

A Realist Approach to Japan's Free and Open Indo-Pacific Strategy vs. China's Belt and Road Initiative: A Propaganda Rivalry⁺

*Masahiro Matsumura**
St. Andrew's University in Osaka
(Momoyama Gakuin Daigaku)

Abstract

In the shadow of China's rise involving relative US hegemonic decline, Japan is considered to have played supplementary and complementary roles to buttress the international status quo and to have been engaged in a geo-economic competition with China. Yet, in October 2018, Japan and China announced an about-face on their respective bilateral policy lines from competition to cooperation. This change begs the question of if the two in fact followed a competitive game at the grand-strategic levels. The study will cast a doubt about the assumed link of the two countries' declared policy lines and actual policy actions and argue for the case of a propaganda rivalry. This study will examine Japan's "Free and Open Indo-Pacific Strategy" against China's "Belt and Road Initiative" Strategy, with focus on their status within the respective national strategy systems, financial resources and funds, and project feasibility/viability. Then the study will identify some crucial factors of the two countries' setbacks and analyze their transitory reconciliation. This paper is intended to exemplify a realist approach to systematic and critical examination of "strategy", a most abused term, that often misguides foreign and security policy analysis.

Keywords: *Indo-Pacific Strategy, Belt and Road Initiative, propaganda rivalry, debt trap, transitory reconciliation*

1. Introduction

Over the last several decades, the dynamics of the world economy has gradually but decisively shifted its centre of gravity from the North Atlantic to the Indo-Pacific mega region. This metamorphosis has evolved out of highly synergetic trade, direct investment, economic aid and finance,

closely interconnecting not only the Asian subregions but also the Pacific and Indian Oceans.

Yet, uneven growth and development have drastically transformed the international distribution of power on which the existing international economic system is built. Notably, China has not only have taken full advantage of the existing system but also occasionally attempted to modify it in her favour. To buttress the status quo under US hegemony, Japan under Prime Minister Shinzo Abe has followed a “Free and Open Indo-Pacific Strategy” (henceforth, FOIP) for foreign economic assistance and cooperation.¹ The FOIP centres on investment to develop quality infrastructure, build resilient health systems and lay the foundations for peace and stability under Japanese and partner countries’ public-private partnership (Abe, 2016). It aims to counter China’s “Silk Road Economic Belt and the 21st Century Maritime Silk Road,” or “Belt and Road Initiative” strategy (henceforth, BRI),² that is geared to boost its power and influence.

In November 2018, however, the two countries officially announced an abrupt about-face on their respective bilateral policy lines from competition to cooperation. This change begs the question of if the two countries in fact had followed a competitive game at the grand-strategic level. To explore the essential feature of their strategic interaction, the study will cast a doubt about the assumed link of the two countries’ declared policy lines and actual policy actions and argue for the case of a Japan-China propaganda rivalry in the field. This study will appraise the FOIP’s countervailing effectiveness vis-à-vis the “Belt and Road Initiatives (BRI)” by making a comprehensive comparative analysis of their major concepts, formation and practice. The analysis will focus on their status within the respective national strategy systems, financial resources and funds, and project feasibility/viability. Then the study will identify some crucial factors of Japan’s and China’s setbacks and then analyze their transitory reconciliation and a ceasing of their propaganda rivalry. This paper is intended to exemplify a realist approach to systematic and critical examination of “strategy”, a most abused term, that often misguides foreign and security policy analysis.

In a realist paradigm, strategy guides instrumental-rational policy action that entails ideational and normative meanings. Thus, the realist approach of this study presupposes that the evolutionary practice of a strategy is based on rational calculations. Yet, such calculations will change in a dynamic international distribution of power, which will require adjusted articulations of a strategy to accommodate changes in inter-state interaction. In the approach, therefore, a strategy’s reconstitution, such as its redefinition and even re-designation, is deliberate and motivated by the transformation of international relations. This postulated causation will exclude the need to

turn to intersubjective understandings among state actors according to a constructivist approach, at least for the analytical purpose of this study.

2. The FOIP in Japan's National Strategy System

Japan's FOIP is the first official government strategy of a major regional power that treats the Indo-Pacific region as a single geostrategic area (Abe, 2016). Before that, "Indo-Pacific" existed on mental maps solely as a geographic concept, but not as an operational concept. In longtime understandings, the different Asian regions and the Asia-Pacific all have distinct and, quite often, unique dynamics of their own. Yet, with their growing interaction, there has emerged a confluence of two seas, or the Pacific and the Indian Oceans. Also, rising China has heightened geopolitical anxieties across these regions, metamorphosing them into a single highly interconnected mega region, or the Indo-Pacific (Abe, 2007; Clinton, 2010a, 2010b, 2011a and 2011b; Australia Department of Defence, 2013; Mirsha, 2013). Yet, the Barack Obama administration (2009-2017) failed to develop it into an operational concept for grand strategy.³

"Priority Policy for Development Cooperation FY 2017"⁴ is a mimeo of the International Cooperation Bureau of Japan's Ministry of Foreign Affairs (MOFA) that best explains basic concepts (including the FOIP's), key areas, actual aid disbursements by region, and key regional issues (Japanese Ministry of Foreign Affairs, 2016). It is neither a major publication of the Office of Prime Minister nor of the MOFA. It is subordinate to the Development Cooperation Charter of 2015 that replaced the revised Official Development Assistance Charter of 2003. The former emphasized the public-private sector partnership, while the latter focused more on official development assistance (ODA) policy proper.

Hence, as shown in Table 1: Japan National Strategy System, the FOIP is an operational strategy for ODA policy, neither a grand strategy nor a basic strategy. The national security policy area is most advanced in Japan's public policy making, at least in terms of consistency and coherence. Until December 2013 when *National Security Strategy* (NSS) was first published, postwar Japan had long lacked any meaningful grand strategy, except the less-than-300-characters-long Basic Principle of National Defense of 1957 that merely emphasized the importance of the United Nations and the Japan-US security treaty system. Nonetheless, Japan continuously relied on the US hegemon as its sole security guarantor, and formulated its defense strategy, known as National Defense Program Outline (NDPO) every ten years in principle, and its military strategy with arms acquisition plans every five years, known as Mid-Term Defense Plan (MTDP), followed by military doctrines as illustrated

Table 1: Japan's National Strategy System

LEVEL OF STRATEGY \ POLICY ISSUE	JAPANESE NATIONAL SECURITY	DEVELOPMENT IN THE DEVELOPING WORLD	JAPANESE ECONOMY
GRAND STRATEGY	National Security Strategy	None	Japan Revitalization Strategy
BASIC STRATEGY IN A FIELD	National Defense Program Outline	Development Cooperation Charter	Infrastructure System Export Strategy
OPERATIONAL STRATEGY	Mid-Term Defense Plan	Indo-Pacific Strategy	Indo-Pacific Strategy
IMPLEMENTATION GUIDELINES	Military Doctrines		

Note: This table is constructed by the author.

in annual *Defense White Papers*. With the NSS, Japan first got equipped with a complete strategy system in national security, at least in form (Matsumura, 2010, Ch. 11). In the ODA policy areas, however, there is no grand strategy.

Also, the FOIP is subordinate to the Infrastructure System Export Strategy of 2017, whose grand strategy is the anti-recession Japan Revitalization Strategy of 2016. The FOIP stands at the intersection of security, development, and economic/commercial strategies. To avoid likely conflicts and contradictions with the other strategies, the FOIP has to be incorporated integral to a grand-strategic NSS. Otherwise, the FOIP would render bureaucracies to pursue narrow development policy interests or be in thrall to narrow economic/commercial interests.

Even among limited Japanese-language literature on the FOIP, there is a serious dearth of systematic analysis based on the above national strategy system. Instead, the existing studies focus almost exclusively on its grand strategic vision that is designed to counter China under the BRI.⁵ Thus, it is necessary to examine the FOIP in its details.

3. The FOIP as a Counter-BRI Propaganda Offensive

In general, a strategy is formulated to reorient an existing policy line to meet new geostrategic objectives and/or to adjust new conditions. This often involves resource reallocation or administrative reorganization. The essential feature of the FOIP will be clear when it is contrasted to the NSS in these regards.

Evidently, the NSS is a systematic articulation of the longtime policy line that continued for several decades. Despite China's rise, the line has been largely effective due to the continued US hegemony. Japan has no new grand-strategic objectives nor conditions to cope with, rather must embrace the line that is underpinned by the domestic political regime under the postwar Pacifist constitution imposed during the postwar US-led occupation. Neither were there sufficient and additional fiscal resources for national defence due to very slow economic growth that is compounded by rapid greying, low birth rates and fast-growing welfare spending. With strong inertia reinforcing the line, therefore, the Japanese national security establishment saw the need to formulate a grand strategy to deter rising China and to strengthen the alliance with the sole US security guarantor (Matsumura, 2015, Ch. 9).

No wonder, the NSS has neither led to any major change in resource allocation nor in administrative reorganization. Certainly, Japan's Ground Self-Defense Force has undergone significant reorganization, redeployment and re-posturing, but the changes were already proposed with some significant details prior to the NSS. This means they could have been done according to a new NDPO and without an NSS. Contrarily, the NSS has introduced "proactive contribution to peace" as a basic concept that is designed to appeal to the public for domestic political support and to sell it internationally. Thus, the NSS is a propaganda instrument (Matsumura, 2015, Ch. 9).

Under very similar constraints and inertia, the FOIP is also a systematic articulation of the existing policy line that has evolved out of the last several years. There has been no significant strategic shift in the practice of Japan ODA policy, but rather outright reinforcement of it. Neither has it led to any significant change in resource reallocation⁶ nor to administrative organization. With the emerging regional focuses in ODA as coordinated with trade, public lending and direct investment, similar policy measures can be taken easily according to the existing Development Cooperation Charter, even without the FOIP. Contrarily, the Abe administration actively sold the FOIP internationally (Abe, 2016) and, to a lesser extent, domestically.

In formulating the FOIP, therefore, Abe relied on MOFA bureaucrats in aid and development for rhetorical manoeuvring and articulation that are largely constrained by the existing bureaucratic organization, policy programs and resources. Given new rhetoric without significant policy changes, the FOIP is an operational strategy serving as a propaganda countercheck against BRI offensives, neither a grand strategy nor a basic strategy in aid and development.

The above analysis begs the question of if Japan tries to employ the FOIP as propaganda countercheck against the material resources of the BRI, or if Japan is on the same playing field of propaganda vis-à-vis China.

4. The BRI in China's National Strategy System

“Vision and actions on jointly building Belt and Road” (NDRC, 2015) elucidates the BRI. It is geared to aggrandize China's power and influence through trade and investment over the Eurasian landmass and across the Pacific and the Indian Oceans. To realize this vision, it also includes a detailed, comprehensive catalog of key projects that focus on infrastructure building, industrial investment, resource development, economic and trade cooperation, and financial cooperation.

A quinquennial *Political Report* to the National Congress of the Communist Party of China provides a general overview on the country's political, diplomatic, economic and social circumstances, occasionally with a grand strategy. The *Report* of 2017 sets the long-term national goal to be an economic great power by 2050. It divides the process into two stages: the first to enhance its economic and technological power until 2035, involving more emphasis on the qualitative aspects of growth and development, and the second to attain adequate total national power and influence to lead the world by 2050.⁷ Achieving the goal will require the communist regime to shift the engine of growth from manufacturing to consumption and innovation, to carry out structural reform centred on elimination of overproduction and excessive debts, and to reinforce the open-door policy pivoting on the BRI. Also, the *Report* sets a mid-term approach in major policy areas for the following three to five years. It requires the regime to follow a soft line, cooperative and conciliatory approach to foreign economic policy issues, while, on sovereignty/territorial issues, shifting from the longtime low-profile to a hardline, assertive approach (Xi, 2017).

The BRI is assigned to be a pivot to China's foreign policy and identified as a new platform for China-led international cooperation (Xi, 2017). This is a departure from the *13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China* that prioritized domestic development (Li, 2016). Also, in October 2017, the Communist Party Constitution was amended to include the term, BRI, in general provisions. The amendment attaches political significance to the BRI, because the Constitution requires its continuation even after a change of leadership.

Obviously, the BRI is not only based on a grand-strategic vision but also includes supporting basic and operational strategies across policy fields (Swaine, 2014 and 2015). In fact, China has placed a clearer priority on the BRI under its grand strategy than Japan on the FOIP.

The above analysis will beg the question of if the BRI is well supported by an operational strategy and implementation guidelines that observe instrumental rationality, more specifically, if the BRI enjoys necessary funds and other resources and if individual projects possess adequate implementation feasibility and economic/commercial viability (Du, 2016).

5. The BRI as a Propaganda Offensive

5.1. Inflated Statics of China's GDP and Financial Resources

To carry out the grandiose BRI, China relies on its total economic power in general and funds in particular. Practically, their poor yet often used indicators are, respectively, the size of gross domestic product (GDP) and the amount of foreign currency reserves. They have shaped the world's highly positive perception on the BRI.

However, China's GDP is not reliable at all. Certainly, the country has achieved unprecedented rapid economic growth over the last four decades that human history has never seen. Moreover, China's GDP is now only second to the US, and will be extrapolated to surpass that of the US by 2050, making it the world's largest. Such an extrapolation, however, has never worked in history because high growth rates are not sustainable over an extended period due to structural bottlenecks. True, China long appeared as an exception because it took off at a very low level of economic development with vast surplus labour in the subsistence agricultural sector (Todaro, 1985, pp. 67-69). Yet, with the surplus labour running out, its annual growth rates have already dropped from double digits to 6.5% even according to the official statistics. A Japanese economist estimates that China has already undergone negative growth (Jonen, 2017). This observation is consistent with the variations of the so-called Li Keqiang indexes, namely, the railway cargo volume, electricity consumption and loans disbursed by banks (Sturgess, 2011).

The Chinese government finally made modest corrections to the severe overestimation of its GDP⁸ due to undeniable discrepancies among indicators (Kato and Mitsunami, 2016; Taniguchi, 2017). The central government depends on the provincial governments in collecting raw data for aggregation. Local officials are driven to report significant overestimates for their performance assessment and promotion under the communist regime that assigns them tasks to achieve high growth rates. Cumulatively for the last two to three decades, this has led to a gross overestimation of the GDP.⁹ By significantly inflating its GDP, therefore, the Chinese communist regime has misled the world to see that China has sufficient economic power for the BRI.

5.2. Fabricated Funds

China has to demonstrate that it possesses adequate financial capacity for the BRI. Given that Chinese yuan is not a hard currency, the size of China's foreign currency reserves is regarded as the indicator of such capacity.¹⁰ China boasts the world's largest foreign reserves, which was \$3.14 trillion dollars as of July 2018, followed by Japan's with \$1.21 trillion dollars (Loesche, 2018).

China's money supply in the yuan is based on the credit of the reserves, where the yuan is pegged to the dollar, given a high correlation of the dollar-yuan exchange rates and China's foreign reserves (Tamura, 2018b). This means that the more foreign reserves China has, more money supply in yuan is possible (Tamura, 2018a). China totally depends on the reserves for national economic management.

China's foreign reserves continuously increased for three decades until it peaked in 2014 with \$3.9 trillion dollars. Yet, it decreased sharply in 2015 and 2016, then around \$3.1 trillion dollars (Wei, 2017; Anonymous, no date). Obviously, it resulted from massive capital flight as a reaction to the initial reversal in early 2014 and the complete termination in October 2014 of US quantitative easing that aimed to cope with the financial crisis ensuing the bankruptcy of the Lehman Brothers in fall 2008. Also, the decrease triggered a sudden plunge of the already bubbled real estate markets, further accelerating capital flight (Tamura, 2016a; Musha, 2015; Anonymous, 2016). This resulted largely from quick exits of overseas investors from the Chinese markets. They are overseas Chinese and the wealthy in mainland China, particularly corrupted officials and "princelings" (kin of communist ex-mandarins) who invest by using paper companies located in tax havens, such as Hong Kong and the Cayman Islands and who quickly exit in the time of heightened risks (Tamura, 2018a; Barboza, 2012).

Surprisingly, as of September 2017, the size of China's foreign liabilities was 60% larger than that of its net foreign reserves, while the country had no other significant foreign credits (Tamura, 2018a). This can be well contrasted with the case of the world's largest creditor, Japan, as shown Table 2: A Comparison of China's and Japan's Foreign Credit/Liabilities and Foreign Currency Reserves in 2014. Before China faced serious capital flight, Japan's foreign reserves remained only about 42% of its net foreign credits, while the former of China was 221% of the latter. This attests to China's fabrication of reserves figures.

Table 2: A Comparison of China's and Japan's Foreign Credit/Liabilities and Foreign Currency Reserves in 2014 (in trillion US dollars)

	China	Japan
Gross Foreign Credit	3.45	7.56
Foreign liabilities	1.78	4.68
Net foreign credit	1.67	2.97
Foreign currency reserves	3.69	1.24

Source: Anonymous, 2015.

Clearly, China relies on foreign borrowings to buttress ample money supply in the yuan, without which it can hardly finance costly domestic and international economic policies, including the BRI nor can maintain regime legitimation, stability and survival. Thus, China will be cornered if its trade surplus and foreign reserves significantly diminish, such as when the EU markets undergo a recession and/or when its export to the US markets significantly declines. These circumstances will lead to a significant depreciation of the yuan that involves higher import costs of energy and other raw materials and then to the malfunction of China's export-led growth model. Now, China is increasingly cornered because the Trump administration has waged a full-scale trade war against it with substantially higher tariffs, and because it faces serious capital flight consequent on Trump's policy of large tax cuts and a temporary economic boom of the US economy. Thus, China's world largest foreign reserves do not signify its strength but vulnerability and internal weaknesses.

With the fabricated foreign reserves, therefore, the BRI is a castle in the air. Certainly, China bears some 31% of the capital subscription to the Asian Infrastructure Investment Bank (AIIB).¹¹ But China alone is unable to finance numerous large infrastructure and industrial development projects. The AIIB's prospect, therefore, remains slim given that Japan and the US, respectively the world's largest creditor and the key currency state with the world's most developed bond markets, have not joined in the AIIB.

5.3. Disregarding Project Feasibility/Viability

The World Bank, the Asian Development Bank, and other regional development banks have carried out many projects but only partially satisfied extensive demand for infrastructure and industrial investment in the developing world. These banks are prudent in investment by applying stringent economic, commercial, social and environmental criteria. Many project proposals were rejected, while numerous project possibilities were ruled out even from serious consideration.

In competing with the established players, therefore, China-led entrants have to take high risks. When investments become irrecoverable, China will be forced to take on large cumulative non-performing loans, eventually depriving China of a significant part of its foreign reserves. Thus, over a medium to long term, this will not only lower China's power and influence in world politics but also jeopardize its regime survival.

More specifically, the BRI puts a major focus on building highways and railways across the Eurasian landmass. Yet, overland transportation is far more costly than maritime transportation. High load capacity by freighter,

container ship, and oil/gas supertanker outdoes low load capacity by faster heavy truck and large freight train. Overland transportation cannot match air transportation in the light of speed, either. Indeed, overland transportation is only cost-effective for landlocked countries in the Eurasian heartland. But an overwhelming portion of high load transportation is by sea between population and industrial centres that are located on Eurasia's coastal regions and off-shore islands. In fact, China has expended significant subsidies on which the continued use of ambitious trans-Eurasian railways in the making depend (Briginshaw, 2018; Hillman, 2018).

Notably, these railways consist of three corridors. The northern corridor joins the Trans-Siberian Railways, while the middle corridor runs from China through Kazakhstan. A nascent southern corridor could run from China through Central Asia, Georgia and Turkey. They demand massive investment for significant hard and soft infrastructure improvements, particularly removing those obstacles centred on change of gauge between former Soviet states and the others (Briginshaw, 2018; Hillman, 2018).

Still, China can build the trans-continental railroads, if it can finance necessary funds for construction and operational subsidization. Yet China has to look to international financial markets, except limited short-term funds that are contrived from the fabricated foreign reserves. Certainly, the AIIB now enjoys the highest credit-rating of three major private sector credit-reference agencies, enabling China to raise funds through the markets (AIIB, 2017, 2018a, and 2018b). However, the rating is based on the agencies' appraisals of AIIB's co-financing practice, primarily, with the World Bank and the Asian Development Bank (ADB). For the first operational year until June 2018, the AIIB invested only \$5.4 billion US dollars while the ADB invested \$30 billion. In addition, among only 29 projects adopted in the period, the AIIB was only a minority co-financer (Sasano, 2018), because it lacked adequate necessary staff and expertise. The AIIB's highest credit-rating is not indicative of its own. Probably, the AIIB takes advantage of co-financing to window-dress its credit-rating. Once shifting into unilateral financing, the AIIB would lose the highest rating, facing difficulties to raise funds through the markets.

In a nutshell, the BRI aims to achieve grandiose goals incommensurate to China's economic power and financial capacity. Also, it disregards project feasibility/viability, and takes unduly high risks. Certainly, few strategies are perfect, but the BRI constitutes a gross disregard of instrumental rationality. The BRI is not a strategy in the standard meaning, rather a persistent collective wish of the world's largest population under the communist dictatorship that chases "China dream" to be a superpower. Yet, the grandiose goals and seemingly rosy plans have lured many states into BRI projects. This begs the question of if the world will disillusion itself from China's deception.

6. China's Setbacks

6.1. "Debt Trap"

Some major investee states have postponed, suspended, or even cancelled BRI projects.¹² The circumstance is a belated manifestation of China's instrumental irrationality in its propaganda-driven strategy-making. There are the following striking cases of China's investee states that have suffered grave economic injury, damage and loss, which would possibly lead to socio-political destabilization and environmental degradation (Throne and Spevack, 2017).

In August 2018, Malaysia once cancelled for renegotiation the 20 billion US dollars high speed railway project and the 2.5 billion dollars gas line project to minimize its debts and loans.¹³ Malaysia underwent a change of government after an extended domestic political strife that centred on the pros and cons of the projects. The new government judged that the country would be heavily indebted, financially over dependent on China, and risk its bankruptcy. The country saw the BRI as "a new version of colonialism" (Brugen, 2018).

The Maldives took advantage of BRI projects to build infrastructure including roads, bridges, an airport, a power plant, water and sewage treatment plants, together with multiple housing projects and hotels that are incommensurate to the country's needs and economic capacity. Now the Maldives suffers China's "debt trap" with cumulative debts amounting to at least \$1.5 billion US dollars, while accruing interests with high rates. The debts reached 60% of its GDP by the end of 2018 and will be 121% by 2020. The debts will never be payable given that the country has less than \$100 million dollars as monthly government revenue primarily from the tourism industry. The Maldives has growing concern to lose their control over the Maldives International Airport, because the country will most likely have to reduce the debts by either giving China a long-term lease of the airport or a majority stake of the airport corporation (Anonymous, 2018a; Gangadharan, 2018).

Similarly, Sri Lanka has fallen in China's "debt trap" due to the over-ambitious Hambantota Port Development Project. The country vainly renegotiated on debt erasing, rescheduling, and additional financing, but ended up being in more debt with higher interest rates. Sri Lanka was forced to hand over the port and 15,000 acres of land around it for 99 years in December 2017. In 2018, it expected to generate \$14.8 billion US dollars in revenue vis-à-vis \$12.3 billion for the scheduled debt repayments. It can hardly pay even interest charges, let alone capital repayment. Consequently, Sri Lanka has been increasingly subjugated to China (Abi-Habib, 2018).¹⁴

Likewise, Laos is falling in China's "debt trap", indebted above 60% of its GDP already in late 2017 and, surely, 70% by 2022. Laos spent \$5.8

billion US dollars, about a half of its GDP, for the high-speed railway project connecting Kunming in southern China and the Laotian capital of Vientiane. Given no railways in Laos, its success depends totally on the grandiose vision to stretch the link all the way to Singapore. The debts will be hardly repayable given that the country will surely remain a least developed country in 2020 (Hutt, 2018; Tani, 2018).

With a strong warning on China's "debt trap" (Ming, 2018), existing and potential investees in the Indo-Pacific region are hastily turning away from the BRI, while European countries are becoming increasingly critical of it (Prasad, 2018).¹⁵

6.2. The Intensifying Trade War with the US

The Trump administration has waged a comprehensive economic warfare and taken propaganda countermeasures against China, while committed to significant strengthening of US military power (Pence, 2018). Edward Luttwak sees that this new approach will most likely persist even after the administration, because it is based on an emerging broad Washington consensus on the nature of the Chinese communist regime and policies.¹⁶

The Chinese economy depends on international trade, with its foreign reserves accrued in significant part from exports to the United States. In May 2018, the US demanded that China cut a trade surplus of \$100 billion dollars over the following one year and another surplus of \$100 billion for the second year. This is leading to significant pull-outs of US subsidiaries from China (Anonymous, 2018b). The US then demanded that China stop infringing US intellectual property rights and forcing US companies to release their high technologies to Chinese partners, and that China expand US agricultural and energy imports.¹⁷

China is highly vulnerable to the US given that it exports far more to the US. When the two countries mutually impose higher punitive duties, China cannot simply retaliate tit-for-tat against the US. Given the huge trade imbalance, the US continually imposed punitive duties on \$34 billion and \$16 billion Chinese imports respectively on July 6 and August 23, 2018. Then the US declared to impose those duties on \$200 billion on September 24, 2018, when China failed to meet US demands.¹⁸ President Trump is prepared to put additional duties on \$300 billion. Then the total size of tariff sanctions would amount to duties on \$550 billion in Chinese imports that would be larger than its actual size in 2017.¹⁹

Given China's current account surplus of \$120 billion, the country will surely face a serious diminution of its foreign reserves and then run out of funding for BRI projects, unless it relies more on foreign currency borrowings that will most likely be unrepayable. Then because the yuan is

pegged with the dollar and because China's money supply totally depends on the reserves, China will be forced to tighten its monetary policy. This will burst its bubbled real estate markets and cause huge non-performing loans of financial institutions (Tamura, 2018b). Thus, Trump's trade war will necessarily terminate China's high economic growth as the base of general economic capacity that have lured many states to follow the BRI.²⁰

In sum, the BRI is faltering because the major grounds of its propaganda on which it is built – adequate general economic capacity, financial resources and positive development effect – have increasingly broken down.

7. Japan's Setbacks

As discussed earlier, the FOIP is a primary countermeasure against the BRI on the playing field of propaganda. The FOIP is designed to supplement and complement the relative decline of hegemonic US influence in the Indo-Pacific region. The FOIP matches Japan's dependence on the US as its sole security guarantor, as long as the US remains willing to preserve its hegemony.

But President Trump withdrew from a US-led Trans-Pacific Partnership Agreement (TPP) in the making, a primary counterweight against growing China's economic power and influence in the Asia-Pacific region in general and a China-advocated Regional Comprehensive Economic Partnership (RCEP) in the making in particular. Given that a US return is highly unlikely, the 11 TPP nations will probably be a geo-economic league of small and medium-sized powers, with some western Pacific maritime nations at the core and Japan as the largest economy. Now Japan is being pressed to shoulder some geo-economic burden independent of the US.

In December 2017, the Trump administration announced its own first *National Security Strategy* mentioning the Indo-Pacific region. Yet, it follows the "America First" line focusing primarily on military security and lacks necessary development policy guidelines and resource commitments. This necessarily led to Abe's concern that the US would possibly subcontract to Japan to counter the BRI, involving a geo-economic, not propaganda, rivalry against China.

The concern was reinforced by Secretary of State Michael R. Pompeo's address of July 30, 2018 about the US Free and Open Indo-Pacific Strategy. It announced spending only \$113 million dollars to invest in digital technology, infrastructure and energy projects (Pompeo, 2018) in contrast to China's massive spending for BRI projects.²¹ This has pressed Japan alone to bear full financial burden to counter the BRI until the US takes effective institutional and funding measures.²²

This made it very difficult for Abe to continue the propaganda-focussed FOIP, particularly because, after having soured its trade relations with China

and major European allies, President Trump informally declared a trade fight against Japan and demanded a significant cut of its trade surplus with the US (Freeman, 2018).

8. Sino-Japanese Transitory Reconciliation

Clearly, the FOIP and the BRI underwent their respective setbacks. Thus, Japan and China increasingly needed a temporary truce in the self-injurious propaganda rivalry. Yet, neither is willing to accept the other's regional ascendancy. Such a truce will not change Japan's reliance on the US global hegemon as its sole security guarantor, particularly against China bent on a regional hegemon. Nor will it change China's approach to Japan as its prime regional competitor.

Expectedly, Japan and China reached a temporary, partial, and limited reconciliation in the structure of bilateral strategic competition.²³ From October 25 to 27, 2018, Prime Minister Abe paid an official visit to Beijing.²⁴ On 27th, Abe and Chairman Xi reaffirmed the reconciliation, involving the shift from competition to cooperation, while expressing their support for the existing multilateral free trade system. On 26th, the two countries' central banks concluded a new currency swap agreement with the maximum credits worth some \$30 billion dollars, tenfold as much as the expired one.²⁵ Notably, it is necessary in the event of a likely liquidity crisis because China's foreign reserves was significantly diminished under the intensifying trade war with the US. The circumstance increasingly cornered China that is dependent totally on the reserves. No wonder, China approached Japan for a temporary reconciliation (Wang, 2018). Then, Abe and Premier Li agreed to open a hot line between the Air and Maritime Self-Defense Forces and their Chinese counterparts, and concluded a dozen of agreements and memoranda on cultural exchange, economic, commercial, industrial and technological cooperation, and maritime search and rescue, while announcing a complete termination of Japan's aid to China.²⁶ Also, Japanese and Chinese public institutions/corporations and private sector companies concluded 52 memoranda of understanding regarding specific infrastructure projects in developing countries.²⁷

Yet, this move was by no means Japan's unilateral concession. Japan aimed to avoid excessive competition against China in getting orders of infrastructure projects, while compelling China to observe highly transparent investment rules. Otherwise, investees would surely take advantage of excessive Japan-China competition to unduly obtain low interest rates of lending and other favourable terms of cost burdens.²⁸ Chinese investors and contractors would ignore project feasibility and viability but prioritize closing deals and strengthening their political influence, while Japanese investors would lose in close competition. Thus, Japan plays a dynamic plus-sum game

in which to check China at the project level while sharing project costs with China: a tactic in the context of bilateral geo-economic competition.

Notably, soon after his return from Beijing, Abe welcomed Indian Prime Minister S.N. Modi's visit to Tokyo on November 28-29. They agreed to strengthen the bilateral relations toward a free and open Indo-Pacific region, with the Japan-India Vision Statement that includes an extensive list of security, economic and cultural cooperation as the one with China.²⁹ This move reinforced Japan's geo-economic competition with China and balanced out the counter-US soft-balancing effect of the Japan-China reconciliation in the context of the US-China hegemonic rivalry.

In sum, Japan and China have increasingly accelerated their transitory reconciliation in the propaganda rivalry of the FOIP and the BRI. The two "strategies" may appear to retain their full impetus, but in fact have undergone serious setbacks, and are now decelerating and even stalling. The reconciliation may progress or reverse, depending on the state of the US hegemony, US hegemonic policies (such as the trade war against China and, possibly, one against Japan), and US buck-passing of hegemonic burden to Japan. Japan remains firmly committed to the bilateral alliance with the US hegemon, but obviously has begun hedging against risks in the emerging multipolar world in which Japan may have to stand up alone as an independent pole. As of July 2019, even considering the intensifying US trade war against China and growing US pressure to Japan in bilateral trade negotiation, the analytical approach of this study remains effective to comprehend the evolving geo-economic relations of the three countries.

9. Conclusion

Hitherto, this study has appraised the FOIP's countervailing effectiveness against the BRI by making a comprehensive comparative analysis of their major concepts, formation and practice. Then the study has identified some crucial factors of Japan's and China's setbacks, analyzed their transitory reconciliation in 2018, and argued for the case of a Japan-China propaganda rivalry.

Most notably, this study has revealed that the FOIP and the BRI are mere propaganda instruments. Certainly, both are built on geo-economic grand-strategic visions referring respectively to the Indo-Pacific mega-region and the continental and maritime silk roads, which has considerably framed the world's strategic thinking and discourse with the image of a great chess game. Yet, neither one of the two is well constructed to achieve grand-strategic objectives, without necessary financial, human and/or organizational resources for planning and implementation. The analysis has found that the FOIP stands alone without being cogged into a grand strategy, while the BRI

ignores the pivotal importance of operational strategy and implementation guidelines.

Methodologically, this study has applied the analytical concept of the national strategy system to two cases: the FOIP and the BRI. The study has located where they stand in the system's hierarchical chain of grand strategy, basic strategy in a field, operational strategy, and implementation guidelines. The analytical focus has been placed on the assumed link across the chain in the light of instrumental rationality that requires the integral coherence and consistency of ends and means. Then the study has identified critical missing links in the chain. More specifically, both lack not only adequate economic power and capacity to achieve their respective grand-strategic visions but also subordinate strategies and implementation guidelines that are equipped with necessary measures and resources. Both are mislabelled as "grand strategy" and misunderstood world-wide as effectual.

Rather, the study has found that the FOIP and the BRI are veiled propaganda instruments given their refined rhetorical manoeuvring, policy documentation and loudly trumpeted international public relations campaigns. The BRI was very effective until very recently in covering up China's weakness and structural vulnerability, playing them up as its strength and advantage by employing the fabricated statistics of macro-economic indicators, and thereby luring many states to cooperate with the country. The FOIP was an effective countermeasure in kind against the BRI by systematically articulating the existing policy line in aid and development. No wonder, China earlier changed the English translation of the "One Belt One Road" (OBOR) strategy to the Belt and Road Initiative, without changing its original name in Chinese, in order to mitigate the world's concern over China's hegemonic ambition (Bērziņa-Čerenkova, 2016). Similarly, Japan only nominally degraded the FOIP to the Free and Open Indo-Pacific Vision in November 2018 after it ceased the propaganda rivalry with China, while thoroughly retaining all the other substantive aspects of it.

This study is intended to exemplify a realist approach to systematic and critical examination of a strategy, with a major focus on differentiating what is a strategy and what is not. The approach is illustrative of the case of a gross abuse of the term that misguides foreign and security policy analysis, and is useful to rectify misled discourse on strategies. Also, this study has demonstrated the case in which strategy documents are in fact used as propaganda instruments, while their active uses constitute a form of propaganda rivalry.

More specifically, the study has first clarified the ideational and normative meanings of FOIP and BRI, and then analyzed rational strategic calculations behind the practice and adjusted articulation of the two strategies. The study

has found the articulation deliberate and motivated by the overarching transformation in the global distribution of power, brought about by the Trump administration's America First focus, push-back against China, and veiled threats to economically counter Japan. This enables to explain why Japan and China have sought to reconstitute their definitions or even designations of the two strategies – OBOR to BRI and FOIP to Free and Open Indo-Pacific Vision – without turning to their intersubjective understandings of the strategies according to a constructivist approach.

This case study has presented a fresh vantage point from which to look at the nature and limit of China's and Japan's strategy-making capacities and to analyze their bilateral interaction given the constraints. The study has shown that China is in fact unexpectedly poor at strategy-making but exceptional in propaganda manoeuvring, which is consistent with the general understanding that the communist dictatorship has long attached great importance to propaganda in pursuing its regime survival and external offensives (Luqiu, 2018; Brown, 2016; Pillsbury, 2016, Ch. 2). On the other hand, Japan is found to have been good at proactively taking an effective propaganda counter-measure, despite its general image of being a "reactive state" (Calder, 1988). Last but not least, the study has cast a light on propaganda rivalry as an important dimension of Japan-China relations that has long been overlooked in the international epistemic community, and hopefully will invite further intellectual inquiry.

Notes

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^{*} Masahiro Matsumura is Professor of International Politics at St. Andrew's University in Osaka (*Momoyama Gakuin Daigaku*). He holds an M.A. in political science from Ohio University and a Ph.D. in government and politics from the University of Maryland – College Park. He has experienced visiting fellowships at the Brookings Institution, the Heritage Foundation, the Cato Institute and the US National Defense University Institute for National Strategic Studies. His articles appear in *Survival*, *Defense Analysis*, *Jebat* (UKM), *Austral* (UFRGS), and *International Journal of Korean Unification Studies*, among others. He specializes in national security, international political economy and development, and Japan-US alliance. He can be reached at <masahiro@andrew.ac.jp>.

1. Since November 12, 2018, the FOIP has been officially renamed as "Free and Open Indo-Pacific Vision".

2. This strategy in Chinese language is 一带一路 (*yi dai yi lu*) was originally translated verbatim as “One Belt One Road”. This paper’s analysis will analyze China’s purpose to have changed the term’s English translation.
3. *National Security Strategy* of 2010 and 2015, *Quadrennial Defense Review* of 2010 and 2014, *National Military Strategy* of 2011, and *Defense Strategic Guidelines* of 2012, did not refer to “Indo-Pacific” as an operational concept.
4. This is an expanded version of Japan’s Foreign Ministry publication, *White Paper of Development Assistance 2016*, pp. 15-17.
5. Earlier in 2015, Japan Institute of International Relations, the MOFA’s de facto research arm, published a comprehensive comparative study on the concept and implications of “Indo-Pacific” (JIIR, 2015). As of July 2019, the most widely used Japanese-language database, CINII (Scholarly and Academic Information Navigator), only identifies 21 articles as related to the FOIP strategy. One article by the immediate past President of Japan International Cooperation Agency points out that the FOIP has yet to be organically related to the National Security Strategy (Tanaka, 2018), while the others primarily discuss its vision, related international relations, and general policy implications.
6. Certainly, the MOFA has requested 14% more for ODA budget in FY2019 than in FY2018, but the increase remains marginal in the light of the overall continuous downturn since 1997. *Sankei Shimbun*, August 31, 2018, retrieved from <<https://www.sankei.com/politics/news/180831/pl1808310054-n1.html>>.
7. A leading pro-regime scholar denies China’s geo-economic ambition to compete and replace the US hegemon, instead its commitment is to free trade and global development (Yan, 2019, p. 42).
8. *Nikkei Shimbun*, January 26, 2018, February 2, 2018 and March 16, 2018.
9. A Japanese analyst concludes China’s real GDP is half as much as in the official figures, slightly smaller than Japan’s. His analysis emulates Andrew Marshall-led Pentagon’s approach that refuted CIA’s gross overestimation of the Soviet Union’s GDP, which turned out to be correct as demonstrated by its collapse due in large part to excessive economic burden of arms race with the US. Clearly, China has far less general economic capacity to realize the BRI than generally understood (Jonen, 2017; Krepinevich & Watts, 2015, pp. 295-302).
10. China’s foreign reserves include not only trade surplus and foreign direct investment but also foreign loans, all of which the People’s Bank of China compulsorily buys up for state exclusive fund management.
11. Retrieved from <<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>>.
12. *Nikkei Shimbun*, October 12, 2018.
13. On April 12, 2019, to restart the projects, Malaysia and China agreed a significant cost reduction and local subcontracting that are favourable to Malaysia. *Nikkei Shimbun*, April 13, 2019.
14. As of 2017, there were thirteen cases of China-financed overseas port development projects that faced similar risks (Thorne & Spevack, 2017).
15. China is still reinforcing its BRI propaganda, especially to Africa where leaderships and peoples are largely uninformed of the circumstances or ignore the costs for political expediency (Wu, 2018; Anonymous, 2018c; Zhao, 2018).

16. *Yomiuri Shimbun*, October 13, 2018.
17. *Sankei Shimbun*, May 27, 2018. *Nikkei Shimbun*, August 23 and September 25, 2018.
18. These duties were imposed effectively on May 10, 2019. *Nikkei Shimbun*, May 11, 2019.
19. In 2017, the US ran a trade deficit of \$375 billion dollars with China while China had a trade surplus of \$120 billion with the US. *Sankei Shimbun*, May 27 and July 22, 2018.
20. This prospect has been reinforced by the additional 25% punitive duties on \$200 billion dollars in Chinese imports that the Trump administration put into effect on May 10, 2019. *Yomiuri Shimbun*, May 11, 2019.
21. China spent \$90 billion over 2013-2018. See, *Yomiuri Shimbun*, May 13, 2019.
22. The Trump administration also announced \$3 billion dollars for security-related assistance to Pacific countries' coast guards and the Bangladeshi and the Sri Lanka's navies. *Sankei Shimbun*, August 6, 2018. At the time of Pompeo's address, the Congress was deliberating a bill which later passed on October 5, 2018 as the Better Utilization of Investment Leading to Development (or BUILD) Act that would allocate \$60 billion dollars for US government's development finance capacity. Yet, additional legislative measures of building a new US development agency and authorization are essential (Runde and Bandura, 2018). The administration puts a very heavy focus on security, not development, aspects on the Indo-Pacific Strategy (US Department of Defense, 2019).
23. The period from May 2017 to November 2018 saw hyper-dynamic interactions between Japan and China. The interactions followed a step-by-step approach that began with Japan's subtle signals to China, followed by bilateral summit meetings and those at the margins of multilateral fora, such as G-20, APEC, and ASEAN Foreign Ministerial Meeting that gradually confirmed and reinforced the common lines of conciliation (Abe, 2017, 2018a; Kono, 2018). Also see: Liberal Democratic Party (LDP) Secretary General, Toshihiro Nikai's visit to Beijing, *Nikkei Shimbun*, May 14, 2017; and, Director of Japan's National Security Secretariat, Shotaro Yachi's visit to Beijing, *Mainichi Shimbun*, February 24, 2018; *Remin-Wang* (Japanese edition), February 24, 2018, retrieved from <<http://j.people.com.cn/n3/2018/0224/c94474-9429673.html>>; Japan-China Summit Meeting, July 8, 2017, retrieved from <https://www.mofa.go.jp/a_o/c_m1/cn/page4e_000636.html>; Japan-China Summit Meeting, November 11, 2017, retrieved from <https://www.mofa.go.jp/a_o/c_m1/cn/page4e_000711.html>; The Fourth Japan-China High-Level Economic Dialogue Joint Press Statement, April 17, 2018, retrieved from <https://www.mofa.go.jp/a_o/c_m2/ch/page23e_000521.html>; and, Overview of the Third Japan-China High-Level Economic Dialogue, August 28, 2018, retrieved from <<https://www.mofa.go.jp/region/asia-paci/china/dialogue1008.html>>.

With the line of reconciliation set, further interactions led to specific planning for policy coordination and cooperation, followed by a series of interim and formal agreements for specific policy measures. See, LDP Secretary General Nikai's visit to Beijing, *Jiyuu Minshu (Liberal & Democratic)*, September 11, 2018; Bilateral consultative talk on financial cooperation, *Sankei Shimbun*,

- August 31, 2018; China's Premier, Li Keqiang's visit to Japan, May 1, 2018, retrieved from <https://www.mofa.go.jp/press/release/press4e_002020.html>; the list of documents signed by Premiers Abe and Li, May 9, 2018, retrieved from <https://www.mofa.go.jp/mofaj/a_o/c_m1/cn/page4_003999.html#section13>; Abe's statement, May 1, 2018, retrieved from <https://www.mofa.go.jp/mofaj/a_o/c_m1/cn/page4_004097.html>; Li's statement, May 1, 2018, retrieved from <https://www.mofa.go.jp/mofaj/a_o/c_m1/cn/page4_004095.html>; and, "Results of the first meeting of the Japan-China Committee on the Promotion of Private Sector Business in Third Countries", September 25, 2018, retrieved from <https://www.mofa.go.jp/mofaj/press/release/press4_006466.html>.
24. The 8th LDP-Chinese Communist Party Exchange Council held in Tokyo on October 9-10 adopted the joint communique reaffirming the built-up line since May 2017 for the Abe's visit. *Jiyuu-Minshu*, October 23, 2018.
 25. Retrieved from <http://www.boj.or.jp/announcements/release_2018/rel181026b.pdf>.
 26. Retrieved from <https://www.mofa.go.jp/mofaj/a_o/c_m1/cn/page4_004452.html>.
 27. Retrieved from <https://www.kantei.go.jp/jp/98_abe/statement/2018/1026_daisangoku.html>. *Yomiuri*, October 27, 2018.
 28. *Nikkei Shimbun*, September 4, 2018.
 29. Retrieved from <<https://www.mofa.go.jp/mofaj/files/000413507.pdf>>.

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