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**New Challenges to Japan's Indo-Pacific
Vision: COVIDtivity and the 2020s
'Kindleberger moment'**

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European University Institute
Robert Schuman Centre for Advanced Studies
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Abstract

Connectivity infrastructure and its financing, as well as relevant regional visions and initiatives have consistently prominently figured in Japan's diplomacy and development cooperation in the post-World War 2 and the post-Cold War periods. Following the emergence of the Indo-Pacific Vision, Japan's international infrastructure initiatives came to the fore of this agenda. The COVID-19 pandemic, however, altered the connectivity landscape of the 2010s and affected global and regional connectivity in diverse ways, through dis-connectivity and re-connectivity: by disrupting and reshaping global value chains, affecting people's mobility, and incentivizing state actors and commercial actors to readjust their approaches to connectivity, infrastructure, and finance. The crisis also created an additional opportunity for major powers to compete and cooperate in the exercise of providing public goods. This paper will examine the evolving role of connectivity infrastructure and finance in Japan's development cooperation and its diplomacy vis-à-vis Asian and Eurasian countries in the COVID-19 pandemic environment of the early 2020s. Furthermore, this analysis will seek to test the applicability of Charles Kindleberger's theories on concessional lending and the "stabilizer" role of major powers to the field of COVID-era connectivity with a particular focus on Asia.

Keywords

Japan, Asia, Eurasia, Asia-Pacific, Indo-Pacific, Development cooperation, Political Economy, International Finance, Infrastructure, Connectivity, Economic/Financial Crisis

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Introduction

For most of the 2010s connectivity infrastructure and associated financial initiatives, including Japanese ones, were among the dominant buzzwords in international policy debates. These debates were largely galvanised by China's 2013 Belt and Road Initiative (BRI) and they focused on such diverse issues as new transport corridors, debt sustainability, aid transparency, securitisation and Sino-Japanese relations, both competitive and cooperative. In the same decade the Japanese government directly launched or supported a number of bilateral and multilateral initiatives, such as the Partnership for Quality Infrastructure, the Asia-Africa Growth Corridor, the infrastructure-related agenda of the Free and Open Indo-Pacific Vision (FOIP) and many others.¹ That said, infrastructure had traditionally ranked high on Asia's policy agenda for many decades, as was evidenced by Japan's cooperation with the region on development.² For instance, connectivity among ASEAN members, including physical connectivity, system connectivity and connectivity among people, has been a key priority in Japan's development cooperation with Southeast Asia.³ More recently, one can trace the origins of the current stage of infrastructure development to debates on international liquidity and financing gaps in the aftermath of the Global Financial Crisis, for instance within the Asian Development Bank and at regional summits such as APEC, as is evidenced by its documents from as early as 2009.⁴

The COVID-19 outbreak (hereinafter 'the pandemic'), which coincided with the onset of the 2020s, appears to mark a watershed in the evolution of Asian – and global – connectivity infrastructure, although at this stage it is hard to estimate its impact precisely in quantitative terms. The effects of the pandemic included further disruption of global value chains (GVCs), suspension of infrastructure projects and financing of them, labour migration flows (for instance in South and Southeast Asia) and have the potential to act as a game changer, at least temporarily, in the international politics of the sector. Discussions on the plight of global value chains appeared to gradually subsume the connectivity discourse as the pandemic negatively affected exports and imports, implying higher trade costs and negative impacts on GDP, employment and the manufacturing industry.⁵ Some observers argued that the international financial crisis induced by the pandemic was the first such crisis that some of the "emerging" donors dealt with in the role of donors rather than recipients.⁶

This paper analyses the developments in Asian connectivity infrastructure and related finance brought about by the COVID-19 pandemic from the vantage point of international politics and seeks to locate Japan's development cooperation and Indo-Pacific Vision in this context. This angle is important since the geopolitical context has the potential to tectonically re-set the scene for development cooperation in the field of connectivity, as it did in the past. Thus, I argue that Japan's Indo-Pacific vision and development cooperation are facing the dilemma of operating in a changing environment shaped by COVIDtivity and a 'Kindleberger moment.'⁷ 'COVIDtivity' is a portmanteau term that I propose to use to characterise COVID-shaped connectivity, while 'Kindleberger moment' refers to an economic and financial crisis providing an opportunity for intervention (or inaction) by major powers, if viewed through the lens of the international political economy. In these circumstances, the imperative to respond to the crisis accompanies and shapes the traditional tripartite interplay among strategic, developmental and commercial drivers behind Japan's development cooperation.

1 Hidetaka Yoshimatsu (2017) Japan's export of infrastructure systems: pursuing twin goals through developmental means, *The Pacific Review*, 30:4, 494-512, DOI: 10.1080/09512748.2016.1276953; Kei Endo & Nikolay Murashkin, Japan's infrastructure export and development cooperation: the role of ODA loan projects in the 2010s, *Australian Journal of International Affairs*, 2022.

2 Murashkin, Nikolay. 2018. "Not-so-new Silk Roads: Japan's Foreign Policies on Asian Connectivity Infrastructure Under the Radar." *Australian Journal of International Affairs* 72 (5): 455-472.

3 Yamada Jun'ichi. *Shinkōkoku no infura wo kirihiraku*, Tokyo: Kōsaidō, 2015: 92-95.

4 Nikolay Murashkin, *Japan and the New Silk Road. Diplomacy, Development and Connectivity*, Routledge: London, 2020: 199-200.

5 JICA Chief Economist Report 2020/No.1 (May 27). Global economy and trade structure after the coronavirus.

6 Takeuchi, Yukifumi. "Saimu kanri kaizen ni jinzai ikusei kyoka wo," *International Development Journal*, No. 768, December 2020: 24-26. For a critique of the categorisations distinguishing between "traditional donors" and "emerging donors," see, for instance, Insebayeva, Nafissa, *Modernity, Development and Decolonization of Knowledge in Central Asia. Kazakhstan as Foreign Aid Provider*. Palgrave, 2022.

7 Layton, Peter. "Is this the Kindleberger moment?" *The Interpreter*, 28 April 2020. <https://www.lowyinstitute.org/the-interpreter/kindleberger-moment>.

The paper attempts to take stock of this situation, identify the challenges in Japan's infrastructure development cooperation in Asia and grasp the political implications of the impact of the pandemic.

'Connectivity infrastructure' in this paper refers mainly to international infrastructure for transport and travel by air, sea and land, related power infrastructure and telecommunications. I set the context by explaining the challenges posed by 'COVIDtivity' and the 'Kindleberger moment' as I see them. I locate developments in the field of Asian connectivity infrastructure in the early 2020s in this political context by providing an overview of the international situation before and during the pandemic. As the pandemic is still ongoing at the time of writing and the data are dynamic and subject to change, the nature of this analysis is therefore conceptual and focused on the formulation of the problem field, although it also suggests political implications and avenues for further research.

The 2020s 'Kindleberger moment'

Discussions of the political and economic consequences of the COVID-19 pandemic have evoked or reinforced a number of historical analogies. Most frequently, parallels have been drawn with the 1929 financial crisis – in terms of both the economic impact and the upheaval caused by the Great Depression in international politics. At the same time, conceptualisation of U.S.-China tension as 'the New Cold War' was already widespread prior to the pandemic and it became incorporated in post-pandemic rhetoric as part of 'new normal' scenarios. In this part and elsewhere in the paper, I discuss both the applicability and limits of these ideas as contexts for the international politics and political economy of connectivity infrastructure.

As economist, historian and international relations theorist Charles Kindleberger pointed out, one of the reasons for the devastating international effects of the Great Depression was that the world at the time lacked a 'stabiliser' – a hegemonic power that had both the capacity and the will to stabilise the international system. According to Kindleberger's 'hegemonic stability theory,' the functions of a stabiliser include, *inter alia*, providing international public goods such as countercyclical and concessional lending and access to markets, and acting as the international lender of last resort. Namely, both the British Empire, the outgoing declining hegemon in the 1930s, and its ascending 'successor' or 'contender,' the United States, failed to perform this function in a timely manner after the Great Depression, which resulted in further destabilisation of the international system. In other words, the international disasters of the interwar period can be attributed to the failure of the global economic and monetary systems – and the absence or incapacity of a 'system manager' – to provide enough global public goods.⁸

The limits of Kindleberger's theories are worth acknowledging, especially when it comes to matters of structure and agency. While subsequently Kindleberger made the case for a single stabiliser as opposed to a multi-polar structure in future crisis responses, his argument only covered the U.S., which he already perceived as a declining power in the 1980s-90s, and to a certain extent Germany and Japan, which according to Kindleberger had the potential but not the will to succeed the U.S.⁹ With hindsight, this theory did not seem to envisage Japan's subsequent initiatives, such as its Asian Monetary Fund proposal and the Miyazawa Initiative, and impediments such as opposition to these proposals by other powers (U.S.), the rise of China (although Kindleberger allowed for an unknown unknown, an X-factor of sorts), Germany's increased role in post-1991 Europe and the impact of multilateral institutions such as the G20.¹⁰

8 Kindleberger, Charles. *The World in Depression: 1929-1939*. LA, Berkley: University of California Press, 1973; Kindleberger, Charles. *Manias, Panics, and Crashes: A History of Financial Crises*, MacMillan, 1978; Lo, Alex. "The 'Kindleberger Trap' for China and the United States," *South China Morning Post*, 11 April 2022. <https://www.scmp.com/comment/opinion/article/3173896/kindleberger-trap-china-and-united-states>

9 Charles P. Kindleberger. *World Economic Primacy: 1500 to 1990*. New York: Oxford University Press, 1996: 223-28; Charles P. Kindleberger. *The 1930s and the 1980s. Parallels and Differences*. Singapore: Institute for Southeast Asian Studies, 1988, p. 12.

10 Tanaka Akihiko, *Japan in Asia: Post-Cold-War Diplomacy*, Tokyo: JPIC, 2017: 187-88; Sakakibara Eisuke, *Nihon to sekai ga furueta hi*, Tokyo: Kadokawa Shoten, 2005 (as quoted in Tanaka 2017); Shiraishi Takashi, *The Asian Crisis Reconsidered*, RIETI Discussion Paper Series 05-E-014, 2005; Shiraishi Takashi, "From "Japan and Asia" to "Japan in Asia," Seven Chapters on Japanese Modernization. Chapter 6. 2020 https://www.jica.go.jp/dsp-chair/chair/modernization/ku57pq00002mp6uo-att/modernization_chapter_06.pdf;

Elaborating on Kindleberger's ideas, political scientist Joseph Nye argued in a 2017 article that "In domestic politics, governments produce public goods such as policing or a clean environment, from which all citizens can benefit and none are excluded. At the global level, public goods – such as a stable climate, financial stability and freedom of the seas – are provided by *coalitions led by the largest powers*."¹¹ As observers have noted, Nye's wording "coalitions led by the largest powers" is ostensibly different to Kindleberger's recurrent emphasis on a single stabiliser.¹²

When applied to connectivity, what exactly constitutes 'hegemony' is subject to scholarly debates, and is also value-laden due to charges and connotations this term may carry, for instance depending on whether hegemony constitutes coercion or consent generation and so on. Regarding Japan, Kent Calder emphasised the following aspects of Kindleberger's 'hegemonic stability theory': the stabiliser providing public goods makes and enforces the rules of an economic system, provides a key currency and a relatively open market, and is the lender of last resort. Furthermore, Calder argued that Japan was unable to exert hegemony due to its consistent inability to meet some of these criteria due to external or self-imposed limitations.¹³ However, when it comes specifically to development and connectivity, some scholars have recently posited that Japanese government agencies work together as a 'norm entrepreneur' and 'regional intellectual hegemon' to construct ideas and norms and further cascade them to professional and institutional connections among Southeast Asian intellectuals and government officials.¹⁴ Others have examined Japan's connectivity policies in the Greater Mekong Sub-region using Antonio Gramsci's interpretation of hegemony.¹⁵

Either way, this paper operates on the assumption that within Kindleberger's paradigm, connectivity and the provision of relevant infrastructure and financing can be regarded as a public good. Evidently, connectivity and connectivity infrastructure have many faces aside from that of public goods: they may be viewed as technological and financial goods and products conducive to the development of economic prosperity, or as instruments of economic and technological statecraft. Consequently, the role of the stabiliser in an international system may include providing connectivity and concessional lending among other public goods and also shaping and stabilising regional connectivity during crises.

At the onset of the pandemic, experts argued that connectivity was increasingly becoming synonymous with geopolitics and going beyond development economics:

The pandemic and, more importantly, the political reactions to it, in many ways again underpin the geopolitical significance of connectivity in world politics. This link between geopolitics and connectivity becomes most obvious in a couple of successive initiatives in East Asia and the EU that illustrate the geopolitical turn of connectivity politics in the last decade. What different actors mean by connectivity matters more than ever; getting to the bottom of those meanings gives insights about what geopolitics contains today.¹⁶

Hoe Ee Khor, Diwa C. Guinigundo and Masahiro Kawai (eds.) *Trauma to Triumph Rising from the Ashes of the Asian Financial Crisis*, Singapore: World Scientific Publishing Co. Pte. Ltd., 2022.

11 Nye, Joseph. "The Kindleberger Trap." *Project Syndicate*, January 9, 2017. While Nye's argument is that China has a mixed record in terms of contributing to the current international order and free riding on it, it also poses the question of whether China if pressed and isolated by U.S. policy would become a disruptive free rider pushing the world into a Kindleberger trap.

12 Lo, 2022.

13 Calder, Kent. E. (1988) "Halfway to Hegemony?: Japan in a Changing Global Economic Order." *Harvard International Review*, 10:4, 12-16; Calder, Kent. E. (2005) 'Halfway to Hegemony: Japan's Tortured Trajectory.' *Harvard International Review*, 27:3, 46-49.

14 Charoensri, Narut. *Regional Intellectual Hegemony and Regional Connectivity: Japan's Norms of Development, International Research Organisations and Network-Building in Southeast Asia*. PhD thesis, University of Leeds, 2021.

15 Ryan Hartley. "Japan and the Greater Mekong Sub-region: Hegemony in the Making or Hegemony Already Established?" PhD Thesis, University of Sheffield, 2015.

16 Godehardt, N. and K. Postel-Vinay. 2020. "Connectivity and Geopolitics: Beware the "New Wine in Old Bottles" Approach," *SWP Comment 2020/C 35*, July 2020.

Why are large-scale lending policies for international connectivity infrastructure projects directly relevant to the lender's potential to act as an aspiring hegemon?¹⁷ In the mid-2010s economists found that long-term investors were generally well placed to invest in more long-term global infrastructure assets, especially due to the strengthening of the relative value of illiquid asset classes offering an illiquidity premium, such as infrastructure investments.¹⁸ The risk in infrastructure investment was perceived to be too high to attract private investment. Consequently, the growing role of state actors could be explained by the capital-intensive nature and high risks involved in infrastructure and related long-term project finance, especially as liquidity conditions tightened following the 2008 financial crisis. Infrastructure, and in particular connectivity projects, is where a large share of disbursements and post-COVID-19 debt relief efforts would be concentrated.

Looking back, there appears to be a reversal of the roles that the public and private sectors were expected to play in infrastructure investment over the past three decades. In 1994 the World Bank's *World Development Report: Infrastructure for Development* made the case for prioritising the role of the private sector in the area of infrastructure while letting the government take the back seat.¹⁹ Long-term observer and editor of this report Anthony Rowley argued that in the early 1990s the Washington Consensus overestimated the ability of the private sector to assume the task of providing infrastructure. By the late 2010s, as was evidenced by Asian infrastructure dynamics, the role of the public sector seemed predominant.²⁰

Furthermore, according to Rowley, there has also been the problem of increased regulation since the 2008 global financial crisis, which led regulators to demand increased levels of liquidity in financial institutions and thus inhibited their ability to make long-term investments such as in infrastructure projects.²¹ Nevertheless, according to some representatives of the international banking community working on Asian infrastructure, despite the negative effects of the pandemic, banks would find sufficient liquidity for a worthy infrastructure project if its economics are solid.²²

The effect of the pandemic and major power relations

As of mid-2022, the COVID-19 pandemic appears to have a mixed and limited record in the field of connectivity. On the one hand, it has had an evident disruptive effect on the movement of people and in the initial stage it dampened the progress of connectivity infrastructure projects promoted by major players such as China and Japan. On the other hand, the movement of goods has been affected to a lesser extent. Furthermore, supply-side competition between connectivity infrastructure providers may temporarily become more difficult, depending on the scenario. Although the pandemic has mainly acted as a headwind, its disruption may alter the operating environment for infrastructure providers due to the need to reallocate resources, thus taking some competition 'heat' off the infrastructure sector. The 'new normal' is also likely to alter the bargaining positions of host countries, as it may offer new opportunities for moving along value chains.

17 Murashkin, *Japan and the New Silk Road*, 2020: 198-201; Werner Pascha. *Belts, Roads, and Regions: The Dynamics of Chinese and Japanese Infrastructure Connectivity Initiatives and Europe's Responses*. ADBI Working Paper 1114. Tokyo: Asian Development Bank Institute, 2020: 3. <https://www.adb.org/publications/beltsroads-regions-dynamics-infrastructure-connectivity-initiatives>

18 Rabah Arezki, Peter Bolton, Sanjay Peters, Frederic Samama, and Joseph Stiglitz, 'From Global Savings Glut to Financing Infrastructure: The Advent of Investment Platforms, IMF Working Paper 2016,' <https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/wp1618.pdf>

19 World Development Report 1994. Infrastructure for Development: 20. <https://openknowledge.worldbank.org/handle/10986/5977>

20 Anthony H. Rowley. *Foundations of the Future: The Global Battle for Infrastructure*, World Scientific Pub Co Inc, 2020: 20.

21 Ibid.

22 Interview with a banking professional working on Asian infrastructure, August 2021.

Since the U.S.-China relationship prior to and during the COVID-19 crisis has often been interpreted as that of an incumbent global hegemon and a rising challenger (e.g. see Graham Allison's application of the 'Thucydides Trap' idea, and its critiques²³), the responses of Beijing and Washington to COVID-19 have frequently been perceived within this paradigm.²⁴ For instance, according to scholars China's increasing assertiveness in the past decade was stimulated by its perception of the U.S. and European powers as declining due to their response to the 2008 Global Financial Crisis and to a certain extent to the 2011 European debt crisis.²⁵ Media commentaries reiterated this narrative during the COVID-19 pandemic, suggesting that the Beijing elite saw the decline of the U.S. hastened by President Donald Trump.²⁶ At the same time, some scholars have interpreted China's policies under Xi Jinping as claims for leadership or contributions to the current 'liberal international economic order,' as is evidenced by Beijing's support for multilateralism in the WTO and concessional lending under the Belt and Road Initiative and by the Asian Infrastructure Investment Bank.²⁷ The nature, intent and extent of Beijing's hegemonic ambitions are open to interpretation at this stage, depending on the interpretation of 'hegemony.'²⁸ Traditionally, Chinese official rhetoric has openly criticised hegemony and fashioned itself as anti-hegemonic. Prior to the pandemic, some scholars argued that China would seek "distributive globalism" – not a U.S.-style hegemony but a new kind of influence with the benefits of integration being more widely distributed among states.²⁹ Again, the effect of the pandemic would be inhibitive here, at least in the short term, due to its impact on integration processes.

Among the main key public goods that China has been providing internationally, connectivity infrastructure and financing are arguably the most visible in terms of media attention. The same goes for other major powers, which over the decade up to mid-2022 have advanced a range of international initiatives in this field with varying degrees of materialisation: the U.S.-led Build Back Better World, the Economic Prosperity Network and the Indo-Pacific Economic Partnership, together with initiatives involving multiple leaders such as the Blue Dot Network, the Partnership for Global Infrastructure and Investment, the EU-Japan Connectivity Partnership and the Partners in the Blue Pacific.

The effect of the coronavirus pandemic here can be both to embolden and inhibit China's ambitions, as it is likely to restrict Beijing's offer of international public goods. On the one hand, it creates opportunities for Beijing to use a mix of carrots and sticks in the form of debt enforcement and debt relief vis-à-vis borrower states involved in large-scale infrastructure projects. If China harbours long-term aspirations as a rising hegemon, its propensity to use debt enforcement is likely to be constrained by the needs to generate consent among borrowers and compete with rival lenders. On the other hand, the internal impact of the pandemic in China seemingly made the Chinese government prioritise a domestic crisis response, at least in the short term.

23 Allison, Graham. *Destined for War: can America and China escape Thucydides' Trap?* Scribe Publications, 2018; Waldron, Arthur. *There is no Thucydides Trap*. SupChina, 12 June 2017 <https://supchina.com/2017/06/12/no-thucydides-trap/>; Kai He and Huiyun Feng, eds., *China's Challenges and International Order Transition: Beyond Thucydides's Trap*, pp. 225-239 Ann Arbor, MI: University of Michigan Press.

24 Layton, 2020.

25 Johnston, Alastair Iain. "How New and Assertive Is China's New Assertiveness?" *International Security*, 37:4 (Spring 2013): 35.

26 "Elites in Beijing see America in decline, hastened by Trump," *The Economist*, 11/06/20: <https://www.economist.com/china/2020/06/11/elites-in-beijing-see-america-in-decline-hastened-by-trump>

27 Thies, Cameron G. "The Future of Chinese Leadership in the Global Economy," in Kai He and Huiyun Feng, eds., *China's Challenges and International Order Transition: Beyond Thucydides's Trap*, Ann Arbor, MI: University of Michigan Press, 2020: 225-239

28 In this context, see the earlier point on the definitions of hegemony.

29 Kent E. Calder, *Super Continent: The Logic of Eurasian Integration*, Stanford University Press, 2019.

Another inhibiting factor is the impact of the pandemic on the movement of people. As COVID-19 resulted in stringent travel restrictions, China's model of infrastructure exporting is likely to be particularly affected due to its reliance on the use of Chinese labour. While some of the restrictions have been lifted as of mid-2022, others still persist, which might induce China to further reconsider its model and introduce more localisation, as it has already been doing in Central Asia (due to rising Chinese labour costs).³⁰ That said, the prospect of using Chinese labour would ultimately depend on the development of vaccines and the willingness of host states to apply entry restrictions on Chinese workers. In a purely hypothetical scenario, if international connectivity became a rare public good *per se* due to long-term constraints imposed by the pandemic, China's willingness to provide 'countercyclical connectivity' could raise its profile as a major hegemonic power. However, the likelihood of this scenario appears unclear against the backdrop of strict lockdown policies continuing in China in early 2022.

China's rhetoric on foreign economic policies in the immediate aftermath of the COVID-19 crisis largely veered on the side of cautious cooperativeness without demonstrating major ambition. Beijing announced the suspension of debt repayments by 77 developing countries without, however, specifying details at that stage.³¹ Furthermore, Beijing supported the G20 Debt Service Suspension Initiative. At the same time, in 2020 the most significant provider of emergency funding in Asia was the IMF.³² For comparison, according to the IMF Japan was the largest contributor to IMF financial resources and also the largest contributor to the fund's concessional lending facilities. Furthermore, the IMF's director Kristalina Georgieva praised Japan's plans to spend about 20% of its GDP in response to the economic challenges created by the pandemic and to help the poorest countries.³³

Although Foreign Minister Wang Yi said early in 2020 that the impact of COVID-19 on the BRI was limited, in June of the same year a PRC foreign ministry official admitted that about 20% of the BRI projects were affected, 40% suffered little adverse impacts and another 30-40% were somewhat affected.³⁴ By contrast, inside China 95% of construction projects were already resumed in 2020.³⁵ Furthermore, unlike after the 2011 European debt crisis, when Chinese entities proceeded to acquire discounted European assets, the first year of COVID-19 saw a significant decline in Chinese investment.³⁶ Now in 2022 it appears that the BRI has suffered after all as a result of the pandemic, at least in terms of the amount of funds lent or invested by China in BRI projects. According to some experts, this was reportedly due to two years of closed borders and China's challenged international image.³⁷

30 Dirk van der Kley, *Less is More...The New BRI in Central Asia*, 18 February 2020. <https://daviscenter.fas.harvard.edu/events/less-more-new-bri-central-asia>

31 Ingrid Luan, "China Suspends Debt Repayments for 77 Developing Countries Battling Covid-19," *Caixin Global*, 08/06/20. <https://www.caixinglobal.com/2020-06-08/china-suspends-debt-repayments-for-77-developing-countries-battling-covid-19-101564592.html>

32 Paola Subacchi, "A COVID-19 debt shock in Asia?" *East Asia Forum*, 01/06/20 <https://www.eastasiaforum.org/2020/06/01/a-covid-19-debt-shock-in-asia/>

33 IMF chief lauds Japan's spending to combat pandemic, urging others to step up, *Japan Times*, 01/05/20.

34 "How coronavirus has affected China's Belt and Road plans," *AlJazeera*, 19/06/20. <https://www.aljazeera.com/ajimpact/coronavirus-affected-china-belt-road-plans-200619045645222.html>. Among the projects with no or little delay, the media mentioned the China-Laos railway and Nepal's Pokhara airport. It has not yet been possible to find similar data on coronavirus-induced delays in connectivity projects promoted by countries other than China.

35 "Fighting COVID-19: China in Action," China's State China Information Office, 07/06/20.

36 Annabelle Timsit, "Europe's worries about Chinese corporate takeovers appear to be unfounded," *Quartz*, 19/06/20. <https://qz.com/1870587/how-covid-19-is-affecting-chinese-mergers-and-acquisitions-in-europe/>

37 BRI 2.0: How Has the Pandemic Influenced China's Landmark Belt and Road Initiative? Bruegel, 23 June 2022. <https://www.bruegel.org/events/bri-2-0-how-has-the-pandemic-influenced-chinas-landmark-belt-and-road-initiative/>

Connectivity and the effects of the pandemic: rival blocs, security dilemmas, dividing lines and reduced international mobility

Connectivity advances in the past 30 years (especially across Eurasia) and regional integration originated in the end of the Cold War as post-socialist countries improved their connections with other regions. On the one hand, this was a revival of the pre-Cold War Eurasian connectivity; on the other hand, new connections were also driven by the surging role of Eurasia in global GDP, markets and value chains thanks to emerging economies, advances in technology and logistics, and Central Eurasia's internal resilience.³⁸ While in the post-Cold War period some international connectivity projects – for instance oil and gas pipelines – were politicised almost immediately, many transport infrastructure projects were treated as functionalist until they also became politicised and securitised over the past decade with the advent of competitive connectivity. From the rhetorical point of view, the New Cold War and the New 1930s metaphors continued the sequence of emotionally charged analogies, such as the New Great Game and the New Silk Road.³⁹ While attractive to some decision-makers and pundits due to the seeming familiarity that allows reifying a convenient pattern, these discourses may indicate a certain oversimplification of an increasingly complex reality and unknown power configuration on the ground.

Arguably, one of the more alarming dynamics today is the emergence of rival international techno-economic blocs due to U.S.-China tension and other international tensions directly affecting connectivity.⁴⁰ Although a pessimistic 'nightmare' scenario of the emergence of rival blocs akin to the Orwellian fictional nations of 'Eastasia,' 'Eurasia' and 'Oceania' appears unrealistic, risks still abound, directly affecting connectivity infrastructure and development cooperation.

Critics have often mentioned the 'debt-trap' scenario in China's relations with borrower nations, using the port of Hambantota as the most oft-cited example. However, asset seizures might not be the largest political risk, perhaps. If China were to frequently resort to this coercive measure it may undermine its legitimacy as a dependable partner – and also put financial burdens of seized assets on itself in the long run. Conversely, a long-term structural financial dependence of the borrower could act as a stimulus for closer partnership with Beijing, potentially dragging it into a bloc in the event that a scenario of rival blocs were to take shape.⁴¹

Connectivity infrastructure is one sphere where vast all-encompassing concepts such as the BRI and the Indo-Pacific materialise in terms of re-routing, rewiring and reconnecting some regions, while also potentially creating dividing lines in other areas. Rather alarmingly, although the securitising effect of U.S.-China tensions on connectivity infrastructure has been limited, these tensions have now become more manifest in the security realm. While the pandemic may have dampened or delayed expansion plans, it has not restored cooperative trends or trust in U.S.-China relations – quite the opposite.

Economic nationalism and U.S.-China trade tension already affected global value chains before the pandemic, for instance leading to the movement of some Japanese companies from China to Thailand and Mexico and on-shoring back to Japan.⁴² Japan allocated 220 billion yen (US\$2 billion) in subsidies to domestic production and a further 23.5 billion yen (US\$219 million) to strengthening

38 See, for instance, Kent Calder's aforementioned 2019 monograph and his 2012 book *The New Continentalism: Energy and Twenty-First-Century Eurasian Geopolitics* (Yale); Prajakti Kalra (2022), Locating Central Eurasia's inherent resilience, *Cambridge Review of International Affairs*, 35:2, 235-255.

39 Timur Dadabaev (2020), Discourses of rivalry or rivalry of discourses: discursive strategies and framing of Chinese and Japanese foreign policies in Central Asia, *The Pacific Review*, 33:1, 61-95, DOI: 10.1080/09512748.2018.1539026.

40 Aurelio Insisa & Giulio Pugliese (2022), The Free and Open Indo-Pacific versus the Belt and Road: Spheres of Influence and Sino-Japanese relations, *The Pacific Review*, 35:3, 557-585; "Russian academic reveals four scenarios for post-pandemic world," TASS, 19/05/20. <https://tass.com/society/1157995>.

41 For instance, one of the drivers of the Russian Empire's entry into the Entente Cordiale alliance with France was its large-scale borrowing from French lenders and resulting dependence in the late 19th-early 20th century.

42 Ken Heydon, COVID-19 doesn't spell the end of supply chains, *East Asia Forum*, 07/06/20. <https://www.eastasiaforum.org/2020/06/07/covid-19-doesnt-spell-the-end-of-supply-chains/>

supply chains with Southeast Asia to reduce its dependence on China.⁴³ In this context, the pandemic and the emergence of rival techno-economic blocs may generate opportunities for some countries to alter their positions in global and regional value chains, as China continues moving up value chains while blocs re-align and re-stratify regions – a trend that is worth monitoring in future research. The question arises of whether the oft-cited 'New Cold War' metaphor is adequate here. Although the resurgence of competitive economic statecraft and zero-sum-game perceptions threatens post-Cold War multilateral and functionalist cooperation, they might not necessarily entail a new bipolarity.

As the pandemic raged, the discourse on connectivity, which in the 2010s had permeated debates in international politics, gave way to debates on global public health. Nevertheless, connectivity still remained a priority on the agendas of major international powers and 'middle powers' well into the pandemic, and appears to be regaining prominence as the pandemic appears to be subsiding in 2022. This is evidenced by the sections on connectivity and infrastructure in the Group of Seven's 2021 communique, by the launch of the Supply Chain Resilience Initiative by Australia, India and Japan in 2021, and by the launch in 2022 of the Indo-Pacific Economic Framework for Prosperity (IPEF) involving 13 member states, including the U.S. and Japan.

This last initiative marked a contrast with the Trump administration's approach to the Indo-Pacific with its broader economic focus and it appeared to be partly inspired by ideas generated by Japanese leaders, such as the Japanese version of the Indo-Pacific promoted by Abe Shinzo and his successors.

The June 2022 IPEF joint statement treated infrastructure, connectivity and concessional finance in the same section, possibly suggesting a holistic approach:

*Clean Energy, Decarbonization, and Infrastructure: In line with our Paris Agreement goals and efforts to support the livelihood of our peoples and workers, we plan to accelerate the development and deployment of clean energy technologies to decarbonize our economies and build resilience to climate impacts. This involves *deepening cooperation on technologies, on mobilizing finance, including concessional finance*, and on seeking ways to improve competitiveness and *enhance connectivity by supporting the development of sustainable and durable infrastructure and by providing technical assistance*.*⁴⁴

The extent of economic collaboration envisaged by the IPEF is difficult to ascertain at this early stage. In terms of specific agreements on infrastructure, the result of the 2022 Quad leaders' summit held in Tokyo on the day following the IPEC announcement was tangible but moderate, roughly involving USD 50 billion in infrastructure assistance and investment in the Indo-Pacific pledged for the next five years.⁴⁵ Another noteworthy point in the Quad Joint Leaders' Statement was that it addressed debt and debt sustainability issues exacerbated by the pandemic in the infrastructure section, highlighting the Quad Debt Management Resource Portal, thus corroborating the link between infrastructure funding and debt-related crisis responses discussed in this paper.

43 Shiro Armstrong, Economic distancing from China and the world would carry heavy costs, *East Asia Forum*, 07/06/20. <https://www.eastasiaforum.org/2020/06/07/economic-distancing-from-china-and-the-world-would-carry-heavy-costs/>.

44 Statement on the Indo-Pacific Economic Framework for Prosperity, 23 May 2022. <https://www.mofa.go.jp/files/100347436.pdf>

45 Quad Joint Leaders' Statement 24 May 2022. https://www.mofa.go.jp/fp/nsp/page1e_000401.html

Japan's development cooperation and crisis response

Japan's development cooperation is one, but a crucial one, of many elements in Japan's foreign policy and its international lender profile, which is also multi-faceted. However, as Japan's development cooperation has traditionally focused on Asia, infrastructure and loans,⁴⁶ this triple regional, sectoral and financial nexus links Japan and its development cooperation to the question of post-pandemic debt crisis responses and the provision of international public goods. Some of the foci of Japan's brand of development cooperation have been subject to criticism but have ultimately also received wider international recognition,⁴⁷ especially since state actors have become increasingly active in Asian infrastructure, as was described above.

As was argued earlier above, the context of 'COVIDtivity' and the international response to the crisis triggered by the pandemic is bound to shape development cooperation in the Indo-Pacific era. This 'Kindleberger moment' provides an opportunity for a stabiliser or a group of stabilisers to step in, and it also sets the scene for international competition and rivalry among major powers.

In 2010-2015, Japan was the largest global provider of external loans to lower and middle-income countries. In 2016, China claimed this distinction, leaving Japan in the second global position. China's share of such loans tripled from a little over 10 per cent in 2010 to circa 35 per cent in 2019.⁴⁸

In the same period, China's infrastructural initiatives started challenging Japan's long-established position by making the donor landscape more contested and brought infrastructure to the fore in Sino-Japanese relations. Consequently, in addition to existing domestic push factors encouraging an increase in Japanese infrastructure exports, Japan has also introduced several measures to address Asia's growing infrastructure demand and maintain its top profile in the infrastructure sector: boosting the quality and speed of the aid provided (e.g. the credit approval rate), collaboration with the ADB, expansion of the Japan Bank for International Cooperation's (JBIC) functionality and promotion of international quality standards in infrastructure investment.⁴⁹

The China-led Asian Infrastructure Investment Bank's involvement in co-financing and the 2018 Sino-Japanese agreement to collaborate on infrastructure projects in third countries showed that cooperation accompanied competition. As Southeast Asian states have been feeling increasingly uncomfortable amid the U.S.-China tensions, this created some opportunities for Japan to be involved as an alternative player, and also for Sino-Japanese cooperation – not only at the level of businesses but also in government development aid, as JICA's late president Ogata Sadako pointed out.⁵⁰

In the 2010s and 2020s, changes in Japanese government institutional design have reflected the aforementioned international trends of rising economic statecraft, securitisation and neo-mercantilism.⁵¹ In 2013, the Management Council for Infrastructure Strategy⁵² was established in the Prime Minister's Office to promote infrastructure exports and coordinate relevant government activities, reflecting a tilt towards neo-mercantilism in this field, which was also present in overall development

46 Kato Hiroshi, "Japan's ODA 1954-2014: Changes and Continuities in a Central Instrument in Japan's Foreign Policy," in Kato Hiroshi, John Page and Shimomura Yasutani, eds., *Japan's Development Assistance*, Palgrave 2016: 8-10; Nishikawa Jun, "Opening of the Economy and Structural Reforms," in Toyoda Toshihisa, Nishikawa Jun and Kan-Sato Hiroshi, eds., *Economic and Policy Lessons from Japan to Developing Countries*, Palgrave 2012: 190-91.

47 Nichio de ayumu beki "mo hitotsu no kaihatsu no michi," *International Development Journal*, No. 785, May 2022: 28.

48 "2-Dai saikenkoku to kyososuru minkansaimu." *International Development Journal*, No. 768, December 2020 [data sourced from the World Bank's International Debt Statistics 2021].

49 Yamada Jun'ichi, *Infura bijinesu saizensen* [The frontline of infrastructure business], Tokyo: Kōsaidō, 2015: 41.

50 Yoshioka Keiko, Beichū tairitsu ga yurasu ASEAN no tenbin [ASEAN balance shaken by U.S.-China antagonism], *Gaikō* Vol.59, Jan/Feb 2020: 106.

51 Internationally, similar trends were seen in other countries as well, for instance the 2020 merger of the British Department for International Development into the Foreign Office seemed to follow the trend of increasingly treating development assistance as economic statecraft.

52 <https://www.kantei.go.jp/jp/singi/keikyoku/kaisai.html>

cooperation during the second Abe premiership (2012-2020)⁵³ and the Suga premiership (2020-2021). In 2014, the government set up the Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN). JOIN became Japan's first private-public sponsored fund specialising in overseas infrastructure investment and collaborating with companies, banks and the government. Amendments to the law on JBIC enabled the government bank to take more risks. As the Free and Open Indo-Pacific vision started to materialise in 2016, its scope increasingly involved infrastructure. In March 2021, the Japan Business Federation, or Keidanren, made a proposal to develop strategic infrastructure systems overseas.⁵⁴ Moreover, in April 2020 the government also established an inter-agency economic security unit in the National Security Secretariat, while in May 2022 the Diet adopted an economic security bill.⁵⁵

The Kishida cabinet, which was inaugurated in 2021, showed continuity in promoting the development cooperation elements in Japan's Indo-Pacific vision. However, experts such as Araki Mitsuya also expected the Kishida government to return in its decision-making model in this area to the pre-2006 era, which would imply a stronger role of ministerial officials vis-à-vis the prime minister's office and a departure from the neo-mercantile focus on promoting infrastructure exports such as railways toward a more balanced approach.⁵⁶

Speaking in June 2022 at the Shangri-La Dialogue, Prime Minister Kishida mentioned infrastructure three times, all of which were related to the FOIP and/or Quad concepts.⁵⁷ This rhetoric, together with the infrastructure-related implications of the IPEF launch and the Quad Leader Summit in May 2022, in turn indicated that FOIP has been increasing its footprint as an important framework for infrastructure over the past five years, since Japan's initial contemplation of infrastructure usage in the Indo-Pacific and in the Quad.

Japan's response to the pandemic in general has been manifold, involving bilateral and multilateral measures, such as rapid-response debt forgiveness aimed at preventing default in the poorest countries, participation in the Debt Service Suspension Initiative, promotion of the Supply Chain Resilience Initiative and various other financial measures. Aside from financial aid *stricto sensu*, Japan has also provided intellectual aid bilaterally and multilaterally by improving training in debt management for financial officials from developing countries.⁵⁸

Evidently, FOIP is not a framework designed for crisis response or lending of last resort – it is a *grand design* vision shaping regional connectivity and development finance, among other things. However, the current crisis environment is inevitably bound to influence the implementation of FOIP at several levels: financially, by disrupting value chains, and geopolitically.

Although global liquidity has increased due to countercyclical policies by central banks including in the U.S., the U.K., the eurozone and Japan reflecting quantitative easing and the role of central banks as lenders of last resort, countercyclical monetary policies have increased financial vulnerability by raising debt levels, which were already historic before the pandemic. This is likely to keep the relevance of debt sustainability measures, including indebtedness incurred in relation to infrastructure projects.

53 Yamamoto, Raymond, "From Ashes to New: The Delegitimization and Comeback of Japan's Official Development Assistance." In Sebastian Maslow & Christian Wirth (eds.). *Crisis Narratives, Institutional Change, and the Transformation of the Japanese State*. SUNY Press, 2021.

54 Keidanren Annual Report 2021. https://www.keidanren.or.jp/en/profile/Keidanren_Annual_Report2021.pdf

55 Robert Ward, "Japan's long-term foreign policy: building resilience," *Japan Times*, 16/06/20.

56 Araki, Mitsuya, "Indo-Taiheiyo koso soshite ODA mondaiten." *International Development Journal*, No.781, January 2022: 9.

57 Keynote Address by Fumio Kishida, Prime Minister of Japan, 10 June 2022. <https://www.mofa.go.jp/files/100356160.pdf>

58 Takeuchi, 2020: 24-26.

Conclusion

When asked in 1988 whether some countries can play crisis-response roles alternative to those of leader, free rider and spoiler – for instance, a system in which stability is provided by a combination of a leader and a supporter such as Japan – Charles Kindleberger argued that while Japan had been a faithful supporter [of the U.S.] it was not enough to be a good follower in the absence of leadership by another country.⁵⁹ Now let us fast forward to the aforementioned contemporary interpretation of Kindleberger's ideas by Joseph Nye, according to whom global-level public goods are provided by *coalitions* led by the largest *powers*. In this paradigm, while Japan has acted within such a coalition during the 2020s crisis, it arguably had not only a supporter role but also that of a power with leadership ambitions, judging from Tokyo's crisis response measures and its continuing proactive promotion of its Indo-Pacific vision during the pandemic in various areas, including concessional finance.

The exact extent of the impact of the pandemic on Asian connectivity infrastructure requires a dedicated research inquiry, which is impossible here due to space constraints. What can be said is that the economic recession is likely to temporarily refocus some governments' efforts on domestic matters. In April 2022, Chinese President Xi Jinping reportedly called for an "all-out" campaign to boost infrastructure construction to stimulate the economy, as the effect of COVID-19 remained markedly negative. At the same time, if this policy leads to enhancing excess capacity in China while the domestic market in Japan continues to shrink, these trends may continue working as push factors for exports of infrastructure stimulating supply-side competition. Conversely, the inclination of host countries to play the providers against one another may be dampened in infrastructure providers during the post-pandemic recovery, whereas the bargaining power of resource-rich recipients and their repayment capacity are likely to be sustained by the new upward cycle in commodity prices.

The above-described conditions of rising U.S.-China tension and the development of rival blocs are likely to affect development cooperation by introducing politicisation and securitisation. In a way, this phenomenon may be another Cold War *redux*, as the phenomenon of development in its contemporary form can be traced, *inter alia*, back to the 1949 Four-Point speech by U.S. President Truman. The big difference between then and now is the increasingly blurred and obsolete distinction between 'developed' and 'developing' countries, which according to some development anthropologists was a result of Cold-War development policies.

Calls for Japan to act as balancer against China's rise in Asian infrastructure have been strong both inside Japan and in other Asian countries.⁶⁰ It is also important in this context for connectivity competition to be sustainable and avoid high social costs.⁶¹ At the same time, Japan can also lead by example. As a 'traditional donor,' Japan may consider a 'norm socialising' role and showcase best practices to 'emerging donors,' some of whom reportedly have encountered debt crises as recipients in the past but are dealing with the current debt crisis in a donor capacity for the first time, according to experts.⁶²

Japan's own transport infrastructure development in the modern era was a result of a drive to unify the country in its modernising nation-building by improving the freedom of movement. Perhaps Japan could add a new meaning to the 'Free' component in FOIP in the sense of aiding international mobility – for instance via robotic and automation technologies – despite 'COVIDtivity' and the emergence of rival blocs.

59 Charles P. Kindleberger. *The 1930s and the 1980s. Parallels and Differences*. Singapore: Institute for Southeast Asian Studies, 1988, p. 18-19.

60 Vindu Mai Chotani and Gayathri Iyer, "Re-envisioning the future of Asian regionalism in the Post COVID-19 era", Observer Research Foundation, 25/05/20.

61 Jürgen Rüländ, "Old Wine in New Bottles? How Competitive Connectivity Revitalises an Obsolete Development Agenda in Asia," *Journal of Contemporary Asia*, 2019.

62 Takeuchi, 2020: 24-25.

At the same time, Japan's historical experience in Asian financial initiatives might not necessarily invite more cooperation on the part of Chinese decision-makers. As various Japanese initiatives were either pre-empted or opposed by the U.S. in the past (for instance the 1987 New AID plan, the 1997 Asian Monetary Fund proposal, the 1998 Miyazawa Plan) despite Japan's status as a U.S. ally, Chinese decision-makers are aware of the fact that they are even more likely to encounter opposition by the U.S. and possibly other players, while also not being a U.S. ally.

However, Japan's historical experience of modernisation and development cooperation offers several constructive examples. Japan's experiences of improving its domestic infrastructure practices (dealing with 'white elephants' or *mottainai* practices), of engaging the private sector and of adjusting the tied component in aid while adhering to sustainability principles could serve as examples in the age of surging infrastructure and connectivity competition. On a more historical note, Japan's infrastructure ties with Asia show how the initially techno-imperialist approach of the pre-war era can evolve into mutually beneficial development cooperation in the post-war context.⁶³

63 Aaron S Moore, "From 'Constructing' to 'Developing' Asia: Japanese Engineers and the Formation of the Post-Colonial, Cold War Discourse of Development in Asia," in Mizuno Hiromi, Aaron S. Moore and John DiMoia, eds., *Engineering Asia: technology, colonial development, and the Cold War order*, Bloomsbury Academic, 2018.

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