



Japan-US-China Relations in the Indo-Pacific Region

An interview with Sasae Kenichiro, President and Director General of the Japan Institute of International Affairs (JIIA)

Conflict between the United States and China is becoming a contest regarding the international order. What should Japan, the US, and China do in order to engage in regional confidence building? In short, strenuous efforts based on Japan's diplomatic principles are needed.

Interviewer: Editorial staff of *Gaiko* (Diplomacy)

— What does “Free and Open Indo-Pacific (FOIP)” mean for Japanese diplomacy?

Sasae Kenichiro: Different people in different positions and with different views will think of it in different ways: as an initiative, a design or a strategy. But I am of the opinion that it is the principle of Japanese diplomacy, a standing to which Japanese diplomacy should always return.

Needless to say, “Free and Open” is the value that constituted the basis that enabled Japan to restart from its defeat in World War II around seventy years ago. It is the precise philosophy that supported postwar Japanese economic growth. It can be said that democracy in terms of politics, market economy and free trade in terms of the economy and the establishment of free navigation and the rule of law as international norms and standards on the basis of regional peace and stability are an axis of the coordinates of Japanese diplomacy. I think that FOIP is of major significance in that it provides Japan with the opportunity to reconfirm its position.

For these reasons, FOIP does not have particularly new implications in terms of individual elements. But the fact that it has particularly modern implications indicates that these principles upon which Japan takes its ground are being eroded in current international affairs. This is why FOIP is now attracting fresh attention.

— If you define FOIP as the value and principle of Japanese diplomacy, Japan's relationships with countries that cannot share it, such as China, will be difficult, won't they? In fact, some think of FOIP as an encircling net against China.

Sasae Kenichiro: I do not think that FOIP is and should be an antithesis against China. This is a matter of the standing of Japanese diplomacy, and it is like a criterion when we evaluate our policies, remarks and actions.



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Today China is increasing its presence as an important player in terms of diplomacy and security as well as the economy. In this situation, there is criticism of the Chinese performance in the economy and trade. China's expansionist policy, including the South China Sea, is also seen as a problem. I know that China has its say, but Japan should demonstrate its stance, encourage China in that direction and persuade it to join us. On the other hand, our principles will be unshakable because our friendship with China is important. It is true that today's China often makes remarks and takes actions that run counter to FOIP, but the concepts behind FOIP are never intended to confront China.

Jolted free trade system and US-China rivalry

— One of the most important elements of FOIP is free trade. However, it has now been strongly jolted.

Sasae: A free and open economic order was the foundation for the development of Asian countries after World War II. The waves of this development rippled throughout the so-called Asian Newly Industrializing Economies (Asian NIEs, Four Asian Tigers) and then Southeast Asia. China is also a country that developed under this free trade system.

In fact, however, free trade entails numerous restrictions due to the development phases and domestic circumstances of individual countries. Postwar Japan was also criticized for its insufficient opening of the market under the umbrella of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). In the process of overcoming this situation, Japan made the value of freedom inherent.

Currently, the global Doha Development Round of the WTO has stagnated, and the world is standing at a significant crossroads over the question of how to maintain a free trade system in this situation.

Through the Pacific Basin Cooperation Concept proposed by the Ohira Masayoshi Administration in the 1970s and the Asia-Pacific Economic Cooperation (APEC) in the 1980s, Japan ensured that free trade took hold in Asia. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, so-called TPP11), which came into force in 2018 with eleven signatories, is also part of this process. Disappointingly, the United States is not a signatory to the agreement, but it would be possible to use this as leverage for developing a free trade system in the Indo-Pacific region. In fact, some countries took interest in TPP11 and began to consider joining it. In addition, the Regional Comprehensive Economic Partnership (RCEP) encompasses China, Southeast Asia and India. To promote high-level economic liberalization through these systems is precisely the appropriate policy and the core strategy based on FOIP. In this sense, FOIP sends messages to both China and the United States.

— The relationship between the United States and China, which are important states that hold the key to predicting how a free trade system will fare, is worsening.

Sasae: The future prospects of the US-China trade friction since 2018 are uncertain with the exchange of additional tariffs. At the US-China summit that was held in December the same year in line with G20 Buenos Aires Summit, the problem was postponed for once, with the US allowing a ninety-day delay for additional tariffs on China. However, it is impossible to predict what compromises the two countries will make by March 1, 2019.

For its part, the United States notes that China claims to be a developing country and enjoys special different treatment; China neglects to open its market commensurate with its economic development. In addition, the United States is dissatisfied with the unfair economic system of China with the presence of state-owned companies and nontransparent subsidies. On the other hand, China claims that the fact that the US is one-sidedly raising tariffs like pinpointed tactics in bilateral negotiations is a violation of the WTO. These two countries have their own opinions, but whether or not they can improve the situation by controlling themselves will have a huge impact on the future prospects of a free trade system.

—— Will both countries be able to act with self-control?

Sasae: For the time being, the focus is on how China will respond to the Trump administration's hard line against it. The point is whether or not China will be able to think of this rivalry as an opportunity to reform itself and act with self-control; in other words, whether or not the Chinese government will be able to manage its economy in a more open manner than it currently does. My answer in response to this question is, "It depends."

For example, regarding the opening of the market, it is unnatural for China to maintain high tariffs despite its large surpluses. Naturally, China should move to reduce its tariffs. Japan also made an effort to open its market to the United States from the late 1980s to the early 1990s with a massive amount of surpluses. Domestically, market opening will deal a blow to some industries. But because there are also many fields where China enjoys competitiveness, I do not think that the issues of protecting intellectual properties, transferring technologies, non-tariff barriers and opening markets in particular service sectors of current pending problems will be so difficult for China to handle if it becomes willing to act.

This is not true for high-tech industries, however. China cannot make easy concessions. The development of the latest technologies such as wide-scale digitization, including big data, is closely associated with military technologies as well and is more of an inter-state competition. It is also connected to criminal acts, such as cyberattacks and information and technology theft. If China challenges the United States in the high-tech field, the US will no longer be able to maintain the generous, easygoing approach it made previously. The United States has already taken commensurate measures. This situation will last for a long time.

In addition, if US demands delve deeper into the structural reform of the Chinese economy; that is, the role of the government in the economy, it is so closely associated with Chinese political

structures that there will be difficulties. There are a number of state-owned and -operated companies and nontransparent subsidies in China. Many economic matters are placed under government control. The United States thinks it is difficult to say that it is competition based on the same rules. On the other hand, China takes it for granted that the Communist Party and the government lead and direct everything. “Made in China 2025” is state-driven mercantilism.

These issues should be fundamentally discussed by the WTO globally as well as between the United States and China. An attempt to do so has already begun. Of course, Japan also pays keen attention to it along with the United States and Europe.

The demand for infrastructure in Asia and development assistance

— In terms of the stable development of the Indo-Pacific region, regional economic development and economic assistance supporting it are highly significant, aren't they?

Sasae: Exactly. Postwar Japan developed with assistance from the international community under the system of the International Monetary Fund (IMF) and the World Bank. In the 1970s, Japan began to assist other Asian countries through Official Development Assistance (ODA) in cooperation with the Asian Development Bank (ADB) and other relevant organizations. In addition, Japan also developed swap agreements in preparation for financial crises. It can be said that FOIP also constitutes support for orderly economic development based on a market economy and free trade.

China has also attracted attention in this field in recent years. With matching between China's rich finances and vibrant demands for infrastructure in Asia, the Asian Infrastructure Investment Bank (AIIB) was established in 2013. As stipulated by the Organization for Economic Co-operation and Development (OECD), however, development assistance provided by the government is bound by the rules that should be shared by donor countries, such as securing the transparency of processes, removing donor countries' conditional aid and preventing aid recipients from becoming insolvent. In the past, Japan was also criticized for its conditional aid in spite of the fact that it was a country in surplus. China, an aid donor that “came late,” initially pushed its original rules to the fore. As a result, several problems arose that drew criticism from the international community. For the sake of sustainable development assistance, I hope that China will learn that an open and transparent style based on FOIP will be successful after all. It appears that China has started to learn this.

Focus on the universality of the Trump administration

— The United States also seems to have deviated from what it was before since the inauguration of the Trump administration.

Sasae: The president has a furious “America First” way of thinking, and his radical rhetoric confuses the world at times. It is true that there have been setbacks in multi-faceted systems, such

as trade and the environment, and the liberal order. In some respects, however, I do not think that the Trump administration is a long way off the path that the United States followed previously.

For example, there is a bipartisan expectation of the US demanding that its allies share heavier burdens. This is also the case with the North Atlantic Treaty Organization (NATO) and the Japan-US alliance. Even if President Trump does not raise loud voices, given China's military build-up and maritime advance and North Korea's nuclear threats, we should consider whether past efforts for defense will be sufficient. This is not only a US demand but also an issue that we should address on our own. Of course, the whole of the United States, including the ruling and opposition parties, shares the recognition that the US demand for its allies to share heavier burdens does not mean the US withdrawal from its commitment to global allies, and that the United States can no longer be a global police officer. The media covers the distinctiveness of the Trump administration too frequently, but it is also necessary to turn our eyes to the change in the US recognition of its role seen since the Obama years.

Currently, American society is showing a tendency toward divisions. But US politics has also swung like a pendulum before. This situation will continue. Basic principles, such as freedom, democracy, market economy, human rights and the rule of law, will remain unshakable, however. Nonetheless, there will be a considerable amplitude in how to respond by administration.

Chinese distinctiveness theory began to be discussed in the United States

—— Will the rivalry between the United States and China escalate into another Cold War?

Sasae: It depends on the US-China talks going forward. But as long as the US-China talks are not simply trade talks but involve competition over high-tech hegemony, and China's structural reforms are within a range of discussion, those negotiations will inevitably be prolonged.

When the economic friction between Japan and the United States became serious in the past, the argument that Japan is a country of a different nature spread throughout the United States. The argument was the criticism that many non-tariff barriers under a triangle of collusive ties between political, bureaucratic and business circles blocked out foreign products and that the Japanese government drove protectionist industrial policies. This criticism was underlaid by the recognition that Japan was not a level field player—Japan did not play an economic game by the same rules. If China also sticks to its own rules and style, the same thing will occur in a more serious way.

In the past, an engagement policy toward China was the mainstream approach in the United States. This policy was based on the expectation that if China achieved economic development, it would eventually be democratized domestically and act as a responsible player in the international community. But many policy makers and experts who used to support this engagement policy started to change their recognition. I hope that China will clearly understand the significant concern behind the recent rivalry between the United States and China.

Of course, this does not mean that China will have to surrender completely in its negotiations with the United States. If China can make concessions in opening the market, for example, bilateral trust will be built to some degree. In the high-tech field as well, I think that the two countries will be able to differentiate or co-exist to some extent instead of competing for hegemony in every factor. Technology and the economy cannot be controlled solely by the logic of politics.

To overcome the economic friction, Japan had a policy shift from exports to the United States to direct investment and developed good relationships by securing employment through local production. In this process, the advantages of Japanese-style management were understood in some cases. Both Chinese products and management know-how must have many excellent benefits. If people worldwide accept and like this Chinese value as something that is effectively compatible with their own ways and principles, Chinese brands and people's recognition of China will change at a stretch. To this end, China needs to reform the so-called state-driven mercantilism. I hope that this will happen.

—— What role can Japan play?

Sasae: I think that Japan should persuade China to realize that what it is attempting to do that causes friction with the international community, regardless of whether it is economic management based on the unity between the government and the private sector, aid that ignores recipients' financial conditions or an expansionist maritime policy, will eventually turn out to have an adverse effect, and that Japanese ways of doing things are more desirable. Japan should make continued efforts to make numerous proposals and cooperate to make it actually happen. In addition, Japan should also further develop its own economy and build a responsible assistance structure for infrastructure support. Japan will be able to help China to change its recognitions by proving the legitimacy of its own style in that way. Japan should approach China with great patience, although this is a commonplace expression.

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