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Master's Thesis of Hannah Park

China-Japan-ASEAN Third-Party
Market Cooperation under the
Framework of the BRI

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February 2021

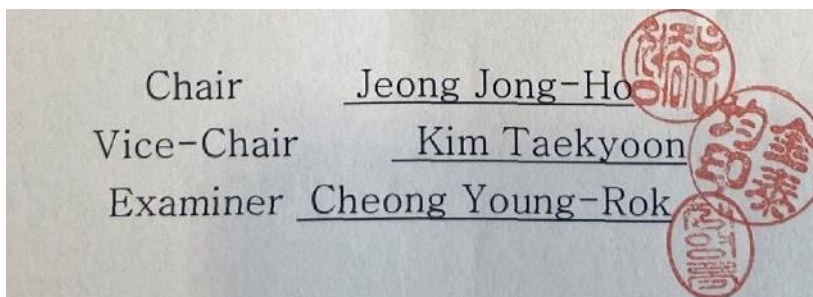
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Abstract

President Xi Jin Ping initiated the Belt and Road in 2013 and has continued to gain worldwide attention. It seeks to pursue its ambitious infrastructure plan across nearly 70 countries and invest in international organizations. This thesis will seek to look into how China's adaptation of third-party market cooperation between corporate and Government stakeholders of developed and developing countries can implement the BRI. This thesis will specifically use a case-study between China, Japan, and Thailand's business actors and how it can facilitate third-party market cooperation.

Even though ongoing historical disputes may never entirely disappear, Japan and China maintained relations due to economic Cooperation. The two giants have also continuously offered development assistance to the ASEAN, specifically for Thailand's Railway Network. While enabling mutual growth for the developed and developing countries by combining their productive advantages to maximize the efficiency of implementing this project, this will pave the pathway for Japan's forced involvement to cooperate for a better future between China and Japan and ASEAN countries sustainable development.

Keywords: Third-Party Market Cooperation, Railway Network, Belt and Road Initiative, Infrastructure Development, Thailand, China, Japan.

Student Number: 2018-21312

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Chapter 1. Introduction

1.1. Background Information

China and Japan's historical relations have shown that the pair have made cordial relations for over two millennia, beginning in the third century B.C. For fifty years, during the years 1894 to 1945, they were at continuous struggles of war. Even today, China and Japan have difficulty in their relations after the incidents of the Senkaku Islands. The main obstacle of international cooperation arises from Japan and China's lengthy historical disputes, different capacities, commitments, and interests of the richer countries, larger actors against their economically backward, often significantly weaker counterparts. However, economic relations have continued to have significant importance in China and Japan's relationship and strengthened the foundation that built political ties.

President XI Jin Ping's ambitious BRI gained tremendous attention, and Japan was extraordinarily cautious and suspicious about it when he first announced the enormous infrastructure project. However, President Xi has not backed down and is continuously pushing for this grand infrastructure plan, making numerous efforts to attract developed and developing countries. The Chinese Government announced a formal scheme where their international and domestic objectives were clearly outlined in claims that the BRI would create economic, political, social, and cultural ties among different countries for win-win cooperation.

While Japan's view of the BRI might have started without hesitation and doubt, it has continued to change and started to be more proactive. Jeffrey Kingston, a specialist on Japan mentioned that "Japan would not desire to miss the benefits that came out from

taking part in the BRI.” Therefore, the two countries agreed that third-party market cooperation on infrastructure would be the foundation of their economic cooperation. Abe and Xi were finally able to come to agreements in November in the Asia-Pacific Economic Cooperation Summit 2014. Both were able to find their respective sets of reasons to improve ties and created the push to strengthen their relations in 2017. Toshihiro Nikai, the Secretary-General of Japan, took part at the China BRI conference on infrastructure development, a starting point for many third-party market cooperation projects.

Another “rare occurrence” happened in 2018 during the Treaty of Peace and Friendship between Japan and China.¹ Fifty-two projects were signed in the memoranda of cooperation on diverse areas for development. Both sides agreed that they would use their respective strengths to promote business activities between companies and their business activities in developing countries. Even though it seemed like Japan halfheartedly supported China’s BRI, Japan was still willing to take part in the BRI. This was despite the ongoing tensions in the sea of East China, Through the BRI, Japan sought to expand its multinational businesses in other counterparts, enabling them to advance its own broader economic ambitions in Asia.

The Memorandum also established a committee for furthering Business Cooperation in developing nations between China and Japan. A business cooperation conference for developing countries and economic cooperation for private sectors was also held for relevant ministers and business companies to attend. Both Prime Minister Abe and their counterpart, Chen Younghua, the Chinese Ambassador, stated that a new

¹ Tajima, Yukio (2018). “Abe softens tone on Indo-Pacific to coax China’s ASEAN friends.” *Nikkei Asia Review*.

beginning had started for both countries. However, China and Japan's never-ending love-hate relationship proved a significant contrast between rhetoric and reality, and a paradoxical effect mediated move between Sino-Japanese relations.

1.2 Research Question

Previous literature has focused on the impractical goal of cooperation between the two Economic Giants. It even seems impossible that Japan and China would ever achieve cooperation even in terms of economic interests. Even though China has pushed to engage a diverse set of countries and industry players in implementing the BRI, it is difficult to find further development cooperation that can enable China and Japan to achieve. Chinese scholars have focused on the feasibility of collaboration with further cooperation on models to promote this new paradigm of economic and development partnership. Still, there are ongoing concerns with how Japan can complement or compete against China's connectivity vision.²

Given the novelty of third-party market cooperation, current literature lacks a comprehensive analysis of practical successes and failures in specific cases. Therefore, this paper will seek to build on relevant themes from existing literature and provide new evidence to inform third-party cooperation theories as a recent phenomenon.

This thesis will seek to answer how third-party cooperation projects can pave a constructive way for Japan to endorse the BRI in both private and public sectors for collaboration with China due to shared interests. From a long-term perspective, the BRI implementation helps China and Japan share economic stakes in significant markets for

² Hillman, J. (2018). "China's BRI: Five Years Later." *Washington DC: Center for International and Strategic Studies*.

ASEAN countries, specifically Thailand. This will ultimately enable all nations to achieve win-win growth. Japan's Free and Open Indo-Pacific seeks improvement through "connectivity" of the African and Asian continent to facilitate security and growth. By combining their comparative advantages, implementing this project will maximize productivity and allow the countries to maintain good economic relations for further cooperation and sustainable development. Even though superficial conflict may be visible financial stakes can be transferred on the business level when market forces are driven through third-party market cooperation.

Chapter 2. Analytical Framework

2.1 Literature Review

BRI initiatives made significant progress and has contributed significantly to global sustainable development. Along with the industry, the third-party market cooperation was a novel phenomenon and a recent cooperation model that sought to encourage multinational corporations in engaging with the BRI for dealing with ongoing obstacles that prohibit them from attaining development. However, previous research does not touch specifically on the reality that Japan and China's cooperation will ease relations between the two powers. Articles on this particular cooperation model have been published in journals focusing on Northeast Asia's international business, politics, and economics.³ Moreover, scholars adopted a functionalist approach by examining each country's comparative advantages or different types of cooperation based on the various entities and activities involved, for instance, joint bidding, co-investment, co-financing, and supply chain cooperation.

Professor Xu Mei and Chisako T. Masuo pointed out that China and Japan valued regional cooperation and development, especially in Southeast Asia, where the competition is fierce.⁴ So, third-party market cooperation can be seen as a tool to reduce tensions, minimize competition, and accelerate integration. In other parts of the world, excluding Asia, specialists focused on the different goals and interests of the BRI actors.

³ Xu Mei (2019). "Sino-Japanese Third-Party Market Cooperation from the View of the BRI: Opportunities and Prospects ." Northeast Asia Forum 3.

⁴ Masuo, Chiskao (2019). "Competitive Cooperation for Regional Development: Japan's New Approach towards rising China." Australian Journal of Politics and History 65, no3.

A group of researchers at the European Thinktank Network on China (ETNC) published a report on the outlines of distinct areas and regions of cooperation between China and countries like Denmark, France, Germany, Netherlands, Portugal, Spain, Sweden, and businesses.⁵

Institut Montaigne's Asian Program Director, Mathieu Duchatel, noted that it would be much easier and faster for China to achieve its economic objectives than Europe forcing China to abide by international norms.⁶ Overall, third-party market cooperation is seen as a model that contains both opportunities and obstacles for different actors involved. However, none of the reports have expanded on specific projects' details or the exact nature of the market and non-market participants' participation.

Despite contradictory philosophies by China and the U.S. towards infrastructure development in Africa – i.e., market versus state-led – an expert on Brookings Institute, noted the increase in Chinese and American collaborations firms.⁷ Ekman et al. states that the BRI depicts a new way for facilitating bilateral and multilateral interactions between countries.⁸ Thinktank generally provides current opinions and insights from both the public and private sectors and even combines a functionalist and critical approach to studying third-party market cooperation issues.

Economists and corporate strategists that represent institutional investors and businesses' interests is also another source of literature. From the banking sector, the ICBC Standard Bank's "Belt and Road Interim Report" and Citi Group's whitepapers such

⁵ Sun Li and Zhang Hui Fang (2019). "Feasibility and Choice of Models of Sino-Japanese Third-Party Market Cooperation under the BRI." *Japanese Research* 33, No 2.13-22.

⁶ Mathieu Ducatel (2018). "Triple Win? China and Third-Party Market Cooperation," Institut Montaigne.

⁷ Sun Yun (2018). "American companies and Chinese BRI in Africa." *Brookings Institute*.

⁸ Alice, Ekman (2019). "China's BRI: Competing Forms of Globalization. *Paris: Ifri Center for Asian Studies*.

as ICBC Standard Banks's "Belt and Road Interim Report" and Citi Group's "China's BRI at Five exists." From an economic standpoint, this discusses the factors that enable the growth and implementation of the BRI. The ICBC Standard Bank's joint report draws attention to Europe and North America's markets, where it seeks to change the direction of its growth model towards higher domestic consumption, higher value-added production environmental sustainability, and facilitate the shift towards multilateralism.⁹

Japan initiated its own FOIP Strategy, where they sought to build quality infrastructure and connect Africa and Asia. Akio Takahara, a specialist on Japan-China relations mentions the two initiatives' limits. Xi Jinping's signature project symbolizes Xi's power and possible authority in the world. Professor Takahara claims that linking-up and promoting basic principles such as free trade and the rule of law (CPTPP, Japan-EU EPA), supporting Southeast Asian nations on complications regarding the South China Sea, and so on.¹⁰ It enabled both countries to prevent adventurism and maintain pace while developing a network of security cooperation. There is no way China will back down on their ideals, but if the BRI and FOIP can cooperate to co-caps, both countries can conduct better public diplomacy towards the Chinese.

⁹ ICBC Standard Bank and Oxford Economics (2018). Belt and Road Interim Report: Tracking evolving scope, discovering expanding opportunities.

¹⁰ Akio, Takhara (2012).

2.2 Case Study Selection

The specific case study will demonstrate China's efforts to promote third-party market cooperation to attract Japan to join this advanced Initiative. Japan is China's largest major partner in terms for cooperation within third-party markets. The enterprises between countries have made a significant progression for this particular collaboration as early as 2007. Japan's Mitsubishi Corporation collaborated with the National Building Material to expand on Vietnam's Nghi Son Cement Corporation. Even after, they collaborated on several different projects under the framework of third-party markets.

Third-party market cooperation is mostly based in Southeast Asian nations, which are still developing and need infrastructure growth. Japan has had long overseas cooperation experience and advanced technology, mature risk management, while China can support these projects. Together, these parties can represent developed, emerging, and developing economies' diverse interests and competencies. The case studies will focus on Thailand's Southeast Asian country, a center point for the ASEAN and a fast-growing economy globally. Thailand is currently in different partnerships with China and Japan. Given their geographical position, these countries have become of vital interest in terms of the BRI.

In this case study, businesses and institutional investors include state-backed or state-owned enterprises who are the key players in the financing and constructing BRI projects. In terms of Financing and Investment, banks and businesses are the main sectors responsible for funding the projects. For companies, participation takes place in the form of joint ventures (J.V.s), mergers & acquisitions (M&As), or other forms of shareholding.

Meanwhile, institutional investors can also provide bank credit, syndicated loans, joint Financing, investment insurance, guarantees, financial consulting, risk management, and other services. Once funding is secured, companies are hired as contractors for a range of activities throughout a projected lifecycle, from design and construction to operations and maintenance.

2.3 Data sources

The process of selecting, negotiating, and executing third-party market cooperation projects could serve as an essential source of insight for future BRI researchers. The primary sources for qualitative observations between actors in the public sector include official speeches, joint statements, memoranda of understanding, and press releases. Similarly, private sector cooperation's primary sources include interviews, business agreements or memoranda of understanding, company websites, and news articles. The following case studies rely on open-source information written or recorded primarily in English.

Chapter 3. Dynamics of China's objectives for the BRI and feasibility of Third-party Market Cooperation

3.1 China's Domestic and International Motives of the BRI

Yu Qiang, a specialist at the University of International Relations in Beijing, said that the viewpoint of Japan towards the BRI is the combination of both domestic and international reasons.¹¹ This chapter will seek to analyze China's political economy of BRI's domestic and international levels. Examining China's domestic purposes shows internal limitations that cause them to open up for participation while the global motives indications opportunities for further internationalization of the BRI.

From a domestic perspective, the BRI has five main goals. Due to China's overcapacity in construction and heavy industries, the BRI seeks to shift ready demand that will arise from new infrastructure investment. They can achieve this because by making loans to countries benefitting from the BRI, they will be forced to use Chinese contractors in materials, equipment, and construction.

Next, BRI countries provide new markets for Chinese business to expand their global operations, which will enable them to open up new markets, shift production towards higher value-added goods, and implement the Government's "going global" strategy.¹² This would expedite China's global economic impact in expanding trade and finance for global-rule and norm-setting.

¹¹ Min Ye, "Fragmentation and Mobilization," 702.

¹² Baogang, He (2019). "The Domestic Politics of the BRI and its Implications, Journal of Contemporary China."

Third, investments in energy and transport infrastructure would further improve China's quality of energy security by expanding the supply and different forms of transport for Chinese natural gas and oil imports.¹³ This would create growth and security in Western China, a long-standing challenge of Beijing. The BRI seeks to develop its landlocked Western regions to close regional disparities and ensure political stability in areas with large ethnic minority populations. This "Go West" element retorts to the U.S. "tilt to Asia" initiated by President Barack Obama.¹⁴ The BRI's geopolitics' objectives were not to go against the U.S. but to build the economic strength and influence of China's economy without causing conflict with the States by shifting their focus to less importance the U.S.

China has aimed to expand the role of the renminbi globally. While China is a substantial and robust manufacturing and trade house, it continues to achieve or perform at a lower level than expected, despite symbolic gains such as the RMB being included within the IMF's currencies that consists of the Special Drawing Right, a global reserve asset. The newest component of the BRI's rule-and norm-setting side is the digital silk road- to formulate communication networks throughout the world of the developing nations.

China is looking to both build digital infrastructure and export e-commerce models to countries participating in the BRI.¹⁵ These technologies sought to boost the

¹³ Wuthnow, Joel (2017). "Chinese Perspectives on the BRI: Strategic Rationales, Risks and Implications." Washington: Institute for National and Strategic Studies.

¹⁴ Aoyama, Rumi (2016). "Understanding "One Belt One Road": China's New Global Strategy." *The Journal of Contemporary China Studies*.

¹⁵ NDRC, Third Party Market Cooperation Guidelines and Cases.

BRI's physical infrastructure while initiating general technical standards to nations that lack necessary internet facilities.¹⁶

Summary for China's 2015 Vision and Action Plan through the BRI¹⁷

Priorities of cooperation		Basic standards: openness and joint collaboration, agreeable and incorporating, market cooperation, win-win cooperation.
	Policy Coordination	Boosting of collaboration between governments, establish a recurrent number of interchanges and communication on macro policy between governments, further nurturing of similar interests, achieve their development goals, and grow in their trust for each other.
	Facilities Connectivity	Improving the connectivity through infrastructure goals through setting up of technical systems in sectors including energy, transport and communication fields.
	Unimpeded trade	Improving on the enhancement of investment and trade, strengthen the transparency of technical trade measures, increase not only cooperation but also the convenience of the safety of supply chains, decrease non-tariff barriers, develop trade liberalization and facilitation and contribute to the improvement of local self-help as well as managing local Chinese companies.
	Financial Integration	Broaden the scale of bilateral currency, broaden, enhance the bond market, open opportunities for more dialogue that has relation to the BRI focusing on establishing Shanghai Cooperation Organization (SCO) financing institution, strengthen collaboration between the China-ASEAN Interbank Association and SCO Interbank Association
	People to People Bond	Bilateral student exchange with support through scholarship. Holding cultural activities with film festivals and carrying out sports events. Also providing medical assistance and enhancing cooperation through science and technology.

From an international perspective, the objectives of the BRI are included in different areas of cooperation under the “Vision and Actions on mutually establishing

¹⁶ Xu Mei (2019).

¹⁷ Alisher, Umirdinov. The Research Institute of Economy, Trade and Industry, <https://www.rieti.go.jp/en>

the BRI".¹⁸ It included an initiative focused on policy coordination, connecting facilities, no restrictions to trade, financial integration, and human exchanges.¹⁹ In pursuing these five goals, China hopes to boost regional connectivity and economic integration. To power sustainable economic development, China sought to engage other fast-emerging Asian and non-Asian markets by building new supply chains and markets. Free trade zones: "efforts will be increased to implement the network of free trade area among countries that are part of the BRI."²⁰

However, to counter the critiques of the "China threats," China began to change its approach to the BRI approach about multilateralizing the BRI as Xi Jinping's call for other transitions. For the first time, in March 2019, the State Council's mentioned third-party market cooperation and. They claimed they would comply to proposition of taking part in mutual growth through dialogue and cooperation."²¹

President Xi further promoted and vowed to pursue "open, green and clean" collaboration for the BRI forum.²² One of those initiatives was for China to reform their conditions of the multilateralization of the BRI. Therefore, as China went global, it does not seem like China will stop investing and developing the state. By analyzing the investment patterns and Finance of countries currently participating in the BRI, this sector will examine how this creates opportunities and poses risks for China.

The Chinese Government has been lending to countries that have been traditionally denied access to credit. The Chinese Government believes that BRI-related investments

¹⁸ Maiiko Okano- Hejimans (2019).

¹⁹ Xi Jinping (2017). Speech at the BRI forum, Xinhua.

²⁰ Xi Jinping (2019). "Working Together to Deliver a Brighter Future for BRI cooperation

²¹ Youyi Zhang (2016). "Third-party market cooperation under the BRI," Area Development and Policy 1, no. 3, 323-340.

²² Xi Jinping (2019).

can reach \$1 trillion to \$4trillion in an unspecified period.²³ Currently, the total value of projects under the BRI has reached \$750 billion.²⁴ China made 420 investments in 143 BRI countries, which amounted to up to \$280 billion in total.²⁵ By the end of 2016, the Government began tighter capital control and prioritized BRI projects. Investments gradually increased to over \$50 billion but dropped again to \$36 billion in 2019. The majority of Chinese capital still flowed to developed countries through high-valued mergers and acquisitions (M&As) or brownfield investments, rather than greenfield projects in BRI countries.

However, despite the decline in China's ODI, BRI countries' total share expanded due to increased membership and political ambitions to keep spending high. However, investors faced challenges due to inconsistent legal, political, environmental, and social conditions across the BRI.

The BRI's trade with other countries was the second-largest trading zone. The General Administration of Customs states that China's FDI to other countries surpassed 110 billion dollars. Chinese enterprises also invested USD 15.64 billion, including 13% of the total Chinese outward FDI.²⁶ Contracts for construction projects in BRI countries went as high as 89.33 billion dollars, which accounted for 52% of construction contracts between 2013 and 2018 overseas.²⁷ However, the BRI consisted of debt-financed construction projects rather than equity-owning investments. The BRI has had over \$450

²³ Ministère de l'Économie et des Finances (2018). "The New Silk Road." Paris: Tresor-Eco.

²⁴ ICBC Standard Bank and Oxford Economics (2018).

²⁵ Derek, Scissors (2018). "Private Data, Not Private Firms: The Real Issue of Chinese Investment." *Washington, D.C: American Enterprise Institute*.

²⁶ China News Net (2019). China's total import and export volume along BRI countries reached US \$ 1.3 trillion last year. <https://www.yidaily.gov.cn/xwzz/bwdt/78295.htm>.

²⁷ Business Micro News (2018). The Ministry of Commerce, head of department mentions foreign investment cooperation in 2018. https://mp.weixin.qq.com/s/BaEIUM10JlnRr6Q4bX_Ww..

billion worth of Chinese construction activities from 935 projects, which is more than double the number of BRI investment transactions.²⁸ While BRI countries comprised around 37% of China's total ODI between 2013 and 2019, 91% of China's construction contracts were signed with BRI member countries.²⁹

China did not release data on its overseas lending, which caused this to be one of the main targets of criticism among Western countries. However, scholars gathered datasets on Chinese official financial flows, which confirmed yearly debt service obligations for recipient countries and China's quickly increasing debt stock.³⁰ Kiel Institute published a report claiming that more than 90% of China's state-driven lending occurred between enterprises owned by the state. While the roles of private-owned companies expanded during recent years, focusing on infrastructure projects were dominated by SOEs and supported by concessionary Finance from state-owned banks. China's lending terms are similar to those of private lenders, which is unlike other official creditors. They tend to lend to countries that can compromise with their terms and have low market-interest rates.

The majority of China's primary funding sources include the development bank of China, the billion dollar fund for the Silk Road, and the government-owned commercial banks. The China Development Bank-supported USD 110 billion worth of projects, which amounts to 37 economies worth and seeks to support other projects that show potential.³¹

²⁸ AEI and Heritage Foundation, CGIT.

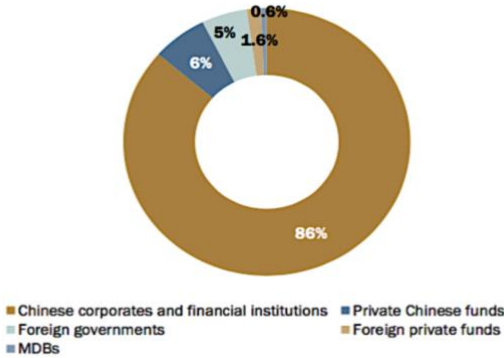
²⁹ Chen, Peng (2019). BRTII report: "One Belt, One Road." The Beijing News. <http://www.bjnews.com.cn/finance/2019/05/07/576139.html>.

³⁰ Sebastian, Horn (2019). "China's overseas lending." Keil Working Paper No. 2139.

³¹ Grieco M. Joseph. (2003). "State Power and World Markets: The International Political Economy." New York: W.W. Norton, 116.

The Industrial and Commercial Bank of China (ICBC) pledged USD 159 billion in 212 projects and the Bank of China guaranteed USD 100 billion during the years 2016 to 2018. China Exim Bank invested in 1000 projects in 49 countries, amount to USD 80 billion. Furthermore, the Construction Bank and the Silk Road Fund pledged approximately USD 40 billion.³² The New Development Bank has seen little increase in investments but expects more participation in different divisions in the future. At USD 2.3 billion of loans, the Asian Infrastructure Investment Bank is still minor compared to the ones mentioned earlier, but it does not formally belong to the BRI.

Figure 4. Breakdown of Funding Sources of BRI Projects, 2013-2018



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Main sectors of Investment

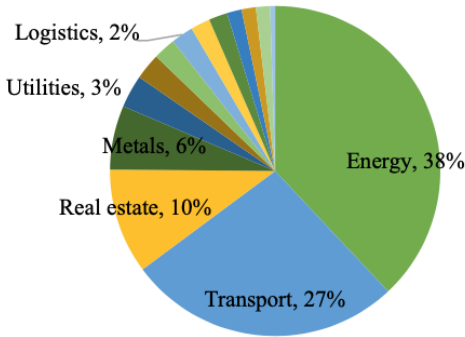
BRI’s primary funding source and investments focus on infrastructure projects such as Energy, transport, logistics, and utilities. According to the figure below, Energy and transportation alone make up most of the assets, which amounts to two-thirds of the total Investment. Energy-related FDI and loans under the BRI are usually tied to

³² Youyi Zhang (2019). “Third-party market cooperation under the BRI: progress, challenges, and recommendations.” *China International Strategy Review*.

³³ ICBC Standard Bank and Oxford Economics (2018).

traditional, carbon-intensive energy types such as oil and coal.³⁴ Transport-related investments concentrate on roads and auto sub-sectors, with 27% of total Financing going to East Asia.

Figure 3. Chinese Investments and Construction Projects in BRI Countries By Sector, 2013-2018



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3.2 Japan’s Free and Open Indo-Pacific strategy and shift from non-engagement to the conditional engagement of the BRI

Japan's economy has long since entered into a long-term recession since it began to fail in the 1990s. Domestic consumption is dropping, scarcity of workers is more evident, the aging population is higher than ever before, and the burdens for paying back their debt is becoming more severe. It has become crucial to make a breakthrough by exploiting international markets.

However, Japan's exports and production have slowly lost their vivacity because of failing economic growth. Simultaneously, as President Trump went into the office, he

³⁴ UNDP, Harmonizing Investment and Financing Standards, 81-82.

³⁵ AEI (CGIT).

began to take protectionist measures. He announced steps including withdrawal from the TPP, which resulted in an enormous unpredictability for Japan's foreign trade. Based on this, Japan will not neglect the opportunities that come from joining the BRI.

Japan's government was never responsive to whether they would be taking part in the BRI for almost two years. Indirect cooperation was always restricted to the combined financial project along with the Asian Development Bank and the Asian Infrastructure Investment Bank until early 2015. Japanese media still focused on the negative aspects of the BRI. They expressed their hesitation to China's lack of transparency on the monitoring system and decisions to give out loans.³⁶

However, Japan was in the lead with the notion of achieving greater access to markets through infrastructure plans. The Japanese hoped to counter China's initiative of revitalizing their economy by their own "Free and Open Indo-Pacific vision." FOIP consisted of the following principal foundations: "establishing and promoting economic growth, enhancing connectivity, securing peace and finally liberty through navigation and trade."³⁷ It sought to strive to enhance the capacity of for the interconnection of platforms, economic growth all through development infrastructure. Initially, it pursued the "connectivity in ASEAN (East-West ECC by strengthening the economic business partnership and improving the business environment.

Like the BRI, Japan also added their version of "People-people connectivity" as the final pillar of the FOIP.³⁸ The critical areas of this Initiative were securing

³⁶ Chan, Jay (2015). "The BRI will define China's role as a world leader." *South China Morning*.

³⁷ Tomohiko Satake & Ryo Sahashi (2020). "The Rise of China and Japan's Vision for FOIP. *Journal of Contemporary China* a." [10.1080/10670564.2020.1766907](https://doi.org/10.1080/10670564.2020.1766907).

³⁸ Noriaki Abe (2019).

international peace, stability, achieving SDGs, and promoting human security with developing countries that would contribute to the regional revitalization of “quality growth.”

Furthermore, the “Quality Infrastructure” gained support during the G& Ise-Shima Summit in 2016. It stressed the importance of ensuring constructive governments, responsible management, resilience to the risks of natural disasters, terrorism, and cyber-attacks. It also seeks to build capacity and ensure that local communities can transfer technology. Not only so, but the FOIP also strives to respond to social and environmental issues while assuring consistency along with different development goals. Finally, through a public-private partnership, promote effective resource mobilization.³⁹

On March 31, 2015, Finance Minister Aso mentioned during a conference at the House of Representatives Financial Affairs Committee that the Japanese government used to forgive external loans in the past. Currently, further calls for infrastructure investment is on the rise. However, he questioned whether the AIIB had the same ability compared to examine and scrutinize if in fact they would be able to repay and inspect the financing. He asked further if the AIIB had the skills, governance and capability to do it correctly. With no claims until now. They claimed that they would indeed join in taking part in the BRI in they are able to prove that they had the proper governance structure similar to that of the U.S.”⁴⁰ The Government began to change their seats towards the reaction of BRI.

³⁹ Speech by Prime Minister Abe. “The Future of Asia: Be Innovative.” 21 May 2015.

⁴⁰ Tomohiko, Satake (2020).

Their decisive moment was at the forum of the BRI International Cooperation. It was held in 2017, and the Secretary-General Toshihiro Nikai, Xi Jinping, including several other government leaders from the Chinese counterpart shared their views.⁴¹ Abe also contributed in backing the BRI stating that it may be the key to connecting East Asia.”⁴² Xi Jinping held a different conference at the Economic Leaders’ Meeting for APEC in the year 2017. After the APEC meeting at a press conference, Prime Minister Abe also clarified Japan’s view of the conditional agreement. He claimed that he was in indeed anticipating the future acquisitions of peace and prosperity around the world if it they can achieve it through infrastructure growth, transparency, financial soundness and economic efficiency among governments in the international community.”⁴³

In a Clingendael policy brief, Maiiko Okano-Heijmans urged European policymakers to follow Japan’s approach of “conditional engagement, balancing between cooperation and resistance which is regarded as both a “strategic partner” and “systemic competitor” by the European Union (E.U.).⁴⁴ At first, the Japanese Government continued to clarify their perspective of collaborating with the AIIB but took on a conditional engagement in their partnership through the third-party market cooperation.

Japanese businesses sought to cooperate with sectors in relevant infrastructure projects worldwide in terms of economic perspective. Japan realized that its multinationals could benefit from the Chinese effort, and through the BRI, Japan achieve a “plus-sum” outcome. The FOIP stressed that they could achieve prosperity

⁴¹ Daisuke Suzuki (2019). “Japan and China to hold infrastructure forum during Xi visit.” *Nikkei Asia Review*.

⁴² Aoyama, Rumi. (2016).

⁴³ Aoyama, Rumi. (2016)

⁴⁴ Maiiko Okano-Heijmans (2019). Policy Brief: Engaging but not endorsing China’s BRI. Hague: Clingendael. https://www.cingendael.org/sites/default/files/2019-05/PB_China_Belt_and_Road_Initiative_May_2019.pdf

economically and even build regions while maintaining interdependence with China. Japan admitted that their relations were crucial for maintaining security and development in the Indo-Pacific. Both countries would establish “win-win cooperation deriving from mutual strategic interests” in diverse sectors.⁴⁵

At long last, the Japanese Government set three areas where they could invest in third markets: protection of the environment, conserving energy, and industrializing through industrial parks, logistics sector, and power generation infrastructure. The Japanese Government aimed to engage selectively in the BRI but, at the same time, build its relations with the U.S. This was because continuous Japan-China cooperation will enable Japan, through the Indo-Pacific strategy, to widen its economic projects in the African and Asian continent on maritime security. Because the BRI has multidimensional aims and components, Japan believed that cooperation through business cooperation in third countries could enable long-term cost-effectiveness, accountability, and infrastructure investment integrity.⁴⁶

However, government funds alone were not sufficient to meet the objectives they wanted to achieve. There was a need for using the public's capital so that they could prevent risks for the private sector. By strengthening cooperation with MDBS, co-financed schemes seemed viable. When effective resource mobilization occurred, a win-win situation for all parties seemed achievable.

3.3 Feasibility of Third-Party Market Cooperation

⁴⁵ Tomohiko Satake & Ryo Sahashi (2020).

⁴⁶ Tomohiko Satake & Ryo Sahashi (2020).

The BRI and Japan's FOIP have much room for overlapping and can be further improved for better conducted public diplomacy. The two initiatives are both strategic in terms of geopolitical and geoeconomics competition. There are visible competition and room for cooperation through economic aspects, despite the fragility and resilience in Japan-China relations. However, suppose the focus can be put on the multilateral investment framework. In that case, both countries can be committed to their vision and promote joint projects in third countries based on comparative advantages while mutually improving their initiatives.

China's National Development and Reform Commission (NDRC) published the guidelines and cases on Third-party Cooperation in August 2019. It defined it as the cooperation between business of developing countries and businesses of Chinese companies for economic growth through third-party markets." It gave particular importance to the fact that this cooperation model would enable not only the Chinese businesses but also other countries to achieve growth. It would further help developing countries' infrastructure, industries and even allow people's lives to improve.

The BRI's main goal through this cooperation model is to enable three parties to contribute their comparative advantages allowable the developing worlds to connect. The NDRC definition states that this cooperation model focuses on the market and firms, where the global standards business principles are approved of to achieve sustainable development and high-levels of cooperation among countries."⁴⁷

⁴⁷ Youyi Zhang (2019).

Overall, this model intends to enhance cooperation, especially on rules regarding MNCs and international organizations. According to International Cooperation literature, scholars focused on how other actors could improve the BRI's likelihood of collaboration.⁴⁸ Actors' cooperation is faced with the difficulty of sharing the costs and benefits if some are wealthier, more powerful or more deemed more critical.⁴⁹ This is because some Chinese firms and MNCs have their comparative strength while developing countries may seem less capable.

The key to this cooperation model is that MNCs and Chinese firms use most of their comparative advantage to boost collaboration. According to the OECD, triangular cooperation is between DAC donors and private governments where underdeveloped countries provide development programs for developing countries to promote South-south Cooperation. There is a focus on both the developed and developing countries' collective experience and sharing of knowledge.⁵⁰ The critical issue is how MNCs can further advance their experiences and knowledge under this trilateral framework.

Taking a functionalist approach, this cooperation model uses the countries' comparative advantages either for economic growth or businesses. Distinct varieties of the model exist, which depends on the relations among developed as well as underdeveloped nations. Under the BRI framework, this cooperation requires a well-constructed framework to realize the comparative advantage of each party to the fullest.

⁴⁸ Krasner, Stephen D. (1982). Structural causes and regime consequences: regimes as intervening variables. *International Organization* 36 (2): 185-205.

⁴⁹ Koremenos, Barbara (2001). The rational design of international institutions. *International Organization* 55 (4): 761-799.

⁵⁰ Talita Yamashiro (2019). "Triangular co-operation and aid effectiveness." <http://www.oecd.org/dac/46387212.pdf>.

Developing countries lack the capital and technology for infrastructure development. There has been much progress where China has signed MOUs with up to 14 countries⁵¹. While China has a more significant advantage with production and policy support, Japan can support it because they have had a long history of experiences abroad, advanced technology, and risk management. If both nations can use their maximum strength from their respective areas, they can achieve bilateral win-win cooperation.

This cooperation model shows its first achievements in both development projects and systems in the past six years where almost 50 greenfield investment projects out of 413 were implemented. The value of all projects went as high as \$12.6 billion U.S. Even in the first China-Japan cooperation conference in 2018, up to 52 cooperation agreements were agreed upon, which totaled approximately USD \$18 billion.⁵²

In May 2018, Li Keqiang's visited Japan, where they signed MOU's on the cooperation model. It initiated a starting point for establishing suitable mechanisms to exchange and enhance the cooperation between the the two countries' enterprises.⁵³

Different operation channels exist which also consists of the China-Japan high-level economic dialogue, China-France high-level economic and Finance dialogue. These operation methods signified the gateways to collaboration between developing countries and China.

3.3.1 China-France: Lekki Deep Seaport in Nigeria

⁵¹ Derek, Scissors (2018).

⁵² Derek, Scissors (2018).

⁵³ Li Keqiang (2014). Remarks by Li Keqiang at the 17th ASEAN-China summit. www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1212266.shtml.

China- France and China-Germany has had much room for the collaboration in different sectors regarding the cooperation model. As seen in the table below, both countries have shown progress in the form of joint investment where maritime, roads, railway sectors have been focused on.

Projects among China- France and China-Germany			
	Road	Railway	Maritime
France	Investment		Engineering Investment Strategic cooperation among businesses
Germany	Products and services	Investment Strategic cooperation among businesses	

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Chinese and French firms have seen much progress as seen in the graph below, but especially in the maritime sector through the third-party market cooperation. French terminal operators such as CMA CGM or Bollere provide management expertise to ports built and financed by Chinese businesses, including China Harbor Engineering Company (CHEC), a state-owned engineering contractor, and China subsidiary Communications Construction Company. In Nigeria’s Lekki Deep Seaport, CHEC is funding and building the Port, operated by CMA CGM. These companies have pressed for significant political support to access Chinese projects. However, lack of government effort still exists in the maritime sector. With the number of greenfield port projects currently arranged in Nigeria, China-France collaboration has seen much progress for different opportunities.

⁵⁴ Zhang Gangyi (2020). “The BRI: A comparative view of China-Germany and China-France Cooperation. Upply. <https://market-insights.upply.com/en/belt-and-road-initiative-a-comparative-view-of-china-germany-and-china-france-cooperation>

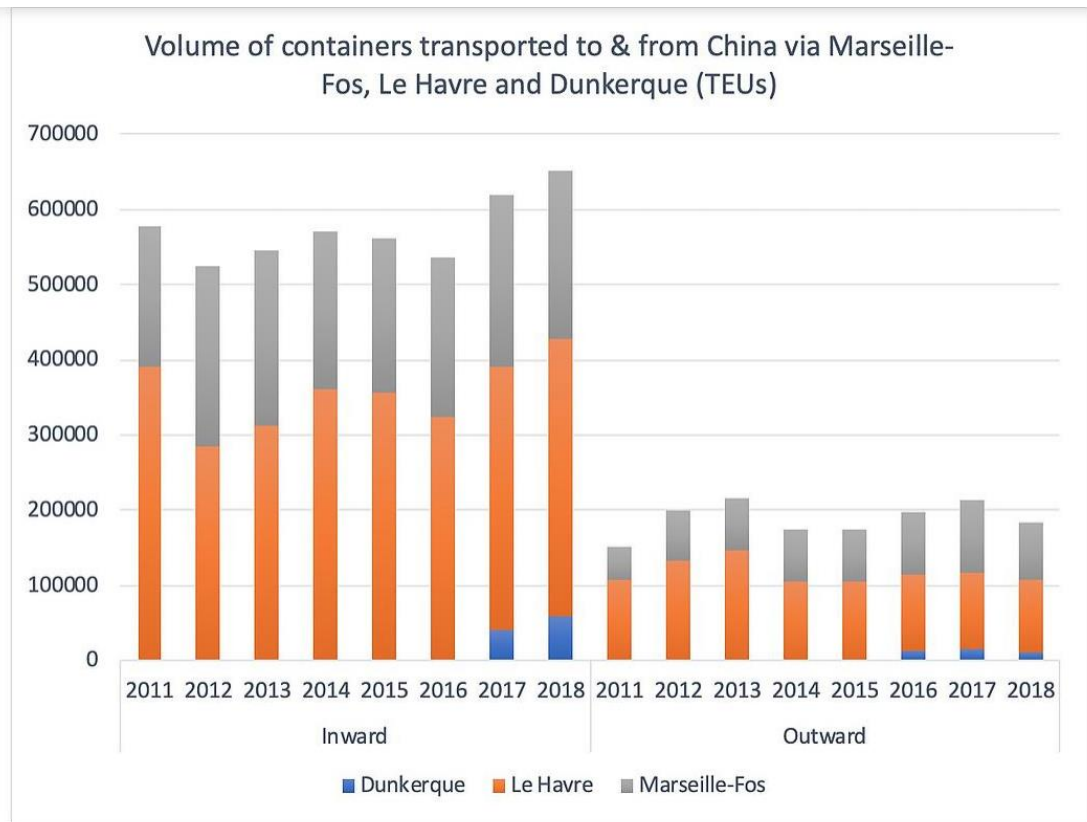


Figure 1 - Data source: Eurostat

Nigeria has invested in different ports where one is already under construction, another in talks, and another still in development. The two main ports in Lagos, Tincan Island, and Apapa, receive 80% of Nigeria’s shipping traffic. However, records show that hundreds of trucks end up queueing daily because of the inefficiency and congested roads to the ports.⁵⁵ Ports are an essential part of Africa's supply chain because most external trade is conducted through shipping. It takes six days and approximately \$460 to export a twenty-foot container in Singapore but it takes 23 days and \$1564 to carry out the same task in Nigeria.⁵⁶ For these delays to be reduced, the Nigerian Government increased

⁵⁵ Solape Renner and Anthony Osae-Brown (2019). “Nigeria to Build Seaports to Ease Gridlock on Lagos’ Shore.” Bloom erg.

⁵⁶ World Bank (2014). “Doing business 2015: Going Beyond Efficiency.” *Washington, DC: World Bank.*

terminal capacity and built ports to accommodate larger vessels. Since 2017, the construction of Seaport in Lagos's Free Trade Zone has slowly started to take place. When completed, it will be the largest Port in West Africa, with an expectancy of it handling a capacity of 2.7 million twenty-foot equivalent units. Lekki Port is being carried out under a Public-Private Partnership model, with an estimated USD 1.5 billion.

China and France have comparative advantages that can enable mutual win-win cooperation for regional development around Africa. If France is known to have extensive knowledge and experience on the continent, China has the financial strength, strong government backing, and a complete manufacturing base.⁵⁷ African countries' demand for infrastructure development amounts to over \$100 billion a year, but only half of this amount is invested.⁵⁸ Infrastructure development in ports, roads and railways to transport traded goods on land are on the rise for sustainable growth. If this model can be implemented, it can open ways for significant business opportunities for local and foreign businesses.

In terms of cooperation between governments, France has focused more on private sectors. It has been very challenging to identify projects in domains agreed on in the 2015 “Joint Statement of China-France Cooperation on Third-Party Markets.”⁵⁹ When French Prime Minister Edouard Philippe’s visited China in June 2018, France proposed 12 projects, only to be rejected only as an alternative list by the Chinese.⁶⁰

⁵⁷ EY (2019). “Borderless Win-win cooperation in building the BRI.” <https://www.ey.com/cn/en/services/speciality-services/china-overseas-investment-network-ey-coin-navigator-report-issue-3>.

⁵⁸ African Development Bank (AfDB) (2018). African Economic Outlook. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018-EN.pdf.

⁵⁹ Government of France (2015). “Joint Statement on China-France Third Party-Market Cooperation.” July 6, 2015.

⁶⁰ Mathieu Duchatel (2019).

However, despite these difficulties, the Government allowed private actors to assume bilateral working groups' tasks. When President Xi visited France in March 2019, the French Treasury and the NDRC agreed on a novel list of third-party market cooperation reflected in the five pre-negotiated projects by business sectors Lekki Port.⁶¹ During President Emmanuel Macron's subsequent visit to China in November 2019, both sides pledged to push forward for diverse projects in Asia and Africa as well as enabling the countries involved to push for further achievement of finalizing projects and make clear standards.⁶²

Both sides agreed that the projects would be carried out through the agreement of the countries related because of the attributes of globally accepted standards and international rules.”⁶³ The French Government found it hard to persuade the Chinese government for more openness and guidelines for sustainability through moral rhetoric, economic profit was still a much greater motivating force for both state- and non-state actors.

In terms of cooperation businesses, China's CMG (Chinese state-owned conglomerate China Merchants Group) has firms in industries including finance, transport, and real estate. CM Port (Chinese Merchant Port Holding Companies) specializes in port operations and logistics, with a port network that extends across China's eastern coast. Recently, CM Port has increased its investment in port facilities overseas due to China's

⁶¹ People.cn (2019). “Nigeria's Lekki deep port project financing agreement is officially signed in Lagos.”<http://world.people.com.cn/n1/2019/1024/c1002-31417892.html>.

⁶² Consulate General of France. “Action plan for Franco-Chinese relations-Declaration.”<https://hongkong.consultfrance.org/Action-plan-for-Franco-Chinese-relations-Declaration-Beijing-2019-11-06>.

⁶³ Ibid.

BRI. In 2013, CM Port acquired a 49% stake in CMA CGM's subsidiary port operator, Terminal Link.⁶⁴

CMA CGM began a new partnership with CM Port to cooperate on BRI projects in 2015. The French Minister of Foreign Affairs, the Chinese Premier Li Keqiang, and a delegation of Chinese ministers from MOFA, MOFCOM, and NDRC attended the signing ceremony.⁶⁵ The new capital injection and support of high-ranking officials from both sides paved the way for CMA CGM to participate in the BRI.

The agreement for the Lekki Port was signed in April 2011 between the Nigerian Ports Authority (NPA) and Lekki Port LFTZ Enterprise (LPLE), a joint venture Singapore-based Tolaram Group. This is a company that currently has the largest food company in Nigeria. It owns 75% of shares, the Lagos State Government with 20% of Nigerian Ports Authority with 5%. However, in October 2019, Tolaram sold 52.5% of its shares to state-owned construction firm China Harbor Engineering Company (CHEC) in exchange for \$470 million in equity financing.⁶⁶ CHEC joined the project's Financing in 2017 and secured a \$629 million loan from China Development Bank for the project company.⁶⁷ The African Development Bank, European Investment Bank, Standard Chartered Bank, Rand Merchant Bank, Africa Finance Corporation, and Standard Bank never signed the

⁶⁴ CMA, CGM (2013). "CMA CGM and CHMI have signed an agreement for the sale and purchase of 49% of Terminal Link," January 24, 2013. <https://www.cmacgm-group.com/en/news-medias/cma-cgm-andcmhi-have-signed-an-agreement-for-the-sale-and-purchase-of-49-of-terminal-link>.

⁶⁵ CMA, CGM (2015). "The CMA CGM Group to sign two major economic agreements during the Chinese Prime Minister's visit to its headquarter." <https://www.cmacgm-group.com/en/news-medias/historical-visit-of-the-chinese-prime-minister-li-keqiang-at-the-cma-cgm-group-s-headquarter>.

⁶⁶ Neil Munshi (2019), "Noodle market plans busiest port in west Africa," Financial Times." <https://www.ft.com/content/805ecb02-f0c-7-11e9-bfa4-b25f11f42901>.

⁶⁷ Lekki Port, "Lekki Port signs US \$629m Facility Agreements with China Development Bank," October 23, 2019, <https://lekkiport.com/lekki-port-signs-us629m-facility-agreements-with-china-development-bank/>;

final facility agreements with the concessionaries.⁶⁸ With approximately \$1.1 billion secured, Chinese financial firms raised the necessary funds to close the project financially.⁶⁹

China's CHEC, France's CMA CGM, and U.S.-based infrastructure consultancy Louis Berger are involved in the concession project.⁷⁰ China Harbor Engineering LFTZ Enterprise takes charge of engineering, procurement, and port construction. Port terminal, a division of the French CMA CGM company, signed a sub-concession agreement with the project company in April 2018 to provide operations and maintenance services.⁷¹ CMA CGM's involvement in Nigeria's Lekki Port will most probably confirm a higher standard for project execution.

3.3.2. China-Germany (Siemens)

German-based multinational conglomerate, Siemens, has been active in projects which includes a gas power plant in Pakistan, high-speed railway in Thailand and metro trains in Brazil. One of the world's leading suppliers of engineering technology products and services, Siemens, has partnered with many Chinese EPC companies placed in overseas markets as part art of Chinese companies in efforts abroad.⁷² Siemen's wealth of knowledge and experience in electrification, automation, and digital has made it an

⁶⁸ Anna Okon (2018). "ICRC seeks more equity funding for Lekki port." January 28, 2018, <https://punching.com/icrc-seek-s-more-equity-funding-for-lekki-port/>.

⁶⁹China Harbor Engineering Company (CHEC). "Financing closed! The company signed the financing agreement for the deep-water port project in Lekki, Nigeria, http://www.check.bj.cn/pub/check_pc/cn/xwzx/gsyw/2019/20191024_7631.html.

⁷⁰ Lekki Port, "Lekki Deep Sea Port: Construction Work Begins," February 2, 2018, <https://lekiport.com/lekki-deep-sea-port-construction-work-begins/>

⁷¹ Oluwatoyin Amao (2018). "CMA CGM emerges operator of Lekki port container terminal." April 17, 2018, <https://shipsandports.com/ng/cma-cgm-emerges-operator-lekki-port-container-terminal/>.

⁷² The Economist Intelligent Unit (2018). "Participation of foreign firms in the BRI," HSBC. <https://www.business.hsbc.com/belt-and-road/participation-of-foreign-firms-in-the-bri>.

essential partner for Chinese state-owned companies for cooperation in overseas projects.

In terms of third-party market cooperation, Siemens signed two business-to-government MOU's with the NDRC's Belt and Road Promotion Center to promote the initiatives led by China. Being one of the first foreign companies to enter the Chinese market, Siemens has established long relationships with state-owned firms and Chinese government institutions. They even joined hands with Chinese firms in their "going global" strategy as the first global companies.⁷³

During the World Economic Forum in Davos 2018, a senior Siemens executive referred to BRI as the predominantly needed infrastructure project of the decade. Siemens has continued to maintain a much higher profile due to business interests with China. Even though there is lack of trust in China's overseas activity's political dimension, Germany admits that the BRI contributes to positive infrastructure development. Still, the German Government prefers to be associated with the BRI through multilateral forums. However, their participation alongside the Asian Infrastructure Investment Bank (AIIB), the fourth-largest shareholder and largest of non-regional members, is the most noted.⁷⁴

In July 2017, Siemens signed its first MOU with the BRI Construction Promotion Center of China's National Development and Reform Commission. The MOU was used further to advocate the application of digital technologies in BRI projects. The second MOU, which was completed in March 2019, enabled both parties to commit to promoting

⁷³ Siemens (2018). "Siemens embraces the BRI." <https://press.siemens.com/global/en/pressrelease/siemens-embraces-belt-and-road-initiative>

⁷⁴ Frans-Paul van der Putten (2016). "Europe and China's New Silk Roads." Paris: European Thinktank Network on China

dialogues and collaboration among German and Chinese industries, collaboration on third-party market projects in BRI countries, and the Investment financing of these projects.⁷⁵ Furthermore, NDRC's international finance division holds regular meetings with representatives of German companies alongside German embassy officials in Beijing, higher officials also including Siemens.⁷⁶

In terms of cooperation between businesses, Siemens and Chinese firms have increased tremendously over the years. With Siemens' advanced technology and diverse international experience, they offer tremendously in terms of equipment and supplies. In Pakistan, Siemens supplied two highly developed gas turbines to China Machinery Engineering Corporation on the Punjab Power Plant Jhang, EPC project, which provided electricity for 4 million Pakistani households.⁷⁷ Furthermore, Siemens also participated as a sub-contractor on the high-speed railway project. In all BRI projects, Siemens stressed the importance of sustainable development where the locals are better equipped for future growth.⁷⁸ Siemens also committed to further improving fair international collaboration along the BRI, by focusing on the advantages that came from cooperating with China as well as paying attention to the local market.

Siemens' collaboration with Chinese businesses in third countries also became institutionalized over time. In March 2018, Siemens set up a "Global BRI Office" in Beijing

⁷⁵ Siemens (2018).

⁷⁶ Liu Xinlan (2018), "In-depth communication between China and Germany on developing third-party market cooperation," Chinadevelopment.com.cn.

⁷⁷ Siemens (2017). "Siemens receives power plant order from Pakistan." <https://www.press.siemens.com/global/en/pressrelease/siemens-receives-power-plant-order-pakistan>.

⁷⁸ Lothar Hermann (2019). "Building a strong BRI ecosystem." China Daily. <http://www.chinadaily.com.cn/a/201904/30/W55cc7a70ca3104842260b944d.6.html>.

to enhance coordination and intensify collaboration with Chinese firms.⁷⁹ The same year, Siemens Group organized its own “Belt and Road International Summit” in Beijing, where over 1000 people from over 30 countries and regions attended.⁸⁰ At the summit held in June, Siemens signed 10 MOUs with SOEs in various sectors, including China Railway Construction (CRCC), and others.⁸¹

⁷⁹ Li Yan (2018), “Siemens launches an office for the BRI. Ecns.cn, <http://www.ecns.cn/business/2018/03-23/296873.shtml>.

⁸⁰ Siemens, “Siemens embraces BRI.”

⁸¹ Ibid.

Chapter 4: A case study on China–Japan– Thailand Cooperation

4.1 Thailand’s Quality Infrastructure Investment

Moving from competition to Cooperation is difficult in practice, especially with China and Japan's complicated relations, but specific trends are emerging in the field of third-party Cooperation. Chinese and Japanese actors are teaming up on the high-speed railway sector in the ASEAN countries.

Priority areas have been established as Southeast Asia, particularly Thailand because it has close economic and political relations with both countries. They maintain supporting facilities and Thailand has become one of the priority targets for their cooperation. Japan’s Investment in Southeast Asia amounted to up to \$122.6 billion, with its foreign direct investment reaching \$13.4 billion, making it one of the most decadent investors from 2008 to 2017. Therefore, the Japanese Government has also taken a more proactive role in promoting third-party market cooperation. Japan has long been in relations with the ASEAN countries, which could be the embodiment of this idea and be a new engine for the Japanese economic development.

Even though China started late in its investment for ASEAN countries, it rapidly increased. In five years, investment accumulated up to \$63.3 billion, with FDI in 2017 reaching \$11.4 billion. In terms of trade, Japan’s trade with ASEAN countries was \$219.3 billion, making it the second highest in terms of trading partners in the year 2017. The table below shows a list of the ongoing projects between both countries. Overall, both

China and Japan have been critical trading partners, and both have much potential for future projects among the three countries.

China and Japan	Transport	Nippon Express collaborated alongside the Railway of China to support Japanese businesses in China for conducting periodic businesses regarding transport not only Europe but in Asia as well.
	Energy sector	Dongfang Electric, Marubeni Corporation, and a Vietnamese firm cooperated to develop a coal power plant in Vietnam.
	Industry zone	SINOPEC and Marubeni Corporation jointly collaborated on an oil refinery project in Kazakhstan in 2012.
	I.T.	Jiangsu Jiaruicheng Construction Management, Thailand's Amata, and Japan's Yokohama Metropolitan Technology signed an MOU on Promoting Green City and Smart Industrial Estate in the Amata Industrial Zone of Thailand.
	Health protection	The China Non-Public Medical Institutions Association (CNMIL), the Japan-China Medical and Care Technology Exchange Association, and Medical Excellence JAPAN agreed on cooperation for third-party assistance for medical needs by signing MOU on Sino-Japanese Medical technology
	New energy technology	New China Water (Nanjing) Renewable Resources Investment and Capital Leasing (China) Co., Ltd signed MOUs.

In 2004, trade between southeast Asian countries and Japan was \$143.4 billion, and in 2018, it was \$231.7 billion, which increased at an average annual growth of approximately 5.9 billion dollars.

⁸²National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China. "Vision and Actions on Jointly Building Silk Road Economic BRI." First Edition. 2015.

Table 2 . The scale of bilateral trade between China, Japan and ASEAN in 2004-2018

Year	WORLD	JAPAN			CHINA		
	Amount (10 billion USD)	Amount (10 billion USD)	Proportion (%)	Rank	Amount (10 billion USD)	Proportion (%)	Rank
2004	107.30	14.34	13.36	1	8.92	8.31	4
2005	122.63	15.39	12.55	2	11.34	9.25	4
2006	140.76	16.19	11.50	1	14.01	9.95	4
2007	161.40	17.33	10.74	3	17.11	10.60	4
2008	190.10	21.47	11.30	1	19.67	10.35	3
2009	153.78	16.10	10.47	3	17.80	11.58	1
2010	200.14	21.89	10.94	2	23.55	11.77	1
2011	239.83	25.64	10.69	2	29.50	12.30	1
2012	248.06	26.45	10.66	2	31.94	12.88	1
2013	253.31	24.04	9.49	3	35.16	13.88	1
2014	253.52	22.91	9.04	3	36.67	14.46	1
2015	227.29	20.28	8.92	4	36.35	15.99	1
2016	223.86	20.24	9.04	4	36.87	16.47	1
2017	257.13	21.88	8.51	4	44.09	17.15	1
2018	282.53	23.17	8.20	4	48.38	17.12	1
Total	3061.63	307.31	10.04	3	411.36	13.44	1

Data source: ASEANstats statistical database.

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According to statistics from the ASEAN countries' database, China's USD 3.5 billion saw in an increase compared to that of the U.S. which was at USD 9.9 billion in terms of bilateral trade. The total inflows of FDI to ASEAN rose from 3.2% to 6.51%. From 2010 to 2018, the quantity of China's direct investment in Southeast Asia was at \$71.5 billion, making it the fourth-largest provider of direct investment.

Japan Direct investment in ASEAN also rose where the total flow to the ASEAN increased from 12.01% to 13.72%. According to the ranking of ASEAN countries' order of foreign capital sources, Japan's advanced from 3rd to 2nd. From 2010 to 2018, Japan's direct investment in ASEAN made it the third-largest investor in the ASEAN, with their investments as high as the U.S \$138 billion. It can be seen that China and Japan have proven to be significant sources of foreign investment for the ASEAN countries.

⁸³ Noriaki Abe (2019).

Table 3 . scale of direct investment from China and Japan to ASEAN in 2010-2018

Year	WORLD	JAPAN			CHINA		
	Amount (10 billion USD)	Amount (10 billion USD)	Proportion (%)	Rank	Amount (10 billion USD)	Proportion (%)	Rank
2010	10.82	1.30	12.01	3	0.35	3.22	7
2011	8.76	0.78	8.91	3	0.72	8.22	4
2012	11.68	1.49	12.72	2	0.80	6.83	3
2013	12.10	2.46	20.34	1	0.62	5.10	4
2014	13.01	1.34	10.33	3	0.68	5.24	5
2015	11.87	1.30	10.92	3	0.66	5.54	4
2016	11.90	1.42	11.97	3	0.96	8.08	5
2017	14.71	1.61	10.98	2	1.37	9.31	4
2018	15.28	2.10	13.72	2	0.99	6.51	4
Total	110.11	13.80	12.53	3	7.15	6.49	4

Data source: ASEANstats statistical database.

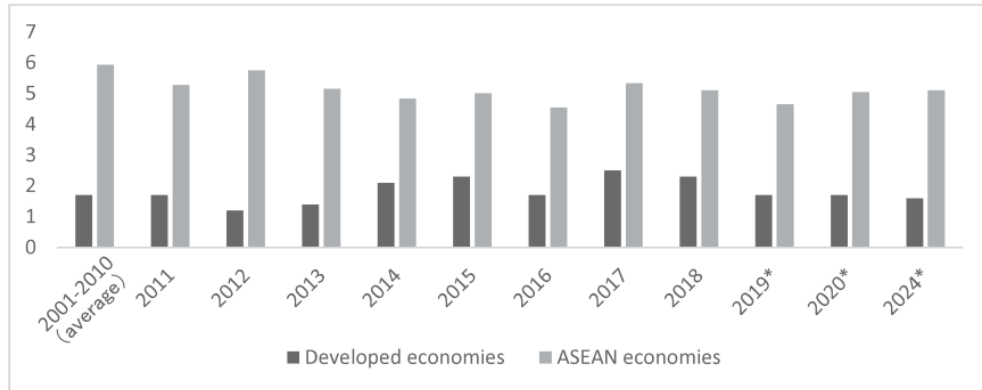
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Southeast Asia is situated at the “crossroads” of China and Japan. In 2010, the 17th ASEAN summit adopted a plan for ASEAN connectivity based on infrastructure projects, constructive systems, and people–people exchange. However, because infrastructure projects' progress was plodding, they were in dire need of investment in capital and labor force.

ASEAN countries have great potential for economic development; hence the reason both countries have had keen interests in cooperation. ASEAN’s GDP has continued to maintain its economic growth for quite a period, and the International Monetary Fund (IMF) showed that economic development supported a stable increase of 2% since 2001. ASEAN's growth has become the foundation and start of Asia's economic growth, enabling China and Japan to cooperate.

⁸⁴ Noriaki Abe (2019).

**Figure 1 . Real GDP growth rate of developed economies and ten ASEAN countries
(annual change percentage)**



Data source: IMF, * is forecast data.

Urban areas in ASEAN countries have seen a steady rise in industrialization, and their dire need for infrastructure development is stronger than ever. According to the Asian Development Bank (ADB), if Southeast Asian countries can sustain their economic growth, their investment in infrastructure will need USD 3.147 trillion in 2018-2030, accounting for 5.7% of GDP.

China and Japan have maintained close relations in terms of managing their marketing networks and trade with the ASEAN countries, but they also have their advantages and disadvantages. In terms of trade volume, both China and Japan achieved an increase in bilateral trade since 2004 to a certain level where it amounted up to US 89.2 billion. It increased to USD 488.3 billion in 2018, which was 4.4 times in 15 years, with the early growth of approximately \$26.3 billion.

The infrastructure construction still needs a lot of capital investment, and human resources face problems because of their slow recovery. ASEAN countries find it challenging to carry out construction-related projects on their own. However, a collaboration between both countries in the third-party market can provide support

financially and more technical support and even human capital for infrastructure projects. Both countries can assist the Southeast Asian countries to enhance their technicalities by not only transferring technology but also improving employees' training to strengthen their technical level. If the building is finalized, ASEAN countries will attain people–people exchanges and even enhanced trade cooperation. It will help reduce the internal development gap, increase overall competitiveness, and promote economic growth.⁸⁵

4.2 Three–Airport Rail Link in Thailand

China and Japan have maintained friendly relations with Thailand, without a fundamental difference in their goals, which makes it the perfect spot for market cooperation. However, among these two countries, Thailand has often engaged in bidding wars across the ASEAN region, with Malaysia and Indonesia in hopes of gaining profits margins and delivery times from financiers and business involved.⁸⁶

With this background in mind, both countries agreed to cooperate on Thailand's Eastern Economic Corridor for third–party market cooperation. Thailand's export–oriented Eastern Economic Corridor (EEC) is a special economic zone (SEZ) launched by the Thai Government to develop its Southeastern provinces– namely, Chonburi, Rayong, and Chachonseong. Both China and Japan showed great enthusiasm about cooperating in Thailand's EEC, conveniently located at the center of emerging production networks in

⁸⁵ Zhao, Hong (2018). “Chinese and Japanese Infrastructure Investment in Southeast Asia: from rivalry to cooperation?” I DE Discussion Paper, NO. 689. Available at <https://www.ide.go.jp/English/Publish/Download/Dp/689.html>.

⁸⁶ Noriaki, Abe (2019). International “Soft–law” Evolving in Southeast Asia, Implications for Better–functioning Global Governance: Cooperation between the ASEAN and the OECD on Responsible Business Conduct. Conference paper, pp. 26–27.

the Mekong region. The Three-Airport Rail Link being a significant infrastructure projects in Thailand, is prioritized in the EEC to establish the country as a regional trade and logistics hub. The four other projects consist of enhancing the growth of the Laem Chabang and Map Thaput ports, U-Tapao airport development, as well as maintaining the new airport facilities. All the projects are financed under the PPP model. Moreover, with an estimated cost of 225 billion baht or \$7.4 billion, it is also the most expensive.

By upgrading railways, ports, and airport terminals, Thailand seeks to promote land, sea, and air connectivity, thereby attracting foreign investors from high value-added industries, such as the digital economy, smart electronics logistics, and next-generation automotive.⁸⁷ If successful, the project could serve as a launching pad for sub-regional Cooperation and development.

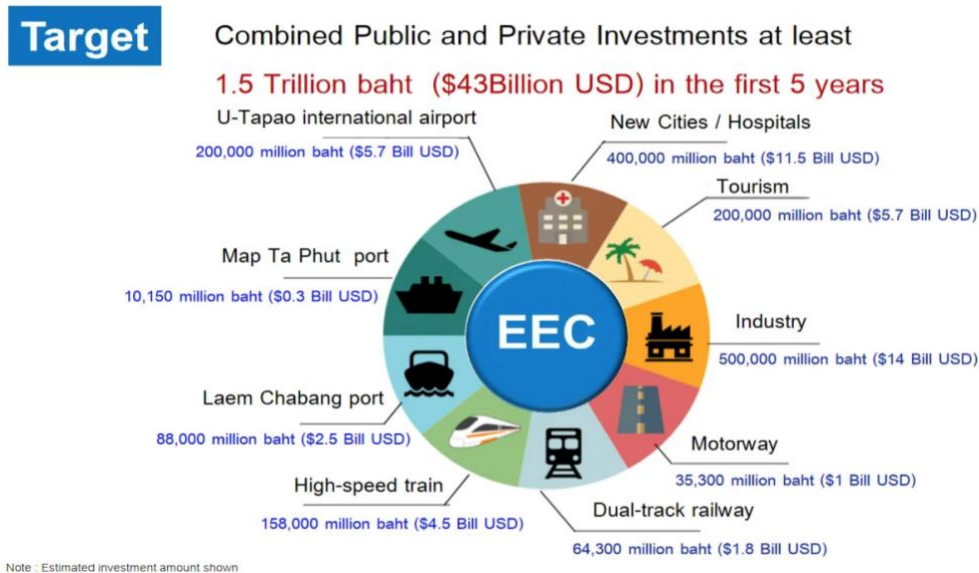
The Eastern Economic Corridor was made to attract foreign and domestic Investment in Chonburi, Rayong, and Chachoeng Sao, which is the most critical area for the Government to push forward the “Thailand 4.0” policy. The EEC is located in a place where East Coast Development projects were implemented in the 1980s. It started after low utilization of previous government initiatives, promoting special economic zones in 10 border regions and ten targeted industries. To implement the EEC, the Government set up three pillars for infrastructure development, generous incentives, and investment promotion.

Infrastructure development included plans to upgrade existing projects such as the U-Tapao Airport, double-track railways, and highways, and introduce new projects such

⁸⁷ Thai EEC High-speed Railway Project”. July 2nd, 2019, https://www.sohu.com/a/324224721_354905.

as the high-speed trains. The second was to provide non-tax incentives, which included corporate income tax for up to 15 years. Personal income tax was cut at a fixed rate of 17% so, “EEC investors would also receive unprecedented tax-free benefits, including up to 99 years of land leases, freedom of trade in foreign currency, and the ability to conduct currently prohibited service business and accelerate environmental impact assessment approval for just one year according to the figure below ⁸⁸

The last was facilitating Investment through a one-stop service managed by the Eastern Regional Development Zone office. This office would help existing regulatory hurdles in the EEC zone and even be issued various types of licenses for investors in the EEC Zone, including building construction and commercial registration.



⁸⁸ ‘Seminar on ‘China-Japan Cooperation on Eastern Economic Corridor of Thailand.’ Held in Bangkok’, June 1, 2018. <http://www.chinaembassy.or.th/eng/dszi/dshd/t1564718.htm>

Japan will work with China to invest in Thailand's infrastructure project targeting the Eastern Economic Corridor (EEC), Transport Minister Arkhom Termpittayapaisith said. A memorandum of understanding was signed for private economic collaboration in third world countries between China and Japan. After a recent meeting with a representative of the Ministry of Japan's Economic, Trade, and Industry, investment in the EEC and have sought Chinese support for the expansion of the high-speed train project, U-Tapao Airport, and Laem Chabang Port.”⁸⁹ Dr. Phaichit Viboontanasam, vice chairman and secretary-general of the Thai Chamber of Commerce in China, commented on Chinese enterprises being the critical players in coming to invest in the EEC.”⁹⁰

4.2.1 Cooperation between government

The Japanese Government was the first to initiate the FOIP and it has also been actively engaging in different opportunities to engage with the BRI. Japan dispatched representatives to take part in the first Forum in May 2017 regarding the BRI. Nikao Toshihiro- a well-known advocate of constructive Sino-Japanese relations- and Chairman of Japan's Business Federation (Keidanren), Sakakibara Sadayuk, represented the Japanese side.⁹¹ Their primary goal was to promote Japanese business interests in China while displaying pragmatism and openness to the BRI.

During Abe's speech in the Conference of the Future of Asia in June 2017, Japan expressed their willingness to further cooperate with China in third countries, as long as

⁸⁹ EEC Office (2019). Signing Ceremony Program of Public Private Partnership (PPP) Agreement. The High-Speed Rail Linking Three Airports Project.” <https://eng.eeco.or.th/en/news/signing-ceremony-program-of-public-private-partnership-ppp-agreement-the-high-speed-rail-linking-three-airports-project>.

⁹⁰ EEC Office.

⁹¹ Chiskao Masuo, (2019).

it complied to Japan's standards of "quality" infrastructure, namely economic viability, transparency, and debt sustainability.⁹² These principles represent how Japan approaches the BRI, making room for both "active cooperation" and the "right to withdraw" when the criteria are not met.⁹³ Japan sought to engage China under the label of Partnership for Quality Infrastructure (PQI), using liberal standards as a "tool" rather than a "foil" to Beijing's BRI.⁹⁴

The Thai government approved the "Three-Airport Rail Link" in early 2018, and with these, all three countries hoped to accelerate infrastructure cooperation further. In May 2018, Sino-Japanese third-party market Cooperation was going headstrong. The signing of documents, meetings between senior leaders, and a training seminar organized by local embassies in Thailand began.⁹⁵ On May 3rd, Tadashi Maeda, then deputy governor and now head of the Japanese Bank of International Cooperation (JBIC), told Thai Prime Minister Prayut Chan-ocha that "Japan will take the initiative to advance Sino-Japanese cooperation."⁹⁶

Premier Li Keqiang attended a Summit with Prime Minister Abe, a Chinese Premier's first visit in eight years. On May 10, Japan and China signed an MOU on the model between Chinese and Japanese Business." A public-private committee was established to facilitate project implementation.⁹⁷ Another set of forums was held to

⁹² Speech by Prime Minister Abe. "Asia's Dream: Linking the Pacific and Eurasia." Prime Minister of Japan and His Cabinet Website, June 5, 2017.

⁹³ Alice Ekman (ed). "China's BRI: Competing Forms of Globalization. Paris: Ifri Center for Asian Studies. April 2017. 71.

⁹⁴ Kentaro Sonoura (2017). "Japan's initiatives for promoting "Quality Infrastructure Investment." UN General Assembly High Level Side Event: Promoting Quality Infrastructure Investment. 19 September 2017. Available at: <https://www.mofa.go.jp/files/000291344.pdf>.

⁹⁵ Japan-China Workshop on business cooperation between Japan and China in Thailand. March 20, 2019.

⁹⁶ Toru Takahashi, "Sino-Japanese Cooperation thrown off track.

⁹⁷ Ministry of Economy, Trade and Industry (2018). "Japan and China Conclude Memorandum on Business Cooperation in Third Countries. meti.go.jp/English/press/2018/0510.003.html.

further discuss where the three-airport railway was regarded as a potential demonstration project.⁹⁸ Representatives from the Chinese and Japanese sides gathered in Beijing for a working session, with the theme focusing “On the Reality and Prospects of China-Japan Third Party Market Cooperation.”⁹⁹

Prime Minister Abe traveled to Beijing in the year 2018, and attended the first Forum and established 52 MOUs on a wide variety of development projects.¹⁰⁰ However, the EEC's high-speed railway project was not included.¹⁰¹ Projects were signed in different fields with transportation, energy, the new economy, and health care. While most were statements of intent to Cooperation, the inverse seemed to occur. The Japanese Government sought to become a new interlocutor of opportunities for companies to go overseas. As Thailand's case demonstrates, Japan's private sector has been reluctant to follow Tokyo's lead to risky markets.¹⁰²

4.2.2 Cooperation between Businesses

In 2017, Chinese Citic Group which is a state-owned company along with the Japanese largest trading Corporation, Itochu, and Thai Conglomerate Charoen Pokphand (C.P.) Group has maintained relations since 2014 and invested in a Citic affiliate in 2015.¹⁰³ When the deadline for the bid approached in November 2018, Itochu wanted out

⁹⁸ Haiwain.net.cn, “Can China and Japan Cooperate on the Thai High-Speed Railway? Sept. 18, 2018.

⁹⁹ Ministry of Foreign Affairs (MOFA), The First Session of China-Japan Third-Party Market Cooperation Working Mechanism Held in Beijing, Sept. 26, 2018.

¹⁰⁰ MOFA (2018).

¹⁰¹ MOFA (2018).

¹⁰² Yuma Osakim, “Is This a True Thaw in Sino-Japanese Relations?” The Diplomat, February 16, 2019, <https://thediplomat.com/2019/02/is-this-a-true-thaw-in-sino-japanese-relations/>.

¹⁰³ Itochu. “Initiatives Advanced Together with CITIC and the CP Group,” <https://itochu.co.jp/en/business/alliance/index.html>

of the contracts because of "risk concerns," which resulted from weak demand forecasts and a lack of guarantee from the government.¹⁰⁴

Itochu sought to convince the Thai government to switch to a semi-high-speed railway, C.P. Group so that the China Railway Construction Corporation (CRCC) would continue to support this project.¹⁰⁵ Instead of the original tri-party arrangement, the C.P. Group and four other project sponsors, including state-owned CRCC, local subway line operator, Bangkok Expressway and Metro (BEM), comprise the final joint venture formed of the C.P. Group and four other project sponsors and two Thai construction firms, Italian Thai Development (ITD) and Ch. Karnchang.¹⁰⁶

However, the C.P. Group and 12 other companies from various countries were the leading business companies on the surface level. For Japan, the private equity fund JOIN and the Japanese Bank of International Cooperation (JBIC), two government financial institutions, showed their keenness for participation.¹⁰⁷ JOIN is a government-private sponsored fund offering equity financing and "hands-on" support for Japanese companies participating in overseas infrastructure projects. CRCC chose to design the railway track, working simultaneously with local firms such as ITD and Ch. Karnchang to complete its construction.

The railway's development will also be facilitated by strategic partners, such as Germany's Siemens, Korea's Hyundai, and Italy's F.S. Italiane. Siemens will provide

¹⁰⁴ Toru Takahashi (2018).

¹⁰⁵ Apornrath Phoonphoonhiphat (2018). "China Railway joins CP Group to bid for Thai high-speed rail." Nikkei Asian Review. <https://asianikkei.com/Business/Business-deals/China-Railway-joins-CP-Group-to-bid-for-Thai-high-speed-rail>

¹⁰⁶ Japan Bank for International Cooperation (2019).

¹⁰⁷ JOIN, "http://www.join-future.co.jp/english/about/message.html.

technology for the train control system. Simultaneously F.S. Italiane will work with German, Japanese, and Thai counterparts, including BEM, in the railway's operations and maintenance. So in total, thirteen companies would be operating in multiple complementary sectors.

Although Thailand's former military Government had selected the C.P. Group consortium, negotiations with state agencies of the newly formed Government continued after elections in March 2019 due to disputes over land transfers and risk distribution. The Thai authorities eventually gave C.P. Group a request to close the deal by October 25, threatening to blacklist Cp Group's consortium from future railway projects and re-open the bid from the BTS Group's joint venture, despite cost estimates being \$2 billion higher.¹⁰⁸

On October 24, the C.P. Group eventually agreed to waive demands and sign the deal a day before the deadline. Under the public-private partnership deal, the Government is investing 119 billion baht from its budget, while the private sector will invest 117 billion baht.¹⁰⁹ The 50-year concession contract involves five years of construction and 45 years of operations and maintenance, after which assets will be transferred to the Government. Thai businesses have retained 90% ownership of the project company, with 70% of shares controlled by C.P. Group, 20% by other local firms, and the remaining 10% allocated to China Railway Cooperation.¹¹⁰

¹⁰⁸Panarat Thepgumpanat, Chayut Setboonsarng (2019). "Thai airport rail contract deadline extended in row over risks." Reuters.

¹⁰⁹ EEC Office, "Signing Ceremony Program of Public Private Partnership (PPP) Agreement. The High-Speed Rail Linking Three Airports Project," Oct. 24, 2019, <https://eng.eeco.or.th/en/news/signing-ceremony-program-of-public-private-partnership-ppp-agreement-the-high-speed-rail-linking-three-airports-project>.

¹¹⁰ FS Italiane Group, "Thailand: the "High Speed Rail Linking 3 Airports" project contract is signed," <https://www.fsitalia.it/content/fsitaliane/en/media/news/2019/10/25/thailand-the-high-speed-rail-linking-3-airports-project-contr.html>.

Chapter 5. Conclusion

5.1. Summary

This paper examined China's domestic and international BRI objectives, which attracted excellent participation investment among countries. There were also concerns about profitability and lack of transparency on the projects and even China's strategic interests. However, despite its complicated history, Japan has shown a change of attitude towards the BRI. Even though they initiated their own development project, FOIP, to improve connectivity between Africa and Asia, they did not have the necessary support to push through with this.

Data has shown that China-France and China-Germany collaboration can make way for government and business-level cooperation between Japan and China. Third-party market cooperation is a new model of cooperation that has proposed to promise shared benefits for all. China benefits by learning from advanced economy companies' technology and management methods. Thus, it supports its efforts to move up the industrial value-chained countries benefit from new growth sources, increased export of goods and services, and less competition in emerging markets. Moreover, developing countries benefit from receiving capital and technology transfers from China and advanced industrialized countries while achieving modernization. Hence, multilateralizing the BRI through third-party market cooperation promotes "triple-win" outcomes and inclusive development. When framed in this way, this can be seen as an innovative and progressive move by the Chinese Government to open up benefits and burden-sharing.

5.2 Future Risks and Policy Implications of Third-Party Market Cooperation

If both countries were to cooperate through this model, overlapping ideals of both initiatives seemed plausible. Despite more than three decades of participating in international institutions, China still lacks practice with multilateralism and numerous challenges still exist. Another possible challenge could arise from sustained global skepticism of China's motivations, especially if Western powers lack flexibility in adjusting existing international standards.

Though third-market countries have been critical beneficiaries of new international Cooperation, they have also not been invited as participants in most third-party market cooperation mechanisms. Other challenges include the difficulty of overcoming competition in third markets, especially in sectors without complementarities. Whether or not international consortia are competing for the project through an open procurement process (i.e., lowest cost bid) depends on who is bankrolling the project in the first place. Projects involving private capital are more likely to be driven by efficiency concerns than inter-governmental projects. Still, doing business in markets along the BRI involves high risks, which will be difficult, challenging overnight.

Cooperation in ASEAN countries, specifically Thailand, has shown how China and Japan have achieved through third-party market Cooperation. This is especially visible in Thailand's Three-Airport Rail Link, where government and business level cooperation were feasible. However, it has become increasingly important for China to define Cooperation and participation in more concrete terms to attract more partners. The post-

war liberal international order requires dire reform of China's BRI in terms of transparency and openness.

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초록

일본과 중국은 양국 간 여전히 역사적 분쟁이 완전히 사라지지 않았음에도 경제 협력을 통해서 관계를 유지해 왔다. 특히 시진핑은 2013년 중국의 현대판 실크로드 ‘일대일로’ (Belt and Road Initiative) 를 제시함으로써 세계적으로 많은 주목을 받았다. 거의 70 개국과 협력을 하여 대규모의 인프라 계획을 추진 하고 투자하고 있다. 본 논문은 선진국과 개도국의 기업 및 정부 이해관계자 간의 제 3 자 시장 협력 (Third-party market cooperation) 을 채택한 중국의 BRI 가 어떻게 실행될 수 있는지 살펴보고자 했다.

양국은 ASEAN 국가들, 그 중에서도 특별히 태국의 철도 네트워크에 지속적으로 개발 지원을 제공해왔다. 이것은 프로젝트 수행의 효율성을 극대화하기 위해 생산적 이점을 결합함으로써 선진국과 개발도상국 산의 상호 동반 성장을 가능하게 했다. 이와 동시에 일본과 중국, 그리고 ASEAN 국가들간의 지속 가능한 발전, 더 나은 미래를 위한 협력관계에 일본이 강력하게 개입할 수 있는 길을 열어주었다.

