

Japan's Influence on the International Investment Pattern of "The Belt and Road"

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Abstract—"The Belt and Road" initiative is an important supporting point for China's future economic growth, but this initiative will undoubtedly be affected by Japan. Japan's perception and response to the initiative of "The Belt and Road" are gradually changing and have a positive trend. This paper analyzes the development status of the countries along the Belt and Road and uses decades of data to depict the trade pattern of the areas along the Belt and Road. At the same time, it reviews Japan's investment in countries along "The Belt and Road" and finds it shows the characteristics that "Asia hot but Europe cold", and then analyzes its future investment trends in Southeast Asia and South Asia. As to Japan's influence on the international investment pattern of "The Belt and Road", Japan's investment in China is declining. Japan's investment in Southeast Asia and India will pose challenges to "The Belt and Road" initiative. China and Japan have common interests in "The Belt and Road" and they can actively seek cooperation and gain win-win results.

Keywords—China; Japan; The Belt and Road; international investment

I. INTRODUCTION

Since the introduction of Chairman Xi Jinping in 2013, "The Belt and Road" has rapidly upgraded to the national initiative. The proposal of "The Belt and Road" has aroused strong reaction from neighboring countries and regions and even the whole world. The emphasis that taking development as a priority in the construction of the "The Belt and Road" not only reflects the consistency of China's domestic and international goals, but also provides insights for the countries along the route to understand the commonality of the "The Belt and Road." Only with this common goal and common interests, "The Belt and Road" can be better and exert its overall effect.

The initiative direction of "The Belt and Road" mainly involves five links. China, as a world power, actively proposes building a cooperation framework through "The Belt and Road" initiative and hopes that countries along the route can participate together. However, whether the countries along "The Belt and Road" initiative can actively respond to China can't be sure, and it depends on China's relative importance in the economic development of these countries.

II. JAPAN'S COGNITION AND RESPONSE TO THE CONCEPT OF "THE BELT AND ROAD"

Japan's reaction to "The Belt and Road" initiative is a changing process. At the beginning, Japanese companies and governments mostly opposed the initiative, and considered it is not positive to Japan's economic development and would break its economic dominance in Asia. However, with the advancement of the initiative, Japan has also benefited a lot, and the public opinion of the Japanese people and government officials has begun to divide.

At the same time, the staged achievements of "The Belt and Road" have brought Japan a certain sense of crisis. The Japanese government has accelerated its visits and cooperation with the countries along "The Belt and Road" and strengthened competition with China in many aspects, especially in the AIIB.

The attitude of the Japanese government and a considerable part of the companies has changed with the delightful development of "The Belt and Road" and the AIIB. They hope that the government can consider joining "The Belt and Road" and AIIB. Moreover, with the increasing of the economic benefits from "The Belt and Road" and the Asian Investment Bank to the participating countries, the academic community believes that the Japanese government may participate to "The Belt and Road" initiative as well as join the AIIB in the future.

III. THE DEVELOPMENT STATUS OF COUNTRIES ALONG "THE BELT AND ROAD" INITIATIVE

The author divided the countries into five stages according to the GNI, as shown in "Table I". In 2015, the population of the countries along "The Belt and Road" and the level of economic growth at the four income levels have the following characteristics:

TABLE I. THE DEVELOPMENT STAGE OF COUNTRIES ALONG "THE BELT AND ROAD" (2010-2015)

No.	Groups	Per Capital (GNI)	Population (million)	Manufacturing value added as a share of GDP (%)	2010-2015 GDP growth rate (%)
1	United States	55980	321	12.3	2.2
2	High-income countries	41925	1187	14.8	1.9
3	B&R High-income countries	27702	195	16.8	3
4	Upper middle-income countries	8255	2593	21	5.1
5	China	7930	1371	29.7	8.3
6	B&R upper middle-income countries	7123	529	14.7	3.5
7	Lower middle-income countries	4508	2927	16.4	5.7
8	B&R Lower middle-income countries	2309	2399	14.8	5.9
9	Low income countries	2032	638	8.2	5.4
10	B&R Low income countries	670	61	9.2	4.9
11	World	10548	7346	15	3

^a. Data Sources: According to World Bank data.

There are 20 countries with high income levels along "The Belt and Road", accounting for 16.4% of the global population with this level of development. The added value of manufacturing in GDP accounted for 16.8%, which is slightly higher than that of countries with the same income level in the world. The growth rate of the economy between 2010 and 2015 reached 3%, which is significantly higher than that of countries at the same level in the world.

There are 21 countries in the upper middle-income levels along "The Belt and Road", accounting for 20.4% of the global population with this level of development. The added value of their manufacturing industries accounted for an

average of 14.7% of GDP, which is significantly lower than that of countries with the same level of global income.

IV. AREAS ALONG "THE BELT AND ROAD" AND THE TRADE PATTERN BETWEEN CHINA AND JAPAN

Since 2000, the areas along "The Belt and Road" have experienced significant growth in the total volume of trade between China and Japan. The total trade volume and growth rate of China along the "The Belt and Road" regions during the observation period are significantly higher than those of Japan, which means that the trade dependency between China and the region along the route significantly exceeds that of Japan. (See "Table II")

TABLE II. THE PROPORTION OF "THE BELT AND ROAD" COUNTRIES TRADE WITH CHINA AND JAPAN IN THE REGION (2014)

Target Country Reporting Country	China (%)			Japan (%)		
	IMP	EXP	Total Amount	IMP	EXP	Total Amount
North-east Asia	49.45	38.13	43.80	46.36	53.19	49.10
Southeast Asia	23.14	25.7	24.42	20.65	32.51	25.39
South Asia	2.48	10.54	6.50	1.73	3.39	2.40
West Asia	20.33	17.23	18.78	30.28	9.12	21.81
Central and Eastern Europe	2.02	5.39	3.70	0.82	1.48	1.09
Central Asia	2.58	3.02	2.80	0.15	0.30	0.21

^a. Data Sources: According to UN datasets.

To examine the importance of the trade between China and Japan in all regions along the route, we should observe the increase in the proportion of trade as well as the absolute size of trade. Firstly, the proportion of total trade volume and import and export trade between China and the region along the route has generally increased during the observation

period. Central Asia, West Asia, and Southeast Asia have the largest increase in the proportion of China's trade. At the same time, except for West Asia, the proportion of total trade volume and import/export trade between Japan and the region along the route showed a downward trend during the observation period. The largest decline was in South Asia,

where the proportion of total trade volume and import/export trade decreased by 2.81%, 2.38% and 3.20%. Obviously, the increase in the proportion of trade to China across all regions is significantly higher than that of Japan. Second, in 2014, the proportion of China's total trade, import and export trade in all regions along the route was higher than that of Japan.

In addition, in "Table II", the ratio of total trade and import/export trade between China and Japan in the total volume of Sino-Japanese trade in the region along "The Belt and Road" area was calculated. If China further deepens its development of trade with Northeast Asia, Southeast Asia, and West Asia, the trade balance between Northeast Asia, Southeast Asia, and West China is likely to decrease, as for China, in order to protect the development of its international trade and ensure its position in the international trade in the process of promoting "The Belt and Road", Japan is likely to expand its core position in Asia's industrial division of labor. The reduction of direct investment in China by foreign direct investment in these regions, while on Japan's trade, is also

weakening the proportion of China's trade in Northeast Asia, Southeast Asia, and West Asia, so as to achieve the purpose of counterbalance China's influence in the above areas.

V. JAPAN'S INVESTMENT OVERVIEW AND TRENDS IN COUNTRIES ALONG "THE BELT AND ROAD"

Japan's pattern of foreign investment along "The Belt and Road" region shows the Asia hot and Europe cold. The Japanese government has guided multinational corporations using their geopolitical advantages in Asia. As shown in "Table III", Japan's investment in Asia along "The Belt and Road" is mainly concentrated in Pakistan and India in South Asia, Singapore, Thailand, Philippines, Malaysia and Indonesia in Southeast Asia. In particular, the traditional five ASEAN countries are all on the scale of 100 billion yen or more. At the same time, Japan's overseas investment in Southeast Asia and South Asian countries not only showed a rapid growth but also showed strong growth momentum.

TABLE III. JAPAN'S INVESTMENT IN "THE BELT AND ROAD" INITIATIVE BETWEEN 2014 AND 2016 (UNIT: 100 MILLION YEN)

Countries	2014	2015	2016	Countries	2014	2015	2016
Malaysia	1299	3565	1599	Kazakhstan	27	1	146
Philippines	986	1836	2483	Slovakia	-14	-4	465
India	2556	-1441	4018	Saudi Arabia	924	785	132
Singapore	8657	8197	-20360	Poland	20	8	117
Thailand	5764	4391	3830	Bulgaria	0	-14	1
Indonesia	5127	3926	3220	Latvia	1	27	57
Mongolia	6	32	21	Hungary	27	3	32
Vietnam	1734	1740	2003	Romania	29	-94	-69
Brunei	17	15	29	Ukraine	54	50	175
Cambodia	311	273	127	Czech Republic	145	422	52
Myanmar	115	625	152	United Arab Emirates	-239	-210	3
Russia	401	639	-96	Iraq	0	2	18
Montenegro	1	0	14	Bahrain	7	0	79
Turkey	335	538	0	Israel	29	9	222
Pakistan	97	117	100	Jordan	1	47	2
Sri Lanka	5	29	22	Egypt	61	-0	1155
Maldives	2	5	16	Kuwait	20	34	1
Croatia	1	1	-1	Qatar	-51	12	35
Slovenia	5	32	2	Oman	2	194	9

a. Data Sources: According to the Bank of Japan(<http://www.boj.or.jp/statistics>).

Japan's investments in the Middle East region and European countries along "the Belt and Road Initiative" are much smaller than in Asian neighboring countries. However, the five countries of the Czech Republic, Israel, Slovakia, Kazakhstan, and Russia have a large amount of investment, which is basically around 10 billion yen, and the high year

amounts to 50 billion yen. In recent years, the demand for energy and transportation infrastructure has increased. The Japanese government seized the opportunity to actively strive for the infrastructure market in these two regions and guide related companies to invest. (See "Table IV")

TABLE IV. JAPAN'S MANUFACTURING INVESTMENT IN SOUTHEAST ASIA AND SOUTH ASIA (UNIT: 100 MILLION YEN)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
India	290	474	407	5115	729	1579	924	1473	1886	1291	1306	1498	1953	2204
Indonesia	1115	662	637	195	519	315	1487	2241	1596	1842	1642	1695	2300	2371
Philippines	613	289	265	473	647	301	431	453	625	974	1143	1091	1141	1192
Vietnam	202	437	478	745	452	345	854	1211	1818	898	1300	1499	1655	1764
Malaysia	350	3321	149	296	424	548	706	466	772	1073	1192	1362	1252	1206
Singapore	692	642	1020	300	567	2225	1400	1195	561	2089	2396	2728	2596	2453
Thailand	1328	2152	3001	1933	1235	1599	2211	2988	3469	5592	5584	6129	7814	7713
Total Southeast Asia	4590	7977	6957	3995	3852	5336	7132	10027	8939	13759	14563	16002	18711	18903

a. Data Sources: According to the Bank of Japan(<http://www.boj.or.jp/statistics>).

"Table IV" shows the scale of Japan's manufacturing investment in Southeast Asia and South Asia (India) from 2005 to 2018. Japan's manufacturing investment in Southeast Asia grew steadily from 459 billion yen in 2005 to 1,890.3 billion yen in 2018, and especially accelerated the pace of manufacturing in Singapore and Thailand. Survey Report on Overseas Business Operations by Japanese Manufacturing Companies-Results of the JBICFY2018 Survey released by the Japan Bank for International Cooperation (JBIC) shows the five promising countries and regions for Japanese manufacturing overseas business over the next three years. China maintained the top position, India fell to the second since FY2017, Thailand rose to the third place, Vietnam and Myanmar came to the fourth and fifth respectively. Moreover, Singapore has become the preferred location for Asia-Pacific headquarters of Japanese multinationals in recent years. Asian countries have become the core area for the "The Belt and Road" between Japan and China.

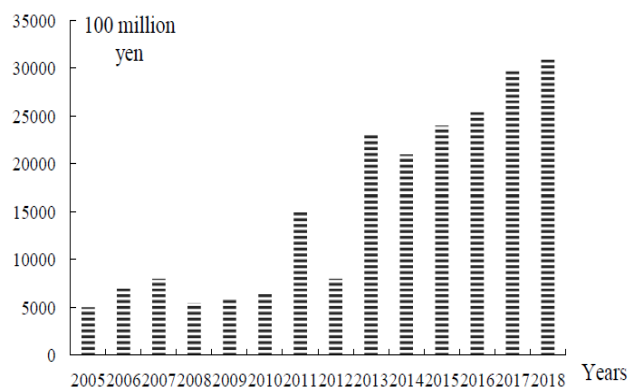


Fig. 1. Japan's investment in Southeast Asia, 2005-2018.

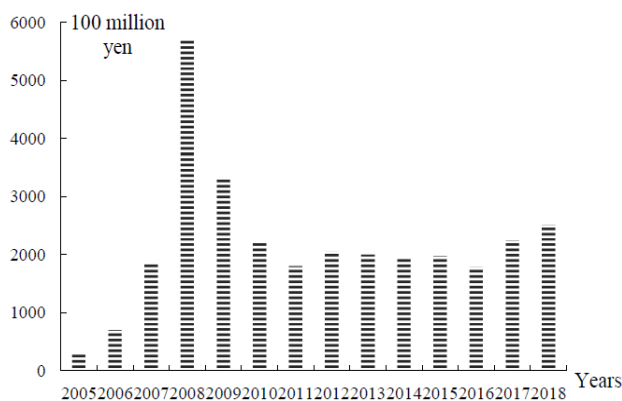


Fig. 2. Japan's investment in South Asia, 2005-2018.

"Fig. 1" and "Fig. 2" list the OFDI investment trends in Southeast Asia and South Asia from 2005 to 2018. In 2005, Japan invested 555.7 billion yen in Southeast Asia, and then grew rapidly. Because of the financial crisis in 2008, the pace of foreign investment slowed down. Two years later, it returned to the growth track and broke the trillion yen mark in 2011, and then exceeded 2 trillion yen in 2013. Between 2013 and 2018, it has been maintaining solid growth. Japan's foreign investment in Southeast Asia showed strong growth momentum in the past two years, and the overall size of

investment has stabilized at more than 3 trillion yen each year, showing Japan's strong political and economic influence in this region. In contrast, Japan's foreign investment in South Asia has exceeded 200 billion yen in all other years, except for the breakthrough of 500 billion yen in 2008. Japan's investment in South Asia is mainly in India, and its influence in Pakistan and other South Asian countries is still limited.

Unlike Japan's investment in Europe and the United States, Japan's foreign investment in Asian countries is mainly about manufacturing. In Asia, Japan is mainly based on a gradient of industrial transfer, shifting its comparative advantage to a relatively surplus domestic industry to Asian neighbors, providing space for domestic industrial transformation and upgrading.

VI. JAPAN'S INFLUENCE ON "THE BELT AND ROAD" INTERNATIONAL INVESTMENT PATTERN

A. Impact on Japanese Foreign Investment in China

Japan's foreign investment along "The Belt and Road" Asian countries, especially Southeast Asian countries, has a large impact on Japan's investment in China in both scale and structure. As shown in "Fig. 3", the scale of Japan's investment in China has been stagnating for about US\$3.5 billion from 2007 to 2010. After showing a rebound in 2012, it has begun to decline again in 2014. Second, in terms of investment structure, Japan's expansion of manufacturing investment in Southeast Asia and India will directly affect Japan's manufacturing investment in China. In recent years, the rising costs of workers' lives and enterprises' production driven by rising house prices in China have finally led to transnational corporations, causing some labor-intensive enterprises to move out of China and choosing to produce in countries with lower production costs in Southeast Asia. Japan's many transnational manufacturing investments in Southeast Asia fall into this category. This part will replace the Japanese capital that would have flowed to China. It may also lead to the relocation of Japan's former manufacturing industries to Southeast Asia, and eventually show Japan as shown in "Fig. 3". The scale of investment in China showed a downward trend.

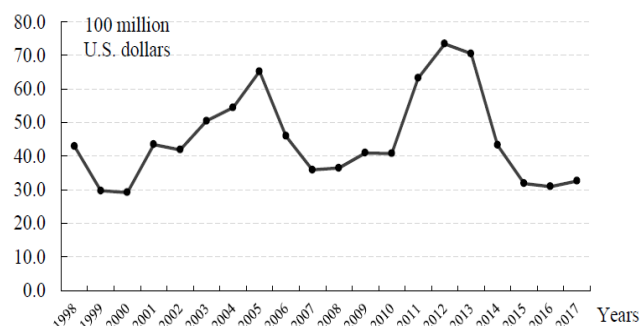


Fig. 3. Trend of Japanese investment in China.

a. Data sources: The Bank of Japan (<http://www.boj.or.jp/statistics>)

B. The Challenge for China's "The Belt and Road" Initiative

For a long period of time, Japan's foreign investment in Southeast Asia and India has gradually built up Japan's political and economic influence in this region. Meanwhile, Japan has started a series of investments and strategic actions in Asia countries, and posed a serious challenge to China's implementation of "The Belt and Road". Japan's investment in this region will directly squeeze China's outbound investment in Southeast Asia.

VII. CONCLUSION

China and Japan should actively seek cooperation and gain win-win results. In recent years, Japan has continuously increased its strategic investment in countries in Southeast Asia and South Asia and actively developed its political and economic relations with Japan. At the same time, Japan is also seeking to increase its influence in Central Asia. Japan's accelerated direct investment in Southeast Asia and South Asia has had a certain impact on Sino-Japanese economic relations and has also led to increased competition between China and Japan at the regional and multilateral levels. At the same time, however, China and Japan are also facing major opportunities to cooperate and promote mutual trust based on "The Belt and Road" multilateral framework.

Above all, China and Japan can join forces to accelerate the process of regional economic integration. accelerate the process of cooperation between RCEP, China, Japan and South Korea FTA and other integrated organizations, it will not only contribute to the stability and prosperity of the region, but also conducive to creating a more convenient and competitive investment environment.

Second, China and Japan must work together to promote the infrastructure development in the Asia Pacific region. If China and Japan can realize healthy competition and mutually beneficial cooperation in the field of improving infrastructure, it is possible to obtain multiple benefits, such as jointly increasing bargaining power, promoting exports of infrastructure products, improving logistics efficiency and reducing logistics costs.

Finally, China and Japan can open financing channels through cooperative financing. In the financial sector, the Silk Road Fund, the Asian Investment Bank and the BRICS Development Bank, which China has actively established, have all been officially launched. Japan, on the other hand, has repeatedly offered to promote cooperation financing between the Asian Investment Bank and Asian Development Bank, the prospects for cooperation between China and Japan are promising in terms of smooth financing channels and cooperation in finance.

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