

China, Japan and the South China Sea Dispute: Pursuing Strategic Goals Through Economic and Institutional Means

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Abstract

This article examines the strategies employed by China and Japan in advancing their national interests in the South China Sea dispute. It argues that both China and Japan have increasingly taken advantage of economic means and formal institutions to pursue political-security goals in relation to maritime disputes in the South China Sea. While China has employed economic means as ‘carrot and stick’ to influence the diplomatic stance of Southeast Asian states, Japan has utilized foreign economic aid for strategic objectives, even revising the basic principles of its development assistance policy. Moreover, China has strengthened institutional ties with ASEAN members by focusing on infrastructure development, whereas Japan has intensified the formation of multilateral institutions by expanding the scope from maritime safety to maritime security targeting China.

Keywords

Southeast Asia, Association of Southeast Asian Nations (ASEAN), maritime security, institution, foreign economic aid

Introduction

East Asia has exhibited ambivalent developments in regional economic links and political relations. On the one hand, the states in the region have deepened trade and investment links and developed multilateral institutions to manage common challenges and advance collective interests. On the other hand, East Asia remains trapped with serious political and security tensions in some parts of the region.

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The South China Sea dispute, one of such tensions, has illustrated complicated inter-state relations with overlapping assertions among various claimants and the involvement of extra-regional great powers.

As tensions in the South China Sea escalated after 2010, a great number of scholars have focused on this crucial maritime security issue. Quite a few scholars have explored geopolitical nature of the South China Sea dispute, examining strategic environments and motivations pertinent to China's assertive diplomacy and behaviour towards the South China Sea (Ji, 2017; Ju, 2015; Kim, 2016; Yahuda, 2013). Others have analysed the motivations, involvements and influences of other great powers such as the USA, Japan and India (McDevitt, 2013; Roy, 2016; Sato, 2016; Scott, 2013; Storey, 2013). More specifically, De Castro (2013) investigated geo-strategic rivalry between China and Japan and its influence on their positions and actions on the South China Sea dispute, asserting that this geo-strategic hostility strains their bilateral relations and even undermines delicate balance of power that the Association of Southeast Asian Nations (ASEAN) has tried to sustain since the 1990s.

The past studies' interest in geopolitical aspects in the South China Sea dispute is reasonable given that the core of the dispute lies in the question of sovereignty, seeking to gain exclusive jurisdictional rights over the surrounding waters and seabed, as well as the South China Sea's importance for the states' national interests as sea lines of communications (SLOCs) (Emmers, 2014, pp. 61–77). However, the South China Sea dispute has developed in the milieu when the parties involved have deepened interconnected relationships through growing economic interdependence and the development of regional institutions. These environments should have significant impacts on relevant parties' behaviour to attain diplomatic objectives and the employment of multilateral institutions to compete for an advantageous position in the dispute.

This article seeks to deepen the understanding of the South China Sea dispute by focusing on economic means and institutional links employed by two great powers in East Asia: China and Japan. This article makes three arguments. First, both China and Japan have increasingly taken advantage of economic means and formal institutions to pursue political-security goals in relation to maritime disputes in the South China Sea. Second, while China has employed economic means as 'carrot and stick' to influence the position of Southeast Asian states, Japan has intensified economic aid, even revising the basic principles of its development assistance policy. Third, China has strengthened institutional ties with ASEAN members by focusing on infrastructure development, whereas Japan has intensified the formation of multilateral institutions by expanding the scope from maritime safety to maritime security targeting China. Before delving into China and Japan's use of economic means and institutional links for attaining maritime security goals in the South China Sea tension, I delineate the theoretical position and implication of this article.

Interdependence, Institution and Strategic Goal

The main interest of this article is to analyse China and Japan's policies towards the South China Sea dispute, which constitutes one of the most crucial security concerns in East Asia. It pays attention to interactions between economic

interdependence and formal institutions on the one hand, and maritime security goals on the other. This study elucidates how the states utilize economic and institutional means to attain political-security objectives, which have been the target of long-term theoretical debate.

Liberals have presented optimistic views on the relationship between economic and institutional means and political-security objectives. They have argued that economic interdependence provides the crucial foundation for decreasing political-security tensions between states (Cain, 1979; Stein, 1993). The state, a rational actor seeking to maximize the overall welfare of the nation, tends to avoid military conflict because peaceful trading gives it all the benefits of close ties without any of the costs and risks. In particular, exporters that have a vested interest in keeping peaceful trade going exert a strong check on any illiberal policy elites that happen to be running the state (Copeland, 2015, pp. 18–20). Moreover, closer economic relations encourage advanced countries to help developing countries' economic development and industrialization through the provision of economic aid. The provision of grants and loans for development assistance contributes to consolidating economic and trade linkages and creating stable political relations between the donor and recipient countries.

As for the relationship between formal institutions and inter-state conflict in the security field, liberals identify various causal links between the existence of formal institutions and prospects for inter-state cooperation.¹ First, multilateral institutions play catalytic functions in stabilizing inter-state relations in an international arena. They rectify various problems inherent in the anarchical, self-help system—*asymmetric information, moral hazard and potential dishonesty*—by providing legal liability that establishes stable and mutual expectation about others' patterns of behaviour; by offering relatively symmetrical information to the members, thereby reducing levels of uncertainty and the risks of making agreements; and by reducing the transaction costs of legitimate bargains and increasing them for illegitimate ones (Keohane, 1984). Second, multilateral institutions facilitate inter-state bargaining. They perform information gathering and informal consultation about the preferences and policies of the states and to provide a forum for the resolution of bargaining problems concerning the choice of specific rules (Snidal, 1985, p. 938). In particular, formal institutions can moderate distributional conflicts by reducing inter-state bargaining about the choice of a particular code of conduct through identifying one possible equilibrium point as the default or obvious one, as well as by keeping account of deals struck, compromises made and gains achieved in complex multi-issue bargaining (Martin & Simmons, 1998, p. 745). Third, multilateral institutions are claimed to create vested political interests and organizational inertia that reinforce stable and continuous relations among participating states. They constitute trans-governmental connections, routines and coalitions, which give a momentum and continuity to state policies and commitments, and make it difficult that a state adopts a policy change that departs from such inter-state links (Ikenberry, 2001, pp. 65–69).

Realists have presented pessimistic views on the relationship between economic and institutional means and political-security goals by focusing on the state's strategic interests in manipulating economic interdependence

and formal institutions. They posit that the power inherent in asymmetrical economic interdependence does matter because it is used by states to achieve their strategic and security objectives. If a state relies on a trading relationship much more heavily than another state, the net costs associated with attenuating or severing the relationship are far higher for the former than the latter state (Barbieri, 2002, p. 3; Mansfield & Pollins, 2001, p. 836). Such unequal relationships inevitably increase the vulnerability of the dependent state. In other words, asymmetrical economic interdependence provides a precondition for the use of 'economic statecraft', which is defined as 'an attempt by a *sender* state to influence a *target* state either to do something it would not ordinarily do or to forgo an action that it would otherwise engage in, by the manipulation of the market' (Blanchard & Ripsman, 2013, p. 5).²

The economic statecraft is employed in the form of the provision of economic benefits and/or the imposition of economic penalties. The provision of economic incentives involves preferential trade agreements for market access, the offer of foreign economic aid, or the purchasing of foreign bonds in order to attract more states to its side and thereby create a favourable geopolitical environment. In some cases, a state provides foreign aid money whose usage is directly linked to security-related facilities and resources in a recipient state. The economic sanction measures include restrictions on trade and investment, reductions in foreign economic aid, or the expropriation of foreign assets in order to wield pressure on the target state to obtain concessions on a specific diplomatic issue. Since imposing restrictions implies the interruption of mutually beneficial commercial activities, it is necessary to pay due attention to the calculation of potential costs/benefits and rational management of restriction policies.

As for the relationship between formal institutions and inter-state conflict in the security field, realists pay attention to the states' presence and motives in creating and joining institutions. Indeed, multilateral institutions exist in coordinating interests among states, and inter-state cooperation is generally high when they are found. But, states pursue the establishment of such institutions when and only when they want positive outcomes produced by the institutions (Jervis, 2003, p. 296). Put differently, a state initiates and develops a formal institution that will help it to achieve its specific diplomatic goals. The state takes an initiative in creating a new institution with limited membership in order to promote collective interests in a specific policy field and thereby enhance its position and influence in the group of the members. The state also seeks to incorporate specific policy agendas in an existing institution, and thereby direct other members' interests towards policy directions that are consonant with its pre-existing interests. The value of a multilateral institution as a crucial instrument to achieve political-security objectives is shown under reciprocal effects of interdependence. He (2008, 2009) argues that states adapt a strategy of institutional balancing in interplay between heightened economic interdependence and strategic needs to counter pressures or threats from other states.

In evaluating practical implications in the nexus of economic and institutional means and political-security goals, it is necessary to articulate real motives with which a state utilizes the means to attain specific strategic objectives. Whereas development assistance could be employed to attract a recipient country to support

a donor country's diplomatic positions, trade connections might be used to exert pressure on a rival state to change its diplomatic behaviour. Multilateral institutions are generally formed to promote inter-state cooperation, but in some cases a state may propose the creation of an institution to pursue a specific strategic objective.

For a long time, China and Japan have stood in rival relationship. Not only have the two states had bilateral tensions in the interpretation of history and territorial dispute but they have also competed over political and economic influences in East Asia (Dent, 2008). Such a basic configuration encourages China and Japan to utilize economic means and institutional links to prop up their positions in maritime security issues in Southeast Asia. The importance that Japan has attached to its relationship with Southeast Asia is evidently demonstrated by the consistently high volume of development assistance and continuous commercial links through trade and investment arrangements. China has also regarded Southeast Asia a region that is indispensable for its stable economic growth, and forged close economic, institutional and aid tie-ups with countries in the region. Such economic interdependence and institutional links are likely to have significant impacts on the way that China and Japan pursue strategic goals in maritime security disputes. The following sections examine how complicated connections between economic means and security objectives are incorporated in China and Japan's diplomatic policies and measures in relation to the South China Sea dispute.

China, Southeast Asia and Maritime Security

China in the South China Sea Dispute

China is a direct party to the South China Sea dispute, claiming almost 80 per cent of the South China Sea along with the Parcel and Spratly Islands. Beijing has repeated diplomatic and military confrontations on the sea with Vietnam, the Philippines and other claimants in Southeast Asia. Military clashes between China and Vietnam in Johnson Reef in the Spratly Islands in 1988 led to the causality of some 80 Vietnamese soldiers, and in 1995 Chinese navy occupied Mischief Reef, 130 miles west of the Philippines' Palawan Island, which was the first case when China seized a feature claimed by an ASEAN member.

With its participation in ASEAN-led regional forums such as the ASEAN Regional Forum (ARF), China gradually became flexible in committing to talks with ASEAN on the South China Sea issue. At the China-ASEAN summit in 2002, the two parties issued the Declaration on the Conduct of Parties in the South China Sea (DOC). Under the DOC, the two parties agreed on peaceful dispute resolution without resorting to the threat or use of force in accordance with universally recognized principles of international law. Since the DOC was just a political statement without legally binding power, ASEAN members sought to change it into a legally binding Code of Conduct in the South China Sea (COC). However, negotiations on the COC were stalemated largely because of China's

strong preferences for bilateral means of conflict management and ASEAN's inability to reach internal consensus (Goh, 2013, pp. 105–106).

In slow progress in bargaining over the COC, disputes between China and individual claimants of ASEAN members escalated after 2011. In the first half of that year, Chinese maritime surveillance ships disrupted seismic surveys conducted by Vietnam and the Philippines within their claimed exclusive economic zones (EEZs). In March, two Chinese ships expelled a Philippine vessel that was conducting a seismic survey in a Philippine exploration block in the north-western portion of the Spratly Islands. In late May, Chinese maritime surveillance vessels cut off the exploration cables of a Vietnamese oil survey ship searching for oil and gas deposits in 120 nautical miles off the southern Vietnamese coast (Zhao, 2013, p. 31). In April 2012, a new friction between China and the Philippines occurred in the waters surrounding Scarborough Shoal (Huangyan Island in Chinese). A Philippine navy ship attempted to arrest Chinese fishermen accused of illegally harvesting coral and poaching sharks in the disputed waters, but two Chinese maritime surveillance vessels intervened and prevented the arrest, resulting in a standoff. The standoff continued until mid-June when China achieved *de facto* control over the reefs.

Tension between Beijing and Manila escalated after the latter resorted to international legal proceedings. In January 2013, the Philippine government took the South China Sea dispute to an arbitral tribunal under the United Nations Convention on the Law of the Sea (UNCLOS) and requested the panel to challenge the legality of China's so-called 'nine-dash line' and historic claims on the South China Sea. In July 2016, the Permanent Court of Arbitration (PCA) in The Hague issued its decision overwhelmingly in favour of the Philippine assertion, which rejected most of China's claims.

Economic Carrot/Stick for Maritime Security

China has regarded the South China Sea as a crucial part of its 'vital interest' and adopted determined diplomatic postures towards the disputes in the sea with claimants in Southeast Asia. At the same time, the maintenance of stable and friendly relationship with ASEAN and its members has been an important diplomatic objective for Beijing. Accordingly, China has adopted a series of economic means to mitigate maritime tensions with its southern neighbours.

In October 2007, China and ASEAN adopted the Joint Statement on Port Development in which both parties confirmed 'great significance to strengthen the port development and cooperation in the region, aiming at ensuring and promoting the economic and trade growth of ASEAN and China' (Joint Statement on ASEAN-China Port Development, n.d.). At the sixth ASEAN-China Transport Ministers' meeting the following month, ministers signed the ASEAN-China Maritime Transport Agreement in order to further advance cooperation and facilitation of international maritime passenger and cargo transportation (The Sixth ASEAN and China Transport Ministers Meeting, 2007).

In addition to overall support for maritime transport in Southeast Asia, China has utilized its economic aid strategically, targeting individual Mekong countries.

China has a long history of development support for the Mekong region through the Asian Development Bank-initiated Greater Mekong Subregion (GMS) Economic Cooperation Program and bilateral aid programmes (Yoshimatsu, 2015). In 2014, China exhibited a new initiative as Chinese Premier Li Keqiang proposed the establishment of the Lancang-Mekong Cooperation framework, a sub-regional cooperative mechanism for joint consultation with five priority areas: inter-connectivity, production capacity, cross-border economic cooperation, water resources cooperation, as well as agricultural cooperation and poverty reduction (Lu, 2016, p. 9).

China successfully used economic aid as leverage to draw support to its diplomatic stance from recipient countries in relations to the South China Sea dispute. This was typical for Cambodia. When Chinese President Hu Jintao made a formal visit to Phnom Penh in March 2012, Hu promised to his Cambodian counterpart Hun Sen that China would provide economic assistance of 450 million yuan, including a grant of 250 million yuan. The two leaders also reached an agreement to expand the value of bilateral trade to US\$5 billion by 2017. In exchange for such commitments, Hun Sen reconfirmed that his government would try to resolve the South China Sea dispute within the framework of ASEAN and China, not making the dispute internationalized (*Asahi Shimbun*, 2012). Hun Sen's word was realized in subsequent ASEAN meetings. At the 45th ASEAN Ministerial Meeting (AMM) in July 2012, internal differences became apparent over the meeting's joint statement. The Philippines and Vietnam, for example, insisted on the inclusion of the Scarborough Reef dispute and respect for the EEZ in the joint statement. However, Cambodia, the ASEAN chair for that year, showed a cautious stance on the grounds that the inclusion of these items would raise tension with China. Eventually, sharp confrontation prevented foreign ministers from issuing a joint statement for the first time in the AMM's 45-year history.

Cambodia's diplomatic position was also crucial in relation to the PCA's decision on the South China Sea dispute. After the announcement of the PCA's judgement on 12 July 2016, China stood in a defensive position. Cambodia became a major supporter for Beijing. Even before the announcement of the tribunal's decision, Hun Sen declared in a speech at the Cambodian People's Party's (CPP) 65th founding anniversary that 'the CPP does not support, and more so is against, any possible declaration by ASEAN to support decision of the Permanent Court of Arbitration', and called on countries outside the region to cease their interference in the South China Sea issue (*China Daily*, 2016a). During the 11th Asia-Europe Meeting (ASEM) summit in Mongolia in mid-July, Chinese Premier Li Keqiang praised Cambodia as safeguarding international justice and regional order, playing an irreplaceable role in maintaining the China-ASEAN relationship, and pledged to provide the Cambodian government with US\$600 million in aid to develop the country's election, education and health infrastructures (*Cambodia Daily*, 2016). Political tensions regarding the South China Sea issue continued to the 49th AMM in late July. There were intensive debates over the treatment of the tribunal's decision in the meeting's joint statement, and eventually the statement did not refer to it. The major factor producing this result was Cambodia's adamant objection. The country objected to the reference and suggested bilateral consultations

between the conflicting parties. After the AMM, China and Cambodia confirmed their commitments to further economic and trade cooperation, and the Chinese government agreed to consider increasing export quotas for Cambodian rice to 200,000 tons in 2017 and offering tariff preferences up to 97 per cent of total tariff lines (*China Daily*, 2016b).

China surely preferred economic carrot rather than economic stick because carrot means ease an anxiety about China's rise and contribute to offering mutual economic benefits (Reilly, 2013, pp. 7–8). However, China also employed economic links as stick means to compel a target country to alter its policy in line with Chinese interests. After the Scarborough Shoal incident occurred in April 2012, Chinese quarantine authorities reportedly blocked hundreds of container vans of Philippine bananas from entering Chinese ports, claiming that the fruit contained pests. This measure delivered a telling blow to the Philippines that exported more than 30 per cent of the total bananas to China. The coercive economic means was adopted in trends when Manila's economic dependence on Beijing intensified. China was the Philippines's third-largest trading partner behind Japan and the USA. In March 2012, China accounted for 14.9 per cent of Philippine exports, with US\$642 million in shipments, up 27.8 per cent from the same month in 2011 (*Asia Sentinel*, 2012).

The Chinese trade measure had two significant implications. First, it implied China's willingness to employ trade relations as a toolkit for economic statecraft. This was the second case when China used trade policy as a means to exert pressure on a party over maritime security disputes. In September 2010, the Chinese government used trade policy instruments to exert pressure on Tokyo after the Japanese Coast Guard arrested the crew of a Chinese fishing boat suspected of operating in Japanese territorial waters in the East China Sea. The Chinese customs office suspended exports of rare earths elements to Japan, which are important industrial strategic inputs used for many high-technology goods such as hybrid cars, mobile phones and solar cells (Yoshimatsu, 2012). China willingly utilized asymmetrical trade dependence as a lever to attempt to force a claimant to change its policy in a maritime security dispute.

Second, the trade measure implied China's 'estrangement strategy' applied to the Philippines and Vietnam. In terms of trade relations, Vietnam was more vulnerable to China than the Philippines: China's share in Vietnam's total trade increased from 13.2 per cent in 2005 to 19.0 per cent in 2013; Vietnam's industrial growth was heavily dependent on intermediate goods imported from China; and China provided the large market for agricultural products exported from Vietnam (Hosokawa, 2014, pp. 27–29; Ravindran, 2012). Accordingly, Beijing could take advantage of Hanoi's trade dependence as political leverage to exert pressure on it. In reality, China did not resort to this option, seeking to re-establish stable diplomatic relations through an agreement to set up a hotline between fisheries departments and the establishment of a joint working group to explore development projects in disputed waters (Fravel, 2014, p. 221). The estrangement strategy was important in preventing the Philippines and Vietnam from getting together through a strategic partnership against Beijing and Washington's involvement in the partnership.

Strengthened Institutional Links to ASEAN Members

During the Hu Jintao regime, the Chinese government took the lead in establishing two institutions for maritime cooperation with ASEAN members. The first is the Pan-Beibu Gulf (PBG) Economic Cooperation. The cooperation began with the holding of the first PBG economic cooperation forum in Nanning, the Guangxi Zhuang autonomous region in July 2006. The PBG cooperation involves not only China and Vietnam but also other maritime ASEAN members such as Malaysia, Indonesia, Brunei, Singapore and the Philippines. The members of the PBG cooperation have organized an annual forum to confirm the progress of various projects. Under the PBG cooperation, emphasis was given to the development of a transportation hub by water, targeting Fangcheng Port, Qinzhou Port and Beihai Port in the coastal area of Guangxi as well as Hai Phong Port and Gailing Port on the north coast of Vietnam in order to expand trade in southwest and mid-west China and the north of the Indochina peninsula (Gu & Li, 2009, pp. 16–17). The second is the establishment of a permanent fund for maritime cooperation. When the 14th ASEAN-China summit was held in November 2011, Chinese Premier Wen Jiabao proposed the establishment of the ASEAN-China Maritime Cooperation Fund with 3 billion yuan (US\$484 million). The fund aims to promote practical cooperation in the areas of maritime connectivity, marine research and environmental protection, navigation safety and rescue, as well as transnational crimes. After Wen's announcement, several workshops and seminars were organized to discuss practical maritime cooperation. However, the Maritime Cooperation Fund did not make meaningful contributions to mitigating tensions between China and ASEAN members, failing to produce practical outcomes from concrete projects by using the fund money. This was both because Chinese officials faced difficulty in turning high-level initiatives into practical action and because China provoked conflicts with the Philippines, Vietnam and Malaysia in the South China Sea (Hayton, 2016).

China's commitments to institution building for maritime cooperation with ASEAN members became more intensive at the onset of the Xi Jinping regime in March 2013. A pivotal institution is the twenty-first century Maritime Silk Road (MSR), which was revealed in Xi's speech at the Indonesian Parliament in October 2013. The MSR, which constitutes the 'One Belt, One Road (OBOR)' initiative together with the Silk Road Economic Belt (SREB), aims to develop economic-oriented practical cooperation and foster trustworthy relationships by relying on the distinctive values and ideas of the ancient Silk Road. The OBOR initiative developed quickly under the top leaders' determination, being incorporated into the local governments' project agendas and the central government's 13th five-year plan in 2016–2020 (Nie, 2016, pp. 430–432).

Indeed, the MSR covers a broad area including the Indian Ocean states such as Sri Lanka and the Maldives, but Southeast Asia as the first stop on the MSR outside China was very crucial for the initiative. The importance of Southeast Asia in the MSR was confirmed in Xi's speech at the Indonesian Parliament: 'Southeast Asia has since ancient times been an important hub along the ancient Maritime Silk Road. China will strengthen maritime cooperation with ASEAN

countries ... and vigorously develop maritime partnership in a joint effort to build the Maritime Silk Road of the twenty-first century' (Speech by Chinese President Xi Jinping to Indonesian Parliament, 2013). Xi's words were underpinned by China's proactive commitments to infrastructure development in Indonesia. China won a hotly contested bid to construct a 150-km high-speed railway line between Jakarta and Bandung, and engaged in the development of 24 ports and 15 airports as well as 18 special economic zones in the country (Lim, 2015, p. 8).

The MSR is a primary initiative that is designed to promote cooperation on maritime connectivity, port and harbour developments and maritime commerce. Two concrete institutions were established in order to materialize the concept. One is the Silk Road Fund, which was established in late 2014 under the Chinese People's Bank with US\$40 billion. The fund aims at providing financial support to carry out infrastructure, resources and industrial cooperation in Asia. The other is the Asian Infrastructure Investment Bank (AIIB). The AIIB initiative was first announced during Xi Jinping's visit to Southeast Asia in October 2013. This initiative collected international attention, and in December 2015 the AIIB was formally launched with US\$100 billion in capital with 57 founding members. Clearly, the two financial institutions aim to give practical benefits to involving parties through support for the development of infrastructure that is indispensable for steady economic growth.

China's MSR initiative took into account ASEAN's efforts to advance ASEAN Connectivity. President Xi stated in a speech at the Asia-Pacific Economic Cooperation (APEC) summit in November 2014 that:

The connectivity we talk about today is not merely about building roads and bridges or making linear connection of different places on surface. More importantly, it should be a three-way combination of infrastructure, institutions and people-to-people exchanges and a five-way progress in policy communication, infrastructure connectivity, trade link, capital flow and understanding among peoples (Connectivity Spearheads Development and Partnership Enables Cooperation, 2014).

'A three-way combination of infrastructure, institutions and people-to-people exchanges' is an idea that ASEAN members have advanced on the basis of the ASEAN Connectivity Master Plan.

An additional institution for maritime cooperation is the China-ASEAN Port Cities Cooperation Network, which was established in 2013. This network aimed to promote maritime connectivity and expand pragmatic maritime cooperation through concrete projects in such fields as port logistics, port-centred industries, as well as culture and tourism. In developing the network, China has undertaken several projects including the opening of the container liner routes from Qinzhou Port in China to Kuantan Port in Malaysia, and the establishment of the China-ASEAN Port Logistics Information Centre that provides support for increased trade and the greater use of computers in ports.

China seeks to strengthen relationships with Southeast Asian countries by developing various China-ASEAN institutions, advancing a number of cooperative projects and producing practical economic benefits. China expects that such a pragmatic approach as maritime confidence-building measures (MCBMs)

mitigate bilateral tensions with claimants in the South China Sea dispute and encourage non-claimants in Southeast Asia to maintain vested interests in stable economic relations with China. Such a preference is shown in Xi Jinping's speech at the Indonesian Parliament: 'China is ready to expand its practical cooperation with ASEAN countries across the board, supplying each other's needs and complementing each other's strengths, with a view to jointly seizing opportunities and meeting challenges for the benefit of common development and prosperity' (Speech by Chinese President Xi Jinping to Indonesian Parliament, 2013).

China's various initiatives gained keen interests from politicians in ASEAN members. For instance, Cambodian minister Kao Kim Hourn, in relation to the MSR, stated that since China and ASEAN saw economic cooperation as a top priority, 'it is necessary to build a maritime silk road in order to bolster economic cooperation, particularly in the fields of trade, investment and tourism' (*Xinhuanet*, 2014). China seeks to dilute conflicting aspects in its relations with ASEAN through practical cooperative projects under various institutions. Moreover, strengthened institutional links are expected to foster an atmosphere that all maritime affairs including cooperative and conflicting regarding the South China Sea should be handled and resolved by directly concerned parties, avoiding the involvement of extra-regional states.

Japan and the South China Sea Dispute

Japan's Interest in Maritime Security in Southeast Asia

Japan's concern with the South China Sea started in the 1960s, which derived primarily from sea-lane security. The South China Sea constitutes strategically important SLOCs in Southeast Asia, which are vital to Japan's trade and energy supplies. Japan has continuously relied on external sources for 96 per cent of its energy resources, and the Middle East provided most of Japan's oil demands. Japan's most important SLOCs pass through the South China Sea and the Malacca Strait. According to one estimate, in the case of moderate tensions in the South China Sea, the average insurance cost for a commercial ship will increase by some ¥10 million per day when going through the area (Son, 2013, p. 220).

After 2010, the presence of the South China Sea increased for Japan as the dispute in the sea had inextricable connections with its own maritime dispute with China. Japan has been confronted with China over territorial dispute in the Senkaku/Diaoyu Islands in the East China Sea (Koo, 2009). In September 2010, the Japan Coast Guard arrested the crew of a Chinese fishing boat on a charge of operating in Japanese territorial waters surrounding the islands and obstructing public duties of coast guard personnel by deliberately hitting patrol vessels. The Chinese government reacted to the Japanese actions decisively, which led to a serious diplomatic crisis between the two countries. Exactly two years later, the Japanese government nationalized three of the privately owned islands. After this Japanese action, tensions over the islands escalated, causing the locking of

fire-control radar on the Maritime Self-Defence Force destroyer by a Chinese navy ship in January 2013 and China's imposition of the East China Sea Air Defence Identification Zone in November.

From the Japanese perspective, significant connections exist between the South and East China Sea disputes. As a broader naval strategy, China's control of the South China Sea and the East China Sea aims to undertake 'anti-access/area denial' activities against foreign navies and acquire the Chinese navy's access to the Western Pacific outside the so-called First Island Chain (Kato, 2010, p. 19). China's overall maritime strategy and diplomatic/military behaviour towards rival claimants in the South China Sea would be, more or less, directed towards Japan in similar manners. In particular, if China is able to persuade or coerce other Asian countries into accepting its claimed historic rights in the South China Sea, not only would it undermine international legal norms but it also would have serious negative impacts on territorial dispute in the East China Sea (Storey, 2013). This is recognized by senior government leaders. During a visit to Manila in June 2013, Defence Minister Itsunori Onodera highlighted the connection between the South and East China Sea disputes by noting that 'we face a very similar situation in the East China Sea of Japan. The Japan side is very concerned that this kind of situation in the South China Sea could affect the situation in the East China Sea' (*Agence France-Presse*, 2013).

The Provision of ODA for Maritime Safety/Security

For a long time, official development assistance (ODA) has been a main tool of Japan's diplomatic policy, and Southeast Asia has been the key target of ODA provision. The states in Southeast Asia have remained the top recipients in trends of steady cuts in Japan's ODA budget. In terms of disbursed amount of loan aid in 2010, Indonesia was ranked the second, followed by Vietnam, the third, and the Philippines, the fifth (Ministry of Foreign Affairs [MOFA], 2011, p. 170). Under such conditions, Japan's financial aid strategy towards Southeast Asia has exhibited significant developments.

Japan has provided financial support for developing maritime infrastructure in Southeast Asia. At the 14th Japan-ASEAN summit in November 2011, the Japanese government promised to provide ¥2 trillion (US\$25 billion) for developing land corridors, sea corridors, and ASEAN-wide soft infrastructure (14th ASEAN-Japan Summit, 2011). The development of sea corridors was integrated into the Maritime ASEAN Economic Corridor to develop the islands in conjunction with the continental economic corridor initiative that ASEAN has promoted (Kitano, 2014, p. 225). The Japanese government has provided yen loans for development of various ports in Vietnam (Hai Phong, Cai Mep Thi Vai), the Philippines (Subic Bay) and Indonesia (Tanjung Priok). The government also gave support to the formation of Ro-Ro (Role-on/Roll-off) vessels. The development of the ASEAN Ro-Ro vessel networks was one of the 15 priority projects envisioned in the ASEAN Connectivity Master Plan. This support aimed to strengthen logistical networks in Southeast Asia and transfer Japan's superior

shipbuilding technologies and know-how for sea operations. Equally important was support for education for maritime safety, development in human resources in vessel traffic services, search and rescue, and legal implementation to major Southeast Asian countries (Honna, 2014, p. 107). The Japan International Cooperation Agency (JICA) has provided the Philippines with technical cooperation for developing systems in maritime safety education and human resource management, as well as grant for the strength of communications systems for maritime safety. The JICA also provided Malaysia with technical cooperation for a project to improve maritime safety capacity and a grant in preparing equipment for strengthening maritime guard. These supports primarily aimed at improving the capacity of recipient countries in maritime safety.

Japan gradually incorporated strategic elements in its ODA policy towards Southeast Asia after the mid-2000s. In June 2006, the Japanese government announced that it would extend to Indonesia the grant aid of ¥1.92 billion for a project for the 'Construction of Patrol Vessels for the Prevention of Piracy, Maritime Terrorism and Proliferation of Weapons', which planned to provide three high-speed patrol ships. Indeed, the ships equipped with bulletproof glass were classified as 'weapons'. But, the provision of the ships was made as an exception to the Three Principles on Arms Export that virtually prohibit exports of all weapons and related technologies, as they were provided without arms and to a non-military force (MOFA, 2006).

An additional important ODA commitment was implemented. In December 2011, the Japanese government relaxed *de facto* ban on arms exports imposed under the Three Principles on Arms Export. This relaxation, while maintaining the basic philosophy of restraining exports, aimed at permitting the overseas transfer of defence equipment in principle in cases when it would contribute to peace and advancing international cooperation. After this policy change, the Japanese government began to provide patrol vessels for Southeast Asian countries as parts of strategic ODA: ten vessels to the Philippines, six to Vietnam and two to Malaysia. Patrol boats are generally used for various objectives from search and rescue operations to transportation and environmental protection. Japan's 'patrol boat diplomacy' intended to enhance the recipient countries' maritime patrol capabilities and counter China's growing presence in the South China Sea.

Importantly, the Japanese government strengthened its willingness to take advantage of economic aid as a lure for non-claimant ASEAN members to harmonize policy stance on the South China dispute. For instance, Prime Minister Shinzo Abe has positively employed an occasion of summit meetings with his Cambodian counterpart Hun Sen to express his concern about Chinese behaviour in maritime security affairs. When a Japan-Cambodia summit was held in November 2015, Abe explicitly stated to Hun Sen that Japan is 'deeply concerned about unilateral changes to the status quo such as large-scale land reclamation, the building of outposts and its use for military purposes' in the South China Sea, and that 'Japan is focusing on a peaceful resolution to the situation based on the principle of the rule of law at sea'. In this occasion, Abe delivered Japan's decision to provide a concessional loan of ¥17 billion for the improvement of National Road No. 5 in Cambodia (Japan-Cambodia Summit Meeting, 2015).

As De Castro (2013, pp. 164–165) evaluates, ‘Japan’s constitutional limitations on the build-up of offensive military capabilities and its status as a US ally and a non-claimant state in the South China Sea dispute have made it an ideal partner of the ASEAN claimant states’. Japan took advantage of such a position and increased strategic elements in its ODA support for both the claimants and non-claimants in Southeast Asia over the South China Sea dispute.

The provision of ODA for maritime security objectives was undertaken in policy harmonization with the USA. The provision was based on the idea of the ‘strategic use of ODA’, which was confirmed in the Security Consultative Committee—so-called ‘2+2’ Meeting—with Washington. The Joint Statement of the committee in April 2012 contained a phrase that ‘the Government of Japan, for its part, plans to take various measures to promote safety in the region, including strategic use of official development assistance, for example through providing coastal states with patrol boats’ (Japan-US Security Consultative Committee, n.d.). Given that the US government intensified military links with the Philippines and Vietnam, this statement encouraged Japan to sustain cooperation in maritime security in pursuit of division of role.³

A series of the provision of strategic ODA even led to the revision of basic principles of Japan’s ODA policy. In February 2015, the Japanese government adopted the Cabinet Decision on the Development Cooperation Charter. The new charter contained several crucial elements. First, it explicitly aimed to ensure ‘Japan’s national interests such as maintaining its peace and security, achieving further prosperity ... and protecting an international order based on universal values’. Second, the charter contained terms that reflected Prime Minister Abe’s assertions such as ‘the establishment of rule of law’, ‘the promotion and consolidation of democratization’ and ‘the sharing of universal values’. Third, the charter opened a chance to give support to a foreign army, stipulating that ‘in case the armed forces or members of the armed forces in recipient countries are involved in development cooperation for non-military purposes such as public welfare or disaster-relief purposes, such cases will be considered on a case-by-case basis in light of their substantive relevance’ (The Decision on the Development Cooperation Charter, 2015).

As disputes in the South China Sea have escalated, Japan has located foreign economic aid as a strategic means to forge closer links with littoral states in Southeast Asia. The formation of common front with these states surely contributes to maintaining Japan’s national interests in its own maritime security dispute with China in the East China Sea. The strategic use of foreign economic aid was advanced in policy alignment with the USA and the revision of the basic principles of ODA policy.

Commitments to Regional Institutions for Maritime Security

Japan was originally active in promoting the institutionalization of maritime cooperation in East Asia. It proposed the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), which

stressed sharing information about ships, victimized by and suspected of committing piracy and armed robbery. Sixteen countries joined negotiations and the initial agreement was adopted among fourteen countries in November 2004 (Sato, 2007). Moreover, the Cooperative Mechanism in the Straits of Malacca and Singapore was established under Japan's initiative in September 2007. The mechanism has developed as a unique institution to enhance navigational safety in the straits involving an international organization—International Maritime Organization (IMO)—littoral states and user states, as well as private actors. Japan's positive commitment to regional cooperation on maritime affairs was seen in the ARF. In 2009, the ARF members organized the Inter-Sessional Meeting on Maritime Security (ISM-MS). Japan served as a main promoter of this institution, by becoming a chair of the institution, along with Indonesia and New Zealand, in its first 3 years (2009–2011). The best practice regarding support for capacity-building in maritime security was formulated under Japan's initiative. Japan, along with the USA and the Philippines, assumed a chair of the institution from August 2014. In December 2015, Tokyo organized an ARF Seminar on Regional Confidence Building and Law of the Sea. Some 70 government officials, scholars and experts of international law from the ARF members joined the seminar, and discussed on the international legal regime in maritime areas pending delimitation, and deepened the common recognition of the importance of the rule of law (ARF Seminar on Regional Confidence Building and Law of the Sea, 2015).

After maritime affairs became major political issues in East Asia, Japan intensified its commitments to multilateral institutions. The East Asia Summit (EAS) was strengthened in 2011 with the participation of the USA and Russia, and Japan sought to develop the EAS into a substantial forum to discuss political and security affairs including maritime security affairs. When the sixth EAS summit was held in November 2011, Japan made efforts to raise maritime security as a theme of discussion, and its result was incorporated into the chairman's statement that includes a section 'Maritime Cooperation' as well as the Declaration of the EAS on the Principles for Mutual Beneficial Relations (Ishikane, 2011). At the eighth EAS summit in October 2013, Prime Minister Abe opened his remarks by stressing that the EAS is a significant forum where leaders frankly exchange views centred on political and security areas and expressed his desire to further bolster the development of the forum (The eighth East Asia Summit, 2013). The 2013 chairman's statement contained an independent section of 'Maritime Security and Cooperation' in which a term, the South China Sea, was used for the first time in the chairman's statement. Japan's commitments had significant implications for the EAS's functions because the EAS promoted cooperation in six priority policy fields—environment/energy, education, finance, health, disaster management, connectivity—and Japan surely intended to make political and security agendas an additional field (Yanagi, 2014).

Importantly, Japan aimed at developing the EAS as the substantial framework on which Japan, the USA and ASEAN would build and develop relevant and sustained regional cooperation with Tokyo and Washington's paying attention

to ASEAN centrality in managing regional affairs (Tan, 2015, pp. 75–76). The USA–Japan Joint Statement released in April 2014 stipulated that:

We are coordinating closely to support ASEAN and its affiliated fora as its members seek to build a regional economic community and address trans-border challenges, including cybersecurity and cybercrime. In this context, the two countries view the East Asia Summit as the premier political and security forum in the region (US-Japan Joint Statement, n.d.).

Japan took a lead in launching a new institution to discuss maritime security affairs among EAS members. At the sixth EAS summit in November 2011, Prime Minister Yoshihiko Noda proposed the holding of a dialogue to discuss the promotion of maritime cooperation by expanding the ASEAN Maritime Forum (AMF) into a region-wide institution formed by the EAS members. ASEAN initially did not fully endorse Noda's proposal because of opposition from China and concerns within ASEAN with consolidating the AMF first (Midford, 2015, p. 539). However, ASEAN leaders formally agreed to hold the Expanded ASEAN Maritime Forum (EAMF) in April 2012, and its first meeting was held in Manila in October 2012. The forum became an annual institution, and the second, third and fourth meetings were held in October 2013, August 2014 and September 2015, respectively. The creation of the EAMF was regarded as 'Japan's most successful initiative promoting multilateral regional security cooperation since the Nakayama proposal of 1991' (Midford, 2015, p. 539). The forum provided Japan with crucial opportunities to appeal the importance of showing the grounds of international law for claims on maritime rights and the necessity of settling disputes over the rights through peaceful means not force or coercion.

Japan has sought to diffuse specific ideas regarding maritime security by taking advantage of multilateral institutions. At the Shangri-La dialogue in May 2014, Prime Minister Abe presented the Three Principles on the Rule of Law at Sea: states shall make and clarify their claims based on international law; states shall not use force or coercion in trying to drive their claims; and states shall seek to settle disputes by peaceful means. During the tenth EAS in November 2015, Abe stressed the importance of the three principles and stated that coastal states are required under international law, whether for military use or civilian use, to refrain from unilateral actions (The 10th East Asia Summit Meeting, 2015).

Prime Minister Abe began to exhibit a renewed multilateral initiative in 2016 by advocating the Free and Open Indo-Pacific Strategy (FOIPS). The strategy was originally revealed at the Sixth Tokyo International Conference on African Development (TICAD VI) held in Kenya in August 2016, and Abe sought to diffuse the FOIPS initiative at the occasions of talks with various political leaders. For instance, during a trip to the Philippines, Indonesia, Vietnam and Australia in January 2017, Abe explained the value of the strategy and Japan's sincere commitments to the stability of the regional order with this strategy. The FOIPS is based on an assumption that the peace and prosperity of the international society is reliant on the free and open maritime order, and thereby such a maritime order should be fostered from the Pacific to the Indian Ocean. In this strategy, Japan intended to promote concrete policies such as: (a) the promotion of basic values

of the rule of law, democracy and freedom of navigation; (b) the fostering of economic prosperity through the strength of infrastructure in ports, railways and others and enhanced economic partnerships; and (c) strength in cooperation in the field of maritime safety such as maritime law-enforcement capabilities, piracy combating and counter terrorism.

The measures that Japan intends to advance under the banner of the FOIPS are broad, covering economic partnership, infrastructure investment and human resources development. However, as the term of 'free and open' indicates, the strategy aims to check and mitigate China's diplomatic and strategic challenges in the maritime field. In particular, Japan sought to promote partnership among the USA, India, Australia and ASEAN members by promoting cooperation through a wide range of areas covering infrastructure development, capacity-building and non-traditional security.

Japan has a relatively long history of commitments to multilateral institutions to promote cooperation on maritime affairs in East Asia. Tokyo has tried to strengthen such efforts strategically in four directions. First, it hoped to make the EAS, a regional institution involving the USA, the core of multilateral cooperation involving maritime affairs. Second, Japan hoped to expand the scope of multilateral cooperation from maritime safety to maritime security, incorporating an element of institutional-balancing against China. Third, Japan sought to take advantage of multilateral institutions as a means to diffuse key principles on legal rules at sea. Fourth, Japan sought to strengthen organic coordination with partner countries with similar political values under the new geographical concept of 'Indo-Pacific' not along specific lines but across the whole plane (National Institute for Defense Studies Japan [NIDS], 2017, p. 243).

Conclusion

In this article, I examined China and Japan's policies and measures towards the South China Sea dispute. In so doing, it paid attention to economic and institutional elements, examining how the two great powers have taken advantage of economic means and institutional links in order to attain strategic goals. It found that China employed the strategic policies of carrot and stick in economic means and pursued institutional links with ASEAN embedding it in broader frameworks, whereas Japan intensified maritime security-oriented objectives in its economic aid and institutional commitments by pursuing close links with the USA.

In this article, the first factor that was pertinent to China and Japan's commitments to Southeast Asia regarding maritime security was economic means such as development assistance and trade measures. China offered economic aid to Mekong countries such as Cambodia, which contributed to gaining diplomatic support for its position on the South China Sea dispute. Importantly, China employed trade interdependence as a means to exert pressure on the Philippines. China strategically used economic and trade means as carrot and stick to sustain its position on the South China Sea dispute. Japan offered financial support for developing sea corridors in Southeast Asia, and technical assistance and grant to sustain maritime safety in Malaysia, Indonesia and the Philippines. Importantly,

Japan began to incorporate security objectives in its ODA with claimant states in Southeast Asia, by offering patrol boats to the Philippines, Vietnam and Malaysia to enhance these recipients' maritime surveillance capabilities. The provision of strategic ODA was realized with policy harmonization with the USA and the revision of the basic principles of development cooperation. Thus, economic means in the form of development assistance and trade linkages were increasingly used by both China and Japan to attain strategic objectives.

The second factor was formal institutions designed to strengthen political connections with ASEAN members and within East Asia. From the mid-2000s, China advanced maritime cooperation with ASEAN members through institutions such as the PBG Economic Cooperation and the ASEAN-China Maritime Cooperation Fund. After the start of the Xi Jinping regime, China proposed the formation of the MSR with the creation of financial institutions, the Silk Road Fund and the AIIB. Beijing sought to embed ASEAN members into institutions to sustain infrastructure development and expect that practical economic benefits produced through the institutions mitigate maritime security tensions with Southeast Asian states in a mid-term span. Japan made efforts to advance formal institutions to discuss maritime safety affairs in Southeast Asia, proposing the formation of the ReCAAP to cope with piracy and armed robbery. Japan located the existing EAS, an institution of which the USA is a member, as the primary institution to discuss maritime security in East Asia. Japan has also exhibited new institutional initiatives such as the EAMF and FOIPS in order to discuss maritime security affairs and check China's offensive diplomatic postures.

As this study demonstrated, maritime security tensions in the South China Sea surely urged China and Japan to utilize economic means and institutional links strategically to attain political-security objectives. Such a trend distorts the use of economic resources to prop up steady industrial growth and alleviate poverty in developing countries, and transforms basic character of multilateral institutions from a venue of cooperation into a venue of conflict. The policymakers in both states and others need to pay due attention to such negative influences, and search for ways to articulate the values of plus-sum nature that economic and institutional means produce in international relations.

Notes

1. Institutions here are broadly defined as 'enduring patterns of shared expectations of behaviour that have received some degree of formal assent' (Jervis, 2003, p. 295).
2. One of the seminal classical works regarding economic statecraft is Hirschman (1945), which examines the manipulation of Nazi Germany's trade relations with its small eastern neighbours. Baldwin (1985) is a comprehensive work on economic statecraft by exploring various economic instruments that the state employs in order to achieve its broad national interests.
3. At the inaugural 2+2 US-Philippine Ministerial Dialogue in April 2012, US Secretary of State Hillary Clinton pledged to double military aid to US\$30 million and to provide a second Coast Guard cutter. Additional commitments included US troop rotations and joint training in the Philippines, including expanded joint exercises with the navy (Simon, 2012, p. 52).

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