision, which is designed to promote rule of law, economic prosperity, and peace and stability in the region.[86] The Abe administration has been at pains to stress that this values-based diplomacy is not aimed at China, but given the content of these initiatives and the geographic "arc" on which they are focused, these efforts appear –certainly to Beijing – to be a deliberate form of hedging.

Perhaps in part to reassure Beijing, the Abe administration has also embraced regional trade agreements that include China. The most far-reaching has been RCEP, bringing together the 10 Southeast Asian countries plus Japan, China, and four other regional economic players. Even while leading a separate regional megadeal, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP, discussed below), Japan played a key role[87] in driving an RCEP deal to substantive conclusion at the end of 2019 (although Tokyo later balked because of India's withdrawal from the pact).[88]

Another dimension of Abe's China hedging strategy has been to work assiduously to keep the United States engaged in Indo-Pacific affairs. Abe understands that Japan cannot constrain China's ambitions for regional hegemony without a rock-solid alliance with the United States and deep U.S. engagement in the region. Like other Asian leaders, Abe sees the U.S. military presence in the Indo-Pacific as necessary but insufficient; Washington must also be engaged in regional institution-building, particularly shaping the economic and trade architecture.

Abe signaled his emphasis on pulling the United States more deeply into regional economic affairs early in his new term as prime minister when he decided in early 2013 to push for Japanese inclusion in the Trans-Pacific Partnership (TPP) negotiations. (In this, he was following the lead of his two DPJ predecessors, Kan Naoto and Noda Yoshihiko, who wanted no part of Hatoyama's East Asia Community and were eager to regain Washington's trust.) The Obama administration had made TPP the economic centerpiece of its "rebalancing" strategy toward the Asia-Pacific region. The inclusion of Japan not only gave the grouping substantial new economic heft but also firmly linked Washington and Tokyo as negotiating partners in pushing for high-standard trade rules. It worked: the original 12 members of TPP signed the accord in February 2016.[89]

The November 2016 election of Donald Trump, who had threatened on the campaign trail to walk away from TPP, forced Abe to rethink his strategy. He wasted no time traveling to New York even before the new president was inaugurated, to try to win Trump's favor, famously gifting him a golden golf driver. When Trump did in fact withdraw the United States from TPP on his third day in office, Abe initially tried to persuade the new president to rejoin but eventually realized that his appeals were falling on deaf – or even hostile – ears. Eventually, the Abe administration agreed to pursue a bilateral trade deal with the United States, the first phase of which was concluded in September 2019.[90]

Recognizing the Trump administration's limited appetite for multilateral trade initiatives, the Abe administration has sought common cause with the White House on other regional endeavors. With Japanese encouragement, the Trump administration adopted wholesale the banner of a "free and open Indo-Pacific" (FOIP) as the framework for its regional strategy.[91] In 2017, the two countries aligned with Australia and India to revive the "Quad" regional security cooperation arrangement that had been languishing for a decade.[92]

In the economic realm, Tokyo and Washington have placed emphasis on joint work on infrastructure investment, notably linking up their development finance institutions with Australia's to launch the "Blue Dot Network," an initiative designed to certify projects that meet certain high standards of transparency, sustainability, and developmental impact.[93]

A more pointed element of Tokyo's China hedging strategy has been to align with Washington on efforts to mitigate risks from Beijing's problematic policies. As mentioned earlier, trade ministers from the two countries have joined with their European counterpart to issue a series of trilateral statements over the past two years calling for a new, tougher approach to combatting excessive subsidies and support of SOEs by non-market economies; China is not mentioned explicitly but is the clear target of these efforts.[94] Tokyo has also followed the U.S. lead in tightening its domestic laws and procedures on foreign-investment screening and export controls – again a thinly veiled effort to prevent leakage of critical technologies to China.[95] And Japan has barred Chinese telecommunications giant Huawei from selling into its 5G network.[96]

The third leg of Abe's China strategy is stepping up to leadership on regional and global rulemaking in the economic arena. The open, market-oriented, rules-based system that has governed the global economy for 75 years has worked spectacularly well for Japan, helping it rise from the devastation of World War II to become one of the largest and most prosperous economies in the world. It is now clear to all that this system is under severe stress, its rules out of date or incomplete and under assault by the United States and China alike. Rather than wait for Washington to lead, as it might have done in the past, Abe has reluctantly assumed the mantle of champion of a rules-based economic order.

Abe's plan had been to work with the United States and the 10 other members of TPP – a group representing roughly 40 percent of the global economy – to put a stake in the ground on the kind of high-standard rules it hoped to see prevail in the 21st century economy. TPP included pathbreaking disciplines in the areas of digital trade, SOEs, and regulatory transparency, among others.[97] When Trump withdrew the United States from the agreement in early 2017, Abe decided to preserve as many of the rules gains as possible by getting the remaining 11 members of TPP to sign onto an all-but-identical agreement, CPTPP.[98] (In the wake of the novel coronavirus outbreak in early 2020, Tokyo began a new effort to pull other Asian countries –from Thailand to Taiwan – into CPTPP to diversify its supply chains and lessen dependence on China.[99]) Still hoping to pull the United States back into TPP eventually, Tokyo has been actively trying to extend the agreement's high-standard rules into other trade agreements, including one signed with the European Union in July 2018 and the bilateral deal with the United States.[100]

Beyond trade, Tokyo has taken the lead in promoting high standards in two other key areas of global economic activity: infrastructure investment and data governance. In 2015, Abe announced a Partnership for Quality Infrastructure (PQI), a $110 billion (later increased to $200 billion) package of loans and guarantees for investment in Asian infrastructure.[101] This was a thinly veiled response to China's launch of the AIIB that year with initial capital of $100 billion. In PQI and related initiatives, Japan has underscored the high quality of its investments, as measured by their life-cycle-cost-based procurement procedures, social and environmental safeguards, and attention to debt sustainability. As host of the G20 in 2019, Abe won other leaders' endorsement of these and related standards in a document entitled the "G20 Principles for Quality Infrastructure Investment."[102]

Abe has also championed open global rules for data governance. Some analysts have called data "the new oil" of the 21st century global economy.[103] There is a fierce contest among major economies – with the United States and Japan in one corner, the European Union in another, and China and India with their own approaches – over the appropriate balance between privacy protection and cybersecurity on one hand, and free data flows to enable commerce and other activities on the other. In a speech to the World Economic Forum in Davos in January 2019, Abe said he wanted the Osaka G20 summit "to be long remembered as the summit that started world-wide data governance."[104] As G20 host, Abe won endorsement of his concept of "data free flow with trust." The international debate over these issues has only just begun, but Japan is aiming to position itself as a leader in this arena.

Conclusion

The discussion of Japanese strategy toward China in this essay has largely focused on the approach of the current prime minister, Abe Shinzo. It is normally inappropriate for analysts to put so much weight on the policy of one leader, especially in Japan, where prime ministers in the postwar period have mostly come and gone without time to put their own stamp on foreign policy. But because of Abe's longevity and activism in foreign policy, the contours of his strategy are unusually well defined and worthy of exploration.

Still, after more than seven years in office – the longest tenure of any Japanese prime minister – Abe may well be nearing the end of his remarkable stint in office. There is great uncertainty about whether his successor will carry on his active and distinct approach to foreign policy, including his strategy toward China. But Japan's ambivalence about China's rise is deep seated and likely to continue beyond Abe's term. Any successor is likely to maintain at least the broad strands of Abe's strategy toward China: engaging where possible, hedging where necessary, and trying to uphold the international rules-based order. How effectively all of this will shape Beijing's behavior and tilt the balance in Japanese minds between enthusiasm and anxiety about China's economic rise, remains to be seen.

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