

Contest for Influence: Japan's Agenda in Southeast Asia

By Titli Basu

Japan has long been a major investor in Southeast Asia. But with China's growing geopolitical influence and willingness to stump up large sums of money to fund development projects and other investments around the region, Southeast Asia is shaping up to be a key focal point for the contest of influence between Tokyo and Beijing.

The government of Prime Minister Shinzo Abe is determined to pursue a strategy that enhances Japan's influence in Southeast Asia, Australia and beyond, writes Titli Basu.

SOUTHEAST ASIA constitutes a critical component of Japanese Prime Minister Shinzo Abe's Free and Open Indo-Pacific Strategy. To accelerate Tokyo's pivot toward Southeast Asia, Abe visited the Philippines, Indonesia and Vietnam, along with Australia, from January 12 to 17 this year. Abe is investing diplomatic energy and political capital to consolidate Japan's sphere of influence in the Southeast Asian theater amid uncertainties over US President Donald Trump's evolving Asia policy and China's strategic ambitions. Visiting the region just days before Trump's inauguration and inception of his America First policy, Abe's aim was to demonstrate Japan's commitment towards the region and present itself as a reliable partner in the evolving strategic calculus.

Japan is apprehensive that if the Trump administration pursues a more inward-looking policy and abstains from playing a major role in crafting the regional security architecture, China will have an easier path in pursuing President Xi Jinping's New Asian Security Concept, advocating Asia for Asians and creating a Sino-centric order in the Asia-Pacific.¹ This could prove to be a serious challenge for Japan, which continues to depend on the United States for its security. As Southeast Asia becomes an arena of great-power politics and China pursues regional hegemony, some countries are integrating themselves into the Chinese economic orbit — for instance, by participating in the One Belt, One Road initiative and the China-led Asian Infrastructure Investment Bank (AIIB). Moreover, the deep roots of Chinese economic influence are obstructing a unified regional response to Chinese power pro-

¹ Xi Jinping, "New Asian Security Concept For New Progress in Security Co-operation," *Ministry of Foreign Affairs of the People's Republic of China*, May 21, 2014, www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1159951.shtml

² "Joint Statement of the Japan-United States-Australia Trilateral Strategic Dialogue," Ministry of Foreign Affairs of Japan, July 25,

2016, www.mofa.go.jp/a_o/ocn/page3e_000514.html

³ Shinzo Abe, "The Bounty of the Open Seas: Five New Principles for Japanese Diplomacy," Ministry of Foreign Affairs of Japan, Jan. 18, 2013, www.mofa.go.jp/announce/pm/abe/abe_0118e.html

⁴ Titli Basu, "Mapping India in Japan's infrastructure agenda", *East Asia Forum*, 29 April 2016

jection in the critical maritime space. While the member countries of the Association of Southeast Asian Nations shy away from annoying China by mentioning the ruling at The Hague on the South China Sea dispute between Beijing and Manila, extra-regional actors including the US, Japan and Australia have termed the ruling "final and legally binding on both parties" under the United Nations Convention on the Law of the Sea (UNCLOS).²

THE STAKES FOR JAPAN

The stakes are high for Japan in Southeast Asia. The region hosts dense networks of trade and investment, regional value chains and production networks, as well as critical maritime chokepoints. The value of Southeast Asia for Japan was evident when Abe opted to visit Indonesia, Thailand and Vietnam on his first overseas trip upon assuming office in December 2012. And in his first month in office, Abe outlined five new diplomatic principles redefining Japan's engagement with the region in a 2013 speech delivered in Indonesia, even as China and Japan became locked in strategic rivalry following the nationalization of the Senkaku Islands by Tokyo. Maritime security emerged as a top priority, as reflected in one of the five principles, which called for "ensuring that the seas ... are governed by laws and rules, not by might."³ Further, within his first year in office, Abe visited all 10 members of ASEAN against the backdrop of escalating tensions with China in the contested waters of the East China Sea.

The region is also an economic hub for Japan. The Japan Revitalization Strategy published in June 2013 argued for creating new frontiers for growth by capturing the international infrastructure market. It set a target of tripling infrastructure sales by 2020. The stage is set in Southeast and South Asia, where the latest manifestation of the China-Japan contest is unfolding in the infrastructure sector. Abe is aggressively pushing

Japan's case based on the rationale of the quality of Japanese-built infrastructure as "cost-effective in the long-run." The Japan Business Federation (Keidanren) identified Asia, and especially countries such as Indonesia, Vietnam, India and Myanmar, as a priority region. Sectors including rail, airports, harbors, telecommunications facilities and power plants are the main focus. Abe's Partnership for Quality Infrastructure in Asia (PQI) aims to consolidate Japan's regional clout as Tokyo aims to promote high-quality infrastructure partnerships and facilitate expansion in Asia, enabling a revolution in productivity through such investments. PQI, which is often viewed as a competing formulation with Chinese mega-infrastructure designs, is critical to achieving Japan's national growth goals.⁴

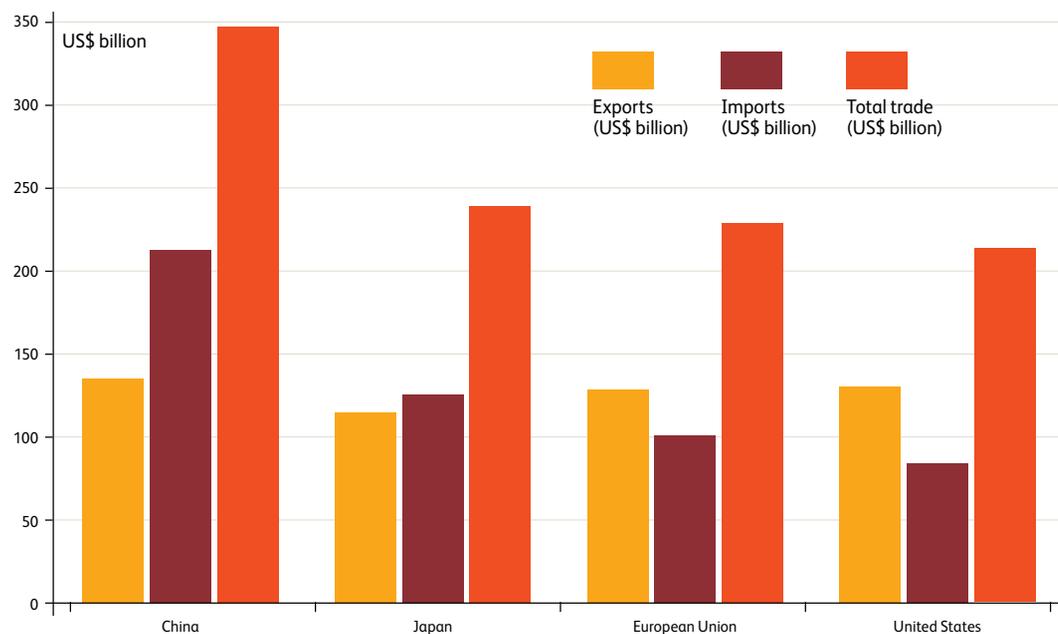
COURTING SOUTHEAST ASIA

With the region remaining at the heart of intensifying territorial disputes between China and other claimants such as Vietnam and the Philippines, Abe focused on maritime security, defense diplomacy and capacity-building during his recent visits. Additionally, infrastructure, connectivity and trade and investment also featured among Abe's priorities.

Abe is also keen on realizing the Trans-Pacific Partnership (TPP) trade agreement. Protectionist trends and geo-economic challenges unfolding under the Trump administration are a cause for concern among the agreement's other 11 signatories. With the future of this ambitious free trade deal uncertain, Abe is taking a lead in highlighting the TPP's merits both to member countries such as Vietnam and Australia and also to the new US administration. Japan, which has ratified the agreement, is also arguing the case of a TPP-11 framework, at the Asia-Pacific Economic Co-operation (APEC) meeting. Meanwhile, as the TPP navigates a difficult path following the

FIGURE 1 ASEAN TRADE 2015

Source: ASEAN External Trade Statistics



exit of the US, Japan has renewed its attention to the Regional Comprehensive Economic Partnership (RCEP), an alternative trade agreement that is less rigorous than the TPP but more inclusive in terms of the number of countries involved. Besides focusing on the future of the TPP, Abe also used his visits to push the case for concluding a “high-quality” RCEP with stricter rules on intellectual property rights, since Japan and all four countries he visited are also part of this mega-regional economic agreement.

Japan is pursuing its agenda in Southeast Asia and Australia on a number of fronts:

wooing Duterte: The Philippines, the 2017 chair of ASEAN, was Abe’s first stop. At a time when Manila’s geopolitical shift under the leadership of President Rodrigo Duterte is being debated in strategic circles, Japan is courting the Philippines with an US\$8.7 billion package consisting of government aid and public investments over the next five years. Japan and China have reportedly committed around US\$33 billion in aid and

investment to the Philippines. During Duterte’s visit to Beijing in October 2016, China committed US\$24 billion in aid and investment. Abe’s package was largely aimed at projects employing Japanese technological sophistication to strengthen infrastructure in Metro Manila and promoting investments to achieve low carbon growth. In an attempt to win Duterte’s confidence, Abe extended co-operation for his anti-drug campaign and also offered assistance in drug rehabilitation efforts.

Maritime co-operation was also a top priority. Underscoring the significance of peaceful, stable and open seas, Japan extended US\$5 million for high-speed boats and counterterrorism equipment for the Philippine Coast Guard. Duterte argued that capacity-building, acquisition of assets and upgrading constitute the basis for co-operation with Japan. To further security co-operation, Japan participated in the Balikatan 33-2017 military exercises in May involving the Philippines and the US.

Investing in Jakarta: In Indonesia, Abe’s focus

TABLE 1 TOP TEN SOURCES OF ASEAN FOREIGN DIRECT INVESTMENTS INFLOW

Source: ASEAN Foreign Direct Investment Statistics

	Value			Share to total inflows		
	2013	2014	2015	2013	2014	2015
ASEAN	19,562.2	22,134.5	22,232.2	15.7	17.0	18.4
European Union	24,511.3	24,989.9	20,127.6	19.6	19.2	16.7
Japan	24,750.2	15,705.4	17,559.4	19.8	12.1	14.5
United States	7,157.2	14,748.5	13,646.0	5.7	11.3	11.3
China	6,426.2	6,990.1	8,256.5	5.1	5.4	6.8
South Korea	4,303.3	5,750.7	5,710.4	3.4	4.4	4.7
Australia	2,587.7	6,281.5	5,246.7	2.1	4.8	4.3
Hong Kong	5,251.2	9,813.2	4,542.9	4.2	7.5	3.8
Taiwan	1,381.8	3,253.9	2,807.0	1.1	2.5	2.3
New Zealand	335.9	550.0	2,241.2	0.3	0.4	1.9
Total top ten sources	96,267.1	110,217.7	102,370.0	77.1	84.8	84.7
Others	28,597.4	19,777.4	18,448.8	22.9	15.2	15.3
Total FDI inflow to ASEAN	124,864.5	129,995.1	120,818.8	100.0	100.0	100.0

was on enhancing existing strategic and commercial linkages. The convergence of President Joko Widodo’s focus on projecting Indonesia as a global maritime fulcrum between the Pacific and Indian Oceans, and Abe’s concept of a free and open Indo-Pacific, underscored their shared interest in promoting free, open and stable seas. In this context, it is important to note that the Indonesia-Japan Maritime Forum was launched in December 2016 with the objective of augmenting maritime co-operation. Prioritizing maritime security, Japan agreed to help develop Indonesia’s remote islands, including Sabang, Natuna and Morotai. There was also discussion on developing maritime and fisheries hubs beyond Java. Additionally, a joint statement issued by the two countries stressed co-operation on defense equipment and technology transfer.

Besides maritime co-operation, infrastructure was also on Abe’s agenda. Although China won the US\$5.1 billion high-speed Jakarta-Bandung railway project over Japan’s focused bid in

2015, Tokyo is engaged in discussions on several other projects. Japan is involved in revitalizing the Jakarta-Surabaya railway project with Indonesian counterparts and building the Patimban deep-sea port in West Java, considered a national strategic project. Both Abe and Joko also focused on developing the Masela gas block situated in Maluku Province. In addition, Japan extended a loan of US\$640 million for developing irrigation networks and coastal conservation.

Buttressing strategic co-operation with Vietnam: Abe offered US\$1.05 billion to Hanoi in fresh loans for infrastructure projects and patrol vessels. Tokyo agreed to provide six patrol vessels to boost Vietnam’s maritime law-enforcement and patrolling capabilities in the South China Sea. Other items on the agenda were achieving the targets of Hanoi’s industrialization strategy within the Vietnam-Japan co-operation framework; completing the sixth stage of the Japan-Vietnam joint initiative to develop Vietnam’s business environment; and major infrastructure projects. Viet-

5 "Joint Meeting Outcomes of Visit to Australia by Japanese Prime Minister Abe," Ministry of Foreign Affairs of Japan, Jan. 14, 2017, www.mofa.go.jp/mofaj/files/000218411.pdf

TABLE 2 JAPAN'S ASSISTANCE TO EAST AND SOUTHEAST ASIA IN 2014, US\$ MILLION

Source: White Paper on Development Co-operation 2015, Ministry of Foreign Affairs Japan

Rank	Country or region	Grants			Loan aid			Total (net disbursements)	Total (gross disbursements)	
		Grant aid	Grants provided via multilateral institutions	Technical co-operation	Total	Amount disbursed (A)	Amount recovered (B)			A-B
1	Vietnam	39.67	—	88.76	128.43	1,755.54	360.89	1,394.65	1,523.09	1,883.98
2	Indonesia	32.22	1.15	79.20	111.42	458.52	1,762.15	-1,303.63	-1,192.21	569.94
3	Philippines	25.87	12.06	56.35	82.21	391.07	565.87	-174.80	-92.59	473.28
4	Thailand	9.95	3.05	39.45	49.40	366.32	258.62	107.70	157.10	415.72
5	Myanmar	119.68	15.44	83.10	202.78	11.14	—	11.14	213.92	213.92
6	China	3.32	—	15.69	19.01	123.12	1,027.80	-904.68	-885.67	142.13
7	Cambodia	63.72	4.16	40.08	103.80	23.16	2.65	20.51	124.31	126.96
8	Mongolia	19.19	—	20.72	39.91	79.82	15.67	64.15	104.06	119.74
9	Laos	65.47	2.83	29.13	94.60	12.31	3.58	8.73	103.33	106.91
10	Malaysia	2.94	2.83	14.33	17.27	75.20	122.89	-47.69	-30.42	92.47
11	Timor-Leste	6.97	—	11.39	18.36	0.81	—	0.81	19.17	19.17
	Multiple East Asian nations	1.07	1.07	7.64	8.70	—	—	—	8.70	8.70
	East Asia region total	390.08	42.60	486.02	876.11	3,297.00	4,124.49	-827.49	48.62	4,173.11
	ASEAN total	359.53	41.53	430.53	790.06	3,093.25	3,076.66	16.59	806.65	3,883.31

nam called for additional Japanese investment in infrastructure, manufacturing and services, and for combating climate change. Japan's efforts to export infrastructure to Vietnam had suffered a setback in 2016 as Hanoi shelved plans to build a nuclear power plant with the Japan Atomic Power Company over cost concerns. Nevertheless, Japanese investment in Vietnam amounts to US\$42 billion, making it the second-largest foreign investor after South Korea. Moreover, Tokyo is the largest provider of Overseas Development Assistance to Vietnam, as well as the country's fourth-largest trading partner. During Abe's visit, the Japan International Co-operation Agency (JICA) signed agreements extending loans for two projects involving mitigating and adapting to climate change, and strengthening international competitiveness through policy and institutional reforms. Japanese Emperor Akihito's first visit to Vietnam in March added further momentum to the bilateral relationship. More recently, Japan agreed to further co-operation on infrastructure

building, especially in urban development and energy, at the ninth meeting of the Japan-Vietnam Co-operation Committee in May.

REVISITING THE SPECIAL STRATEGIC PARTNERSHIP WITH AUSTRALIA

Despite Japan's shock setback in its efforts to clinch the 2016 multi-billion-dollar submarine deal with Australia, Abe used his Australia visit to inject further momentum into the Special Strategic Partnership between the two countries and to build trust with the Turnbull administration. Defense co-operation was reinforced with a new Acquisition and Cross-Servicing Agreement (ACSA) to further enhance logistical support between Japan Self-Defense Forces (JSDF) and its Australian counterparts. This will enable the JSDF, which so far has shared only food, fuel and supplies during UN peacekeeping operations, relief operations and joint exercises, to supply ammunition to the Australian military. Moreover, both sides expressed a commitment to

advance administrative, policy and legal procedures to facilitate joint operations and exercises. Co-operation on security issues, including counter-terrorism, cyber, space and defense science and technology, was reaffirmed.

Australia has been part of Abe's strategic design since his first term in office. This was witnessed when Australia featured as an important pole in Abe's Quadrilateral Initiative, which he later renamed the Democratic Security Diamond. With both countries arguing in recent years in favor of a rules-based international order and a peaceful and stable Indo-Pacific region, Abe and Turnbull reiterated that their respective alliance with the US constitutes the "cornerstones of Australia and Japan's peace and security, and underpin regional stability and prosperity" and pledged "to work proactively, alongside the US and other like-minded countries, including India."⁵

Economically, both countries have a common interest in the TPP, given the potential economic and strategic returns. While Trump said in his

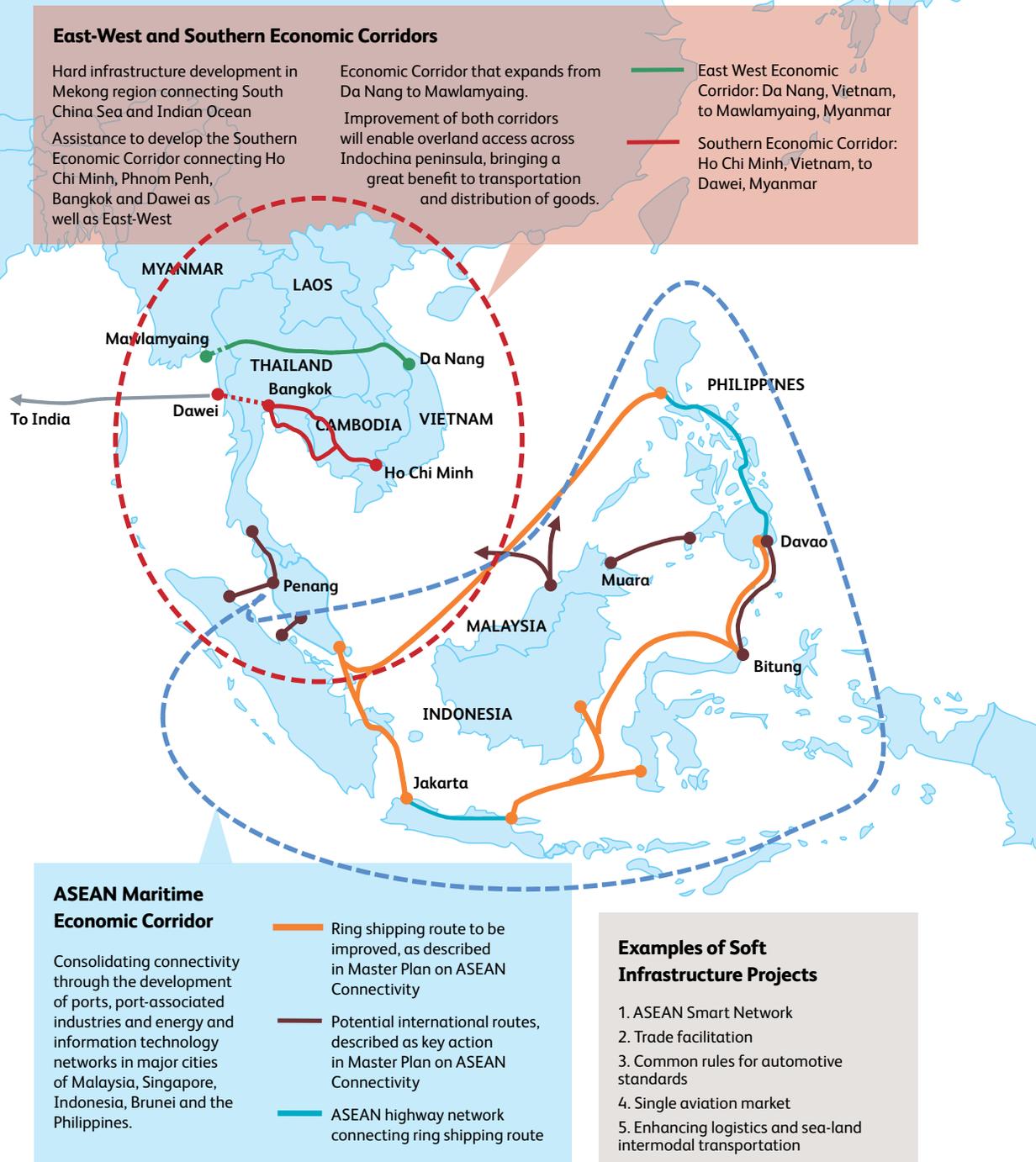
inaugural speech that protectionism will pave the way for "great prosperity," Turnbull argued that protectionism is a route to poverty. Both Abe and Turnbull need to play a critical role in determining the TPP's future at a time when the principal architect, the US, has disengaged itself. In this regard, Japan and Australia celebrated the second anniversary of their Economic Partnership Agreement during Abe's visit, marking their commitment to open markets.

JAPAN'S STRATEGY FOR THE REGION

Southeast Asia has been on Japan's radar since the days of the Fukuda Doctrine articulated in 1977. Nevertheless, there was some reticence in Japan to engage in the region at a politico-military level for historical reasons. But as Southeast Asia has emerged as a theater of great-power politics, Abe has refused to accept Chinese pre-eminence in the region as a given, and has clearly demonstrated the will to engage and compete in the contest for influence. Under his leadership, Japan has

FIGURE 2 JAPAN'S VISION TO SUPPORT CONNECTIVITY ACROSS ASEAN

Source: Mission of Japan to ASEAN



6 Céline Pajon, "Japan's "Smart" Strategic Engagement in Southeast Asia", *The Asan Forum*, Dec. 6, 2013

7 Titli Basu, "China-Japan Relations: Deciphering the 70th Anniversary Course," in Jagannath P. Panda (ed.), *China Year Book 2015 — China's Transition under Xi Jinping* (Pentagon Press, 2016), pp. 254-74. 4 "Meeting Asia's Infrastructure Needs," Asian Development Bank, February 2017 www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf

8 "Meeting Asia's Infrastructure Needs," Asian Development Bank, February 2017 www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf

9 "Aso announces ¥4 trillion ASEAN currency scheme," *Yomiuri Shimbun*, May 6, 2017, <http://the-japan-news.com/news/article/0003682719>

consequently expanded its horizon beyond the narrow economic approach to a more encompassing political-security co-operation. In fact, Japan has embraced a smart power strategy wherein it has complemented economic commitments with active defense diplomacy,⁶ including strengthening partnerships through capacity-building assistance, co-operation on defense equipment and extending the Japanese presence by participating in bilateral and multilateral exercises.

Southeast Asian countries are set to gain substantially from the strategic competition between the two Asian economic powerhouses. A race between China and Japan to boost investments in Asian infrastructure is under way. Their goal is to expand regional influence by catering to the voracious infrastructure appetite of Asia's emerging economies. This will ultimately serve the larger objective of enabling these economies to fuel their national growth engines and boost the region's overall ability to compete in the global economy.⁷

Southeast Asia is also central to Xi Jinping's vision of a Maritime Silk Road. There is huge potential to upgrade infrastructure in the region. Southeast Asia itself has a "Master Plan on ASEAN Connectivity," whose goal is to advance connectivity in order to deepen regional market integration through the ASEAN Economic Community (AEC). Japan is actively contributing to improving ASEAN connectivity through both land and maritime corridors through a number of projects.

The Asian Development Bank (ADB) estimates that Asia requires US\$26 trillion for infrastructure from 2016 to 2030.⁸ Realizing China's increasing influence, especially following the creation of the AIIB, Abe launched the PQI and underscored that Japan, in co-operation with the ADB, will deliver high-quality and innovative infrastructure to Asia and committed US\$110 billion over five years, representing a 30 percent increase over previous commitments. At the 50th

annual meeting of the ADB in Yokohama in May 2017, Japan committed US\$40 million over a two-year period to a high-level technology fund focusing on critical areas including climate change, smart grids, renewable energy and smart cities.

There is an intense race between China and Japan for infrastructure projects such as the high-speed rail project in Indonesia, the US\$15 billion *shinkansen* project in India, the contest for the Singapore-Malaysia bullet train, and so on. The competition was evident during the 2015 ASEAN Summit in Kuala Lumpur. While China committed US\$10 billion to improve regional infrastructure and connectivity, along with US\$564 million in grants to Cambodia, Laos, Myanmar and Vietnam, Japan agreed to ease loan-related restrictions and provide quality infrastructure expertise. Japan has committed to developing the Dawei industrial zone, funded the Tsubaba Bridge over the Mekong River and pledged US\$6.1 billion in aid to the "Mekong five" nations. Recently, Japan decided to establish a currency swap arrangement, offering ¥4 trillion (US\$3.6 billion) to ASEAN aimed at boosting financial co-operation.⁹

Southeast Asia is open to Japanese involvement since Tokyo has no territorial claims in the region and its economic clout presents development opportunities. Moreover, some countries see Japan as a potential balancer, alongside the US, to restrain China. Given the fluidity of regional geopolitics, Abe's strategy is to prevent China from attaining greater diplomatic space in the region. As China's leadership pursues shifts in the US-led regional order, Abe's objective in Southeast Asia is to maintain the status quo in the South China Sea, offset an expansion of the Chinese sphere of influence and ensure regional stability.

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