



**Japan-Southeast Asia Relations:  
Incremental, But Groundbreaking Steps**

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Two objectives drive Japan’s increasing engagement with Southeast Asia: stimulating Japanese economic growth through investment in large-scale infrastructure abroad, and supporting regional maritime domain awareness to protect Japan’s own long-term maritime security, one component of Prime Minister Abe Shinzo’s new strategy of “Proactive Pacifism” in the region. While Tokyo officially denies any suggestion of rivaling or checking China with these policies, the timing and nature of Japan’s “pivot” to Southeast Asia would suggest otherwise. The number of “first-ever” Japanese defense initiatives with Southeast Asian countries in the past year, particularly with the Philippines and Vietnam, correspond to rising concern in the region over China’s moves in the South China Sea. Tokyo has matched these new policy measures with a diplomatic strategy to urge peaceful resolution of territorial disputes in the South China Sea. In his May visit to several Southeast Asian countries, Foreign Minister Kashida Fumio urged a greater effort to forge a code of conduct for the South China Sea between China and ASEAN.

New developments in regional security relations reflect a revision of Japanese defense guidelines and of the US-Japanese alliance, both of which emphasize greater interaction with regional partners. New guidelines have enabled the Japan Self-Defense Forces to deepen their engagement with Southeast Asian militaries. For several years, the Japanese Coast Guard (JCG) was the primary institution for maritime cooperation in the region. There is still considerable scope for JCG cooperation with its Southeast Asian counterparts, but the Japan Maritime Self-Defense Force appears to be positioned to become the lead agency over time. On the economic side, Japan and China are in direct competition for infrastructure projects in Southeast Asia, particularly in Myanmar. This will likely be the case for the next several years as ASEAN seeks to undergird the ASEAN Economic Community with new transportation grids. Although Japan will enjoy some advantage over China with Vietnam and Malaysia when and if the Trans-Pacific Partnership becomes fully operational, the three countries with the most ambitious infrastructure plans – Myanmar, Thailand, and Indonesia – will not be TPP members for several years, if ever.

**Edging into security cooperation**

Many of Japan’s overtures and agreements with Southeast Asian countries in the security sector over the past year have been small steps that have been highly symbolic of a new level of cooperation. However, with both Vietnam and the Philippines – the two countries with the

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highest level of tension with China over the South China Sea – Tokyo has also fashioned new defense agreements. In both cases, the agreements were followed in short order by “deliverables” – port visits, equipment transfers, joint activities – indicating urgency in the regional maritime security environment. Security developments with the Philippines and Vietnam have also paralleled expansion in US security relations with these two countries: in Vietnam, the partial lifting of the US ban on exporting weapons to Hanoi; in the Philippines, the finalization of the US-Philippines Enhanced Defense Cooperation Agreement. Japanese and US policy in Southeast Asia increasingly complement one another but still stand apart, to avoid disturbing the fragile balance of Japan-Southeast Asian relations, especially in the area of defense.

### *Philippines*

In February 2016, Tokyo and Manila signed an agreement to enable Japan to supply defense equipment and technology to the armed forces of the Philippines. This represented Japan’s first such agreement since lifting its self-imposed ban on defense exports. The agreement also stipulates the establishment of a joint committee to plan and manage transfers. Negotiation of the agreement was rapid – less than three months – and was followed two months later by the announcement that Japan would lease five *TC-90* aircraft to the Philippines, which will effectively double the range of the AFP’s maritime domain surveillance capacity. The two countries touched on the possibility of a visiting forces agreement in the future, but no concrete measures or dates were set.

In the early months of 2016, the equipment agreement was complemented by a series of port calls and brief military exercises. Japanese vessels have made annual port calls in Manila for several years, but in April a Japanese training submarine and two destroyers docked in Subic Bay for a three-day series of visits and joint exercises.

### *Vietnam*

In the past year, Japan’s security relations have followed a similar path with Vietnam. In November, the two countries revived their episodic Defense Ministerial Meeting in Hanoi. Japanese Defense Minister Nakatani Gen and Vietnamese counterpart Phung Quang Thanh agreed in principle to an expansion of security relations. They agreed to port visits, joint exercises, and the launch of working-level talks on defense equipment and technology transfer.

In February, the visit of two *P-3C* patrol aircraft to Danang led to modest joint exercises; the two militaries have agreed in principle to conduct joint bilateral humanitarian assistance/disaster relief exercises in the future. On April 12, two Japanese destroyers made an historic port call at Cam Rahn Bay and conducted joint drills with the Vietnamese Navy. The ships were on their way back from their port call at Subic Bay.

### *Indonesia*

Since the beginning of the 21<sup>st</sup> century, the Japanese Coast Guard has conducted joint exercises with the littoral states of the Strait of Malacca, to ensure the safe transit of Japanese oil tankers and other ships through the Strait. With tensions rising in the East and South China Seas,

however, Japan is gradually extending its naval reach to the littoral states with a different focus. In mid-April Japan sent the destroyer *JS Ise* to multinational exercises hosted by Indonesia off the coast of Sumatra, barely a month after the Indonesian government arrested a Chinese trawler it charged was illegally fishing in Indonesia's Exclusive Economic Zone.

### **Infrastructure: “connectivity” breeds competition**

Tokyo may have good cause to expand its security relations with the Southeast Asian maritime states carefully, but its rivalry with China over infrastructure projects is more obvious. ASEAN plans to strengthen connectivity through the development of a series of rail, road, and water links not only offer the possibility of investment contracts, but also the opportunity to shape Southeast Asian infrastructure according to the economic and security needs of the regional powers. This includes creating new trade and faster trade routes, in particular strengthening access to the Indian Ocean and westward to the Middle East.

In May 2015, Japan announced a plan to provide \$110 billion in aid for Asian infrastructure projects “to spread high-quality and innovative infrastructure throughout Asia.” About half the funds will be extended by state affiliated agencies in charge of aid and loans and the rest in collaboration with the Asian Development Bank (ADB). In broad strokes, the China-led Asian Infrastructure Investment Bank (AIIB) stands as a counterpart to the Japan-led Asian Development Bank. The distance between the two institutions has recently narrowed with a May 2, 2016 Memorandum of Understanding that paves the way for jointly financed projects. However, this new partnership will focus first on South Asia rather than Southeast Asia.

Both countries have folded infrastructure into their regional assistance program, particularly in the Mekong sub-region. Japan is a member of the Friends of the Lower Mekong Initiative (LMI), which derives from the regional program launched by the US. However, in May, Tokyo announced the establishment of the Japan-Mekong Connectivity Initiative, the initial phase of which will provide \$7 billion in assistance, to be apportioned between infrastructure development and capacity building. The announcement came two months after the first summit in Hainan of the Lancang (Mekong) Cooperation Organization, China's version of the LMI. Over the past year, the shape and tenor of the two countries' competition over Southeast Asian infrastructure was particularly evident in three countries: Indonesia, Thailand and Myanmar.

#### *Indonesia*

Japan suffered a surprising defeat in its bid for Indonesia's first high-speed rail project, linking Jakarta with Bandung in Western Java with a 150km line. In November 2015, after several weeks of wavering, Jakarta seemingly canceled the project and then awarded the contract to China Railway.

The choice of China over Japan was instructive. Indonesian officials characterized China's bid as government-to-government and Japan's as business-to-business. China Railway offered to build the railway for \$5.5 billion, against Japan's bottom line of \$6.2 billion. China promised to finish the project in three years, while Japan estimated a five-year timeline. But the deciding factor for Jakarta was likely the terms of financing. The Chinese proposal did not require a

funding guarantee from Indonesia, and the Chinese Development Bank agreed to finance 75 percent of the cost of the project. Japan's business model and regulations did not permit concessional credit as appealing as that offered by China. However, the financing and other aspects of the start-up have not gone smoothly; shortly after the Indonesian and Chinese governments broke ground, the project was suspending pending the resolution of several issues.

### *Thailand*

Its political problems notwithstanding, Thailand aspires to become the transportation hub of ASEAN. To this end, Bangkok envisions a division of labor in which China builds rail links running north-to-south, while Japan will develop an east-to-west transportation corridor. Bangkok's negotiations with both China and Japan have proceeded fitfully and slowly.

The north-south rail is part of a larger Chinese plan to develop high-speed passenger and freight rail service that will run from Yunnan to Bangkok, by way of Laos, and eventually through Malaysia to Singapore. In early 2016, Laos and China agreed on the interest rate for a \$480 million loan from China to build the Lao-China railway, although they had broken ground in December 2015. The remainder of the estimated \$6 billion cost will be borne by various agencies and state-owned enterprises in both countries, with the larger share from China.

Negotiations between Beijing and Bangkok on the next leg of the North-South line foundered over the issue of interest rates and total investment costs. Bangkok did not consider the rate on offer from China for the \$5 billion project to be "friendly." In March 2016, Prime Minister Prayuth Chan-ocha informed Beijing that Thailand would fund the rail project itself, although he intends to use Chinese engineers. Construction on the line has not yet begun.

As a result, Bangkok has pressured Japan to speed up the joint process of developing the East-West railway corridor. In May 2015, the two governments signed a Memo of Cooperation to construct a 60km high-speed rail line between Chiang Mai and Bangkok, using *shinkansen* train technology. Feasibility studies are scheduled to be done in June, but no date has been set to break ground and a construction timeline, final costs, and cost-sharing have yet to be finalized. Nevertheless, Bangkok is also pushing for Japanese help in building two additional east-west lines: one to run from Aranyaprathet on the Cambodian border to Kachanaburi on the Myanmar border; and the other from Mukhadan province on the Thai-Laos border to Mae Sot on the border with Myanmar. Tokyo is cautious about long-term commitments to Thailand in the absence of that country's political stability.

### *Myanmar*

Japanese and Chinese strategic and commercial objectives have driven the two governments' selection of initial infrastructure projects, in the form of Special Economic Zones, in Myanmar. To date, China has focused on the Kyaukphyu SEZ in Rakhine State. The project has proved difficult, not least because Rakhine is the center of Buddhist-Muslim tensions in Myanmar. However, China's two energy pipelines – oil and natural gas – run through the state.

Japan's initial infrastructure investment is the Thilawa SEZ in the Yangon region, which will support Japanese commercial interests in Yangon. Although China remains the largest investor in Myanmar, over the long-term Tokyo could well eclipse Beijing with its participation in the Dawei Special Economic Zone. Under discussion since 2008, Japan, in July 2015, acceded to pressure from Myanmar and Thailand to develop a deep sea port, oil refineries, and other facilities in the zone.

The implications of the development of the Dawei SEZ for the economies of mainland Southeast Asia are profound. The SEZ would allow goods to flow through Southeast Asia's first major port on the Indian Ocean to all of East Asia, avoiding the Strait of Malacca. Access to energy supplies from the Middle East will improve. The new east-west rail and road corridor will connect to the port. Much of the infrastructure will be built by Japan if Tokyo and Bangkok are able to negotiate those projects successfully. However, Dawei will be a long-term effort: although some initial construction could begin this year, the entire facility could take as long as four decades to complete.

### **Political transitions and stability**

As Japan deepens its engagement with Southeast Asia, political conditions in several countries have a new salience, and bring new risks. These risks are most evident in three countries: Thailand, Philippines, and Myanmar.

#### *Thailand*

When Foreign Minister Kishida visited Bangkok in early May 2016, he expressed concern that the election planned for late 2017 could return Thailand to a prolonged period of instability; conversely, refusing to call elections could have the same effect. With US-Thailand relations at a low point because of the 2014 coup, Bangkok has sought closer relations with both Tokyo and Beijing. Apart from prospective rail projects, Japan has 4,500 companies in Thailand and is its largest source of foreign investment.

#### *Philippines*

Tokyo is slightly less worried about the potential impact of the political transition this year in the Philippines. The term limit on Philippine presidents – one six-year term – makes continuity difficult, and Japan's economic interests could be affected by the outcome of the May 9 elections. However, the new Japan-Philippines security relationship is likely to be less affected, since it parallels the US-Philippines security relationship. Washington will make efforts to ensure that EDCA remains in place, and Tokyo will benefit from them.

#### *Myanmar*

The political situation in Myanmar – and Japan-Myanmar relations as a result – are not as straightforward. Japan's "special relationship" with then-Burma in the 1980s ended as US sanctions mounted over the following two decades. China replaced Japan as Myanmar's largest trading partner, and maintains that position. However, during the Thein Sein administration

Tokyo was able to recoup some of its political and economic leverage in Myanmar, particularly after it resumed development assistance in 2013 while it also provided \$1.3 billion in concessionary loans. Although relations with Aung San Suu Kyi are cordial – she lived in Japan briefly before returning to Myanmar in the late 1980’s – Japan has less entrée with the National League for Democracy (NLD) than with Thein Sein. Moreover, Tokyo worries that the NLD may not have the capacity to govern, much less to stimulate economic growth.

The foreign policies of the new NLD government are uncharted territory. The government has indicated that it will review all foreign investment projects, which could create delays, or worse, obstacles in the two SEZ projects as well as smaller Japanese ventures. In February, Aung San Suu Kyi made a public request for more Japanese aid to Myanmar, and Tokyo has been quick to respond: when he visited in early May, Foreign Minister Kishida announced a new tranche of assistance, slightly over \$35 million. Japan also makes significant contributions to Myanmar – more than \$31 million to date – through several United Nations agencies.

An adjunct concern for Tokyo is the continuation of US sanctions on Myanmar, although since 2012 most restrictions have been suspended by the Obama administration through executive order. The most significant of the remaining sanctions are those on the Specially Designated Nationals (SDN) list, which includes a significant number of wealthy businessmen with links to former military juntas. Washington applies political pressure to countries that deal with entities on the SDN list, and Tokyo is wary of full economic exposure in Myanmar until the list has been revised. President Obama is scheduled to make a decision on sanctions renewal in mid-May. Although he is expected to ease sanctions further, he will likely not remove them altogether.

### **US-Japan-Southeast Asia: the (informal) triangle**

The revision of guidelines for the US-Japan alliance enables Washington and Tokyo to cooperate with third countries more easily. Defense cooperation between and among ASEAN and its external partners is gradually expanding through the ASEAN Defense Ministers Meeting process. Longstanding multilateral security exercises, most notably *Cobra Gold*, provide additional opportunities for regional defense cooperation, particularly in non-traditional areas such as humanitarian assistance and disaster relief.

Japan is a full participant in these regional mechanisms, as well as in more informal and *ad hoc* forms of defense cooperation. These enable Tokyo to advance its defense agenda in Southeast Asia in a manner consonant with the pace and style of the Southeast Asian countries. For example, in August 2015, the Japan Maritime Self-Defense Forces made a call at Subic Bay, its first in several years, while participating in US-Japan-Philippine humanitarian exercises.

At this point Japan’s defense relations with Southeast Asia are not an outgrowth of the US-Japan alliance. The two militaries often operate in parallel in Southeast Asia, but a more formal triangulation would raise concerns in the region on several scores. Recent studies have indicated that, on the whole, Southeast Asians view the US-Japan alliance positively, primarily because it increases the likelihood that the US will remain in the Asia-Pacific region as a strategic partner. However, they fear that extension of the alliance to include formal links with

Southeast Asian states, even those that are US treaty allies, would exacerbate tensions with China. They also worry that it would erode or negate ASEAN “centrality” in the region.

Japan’s status as a major regional power offers some protection against negative attitudes toward increased defense cooperation in Southeast Asia. In contrast to the US-Australia alliance, which encouraged perceptions of Canberra as a “deputy sheriff” in the early 2000s, most Southeast Asians view Japan’s role in the region as distinct from that of the US. This is in part because Tokyo has traditionally pursued its foreign policy objectives through economic diplomacy, while Washington has focused more on democracy and human rights. This distinction makes increased defense cooperation with Japan acceptable to most Southeast Asian states, although they would prefer that it be bilateral or filtered through an ASEAN mechanism.

### **Chronology of Japan – Southeast Asia Relations May 2015 – April 2016**

**May 6, 2015:** Japanese and Philippine coast guards conduct joint anti-piracy exercises in the Philippines.

**May 12, 2015:** Two Japanese destroyers and one of the Philippines’ newest warships conduct maneuvers involving maritime domain awareness, search and rescue, and disaster response.

**May 21, 2015:** Japan announces a plan to provide \$110 billion in aid for Asian infrastructure projects “to spread high-quality and innovative infrastructure throughout Asia.”

**May 24-26, 2015:** Malaysian Prime Minister Najib Razak visits Japan and meets Prime Minister Abe Shinzo.

**May 27, 2015:** Japan Transportation Minister Akihiro Oto and Thai Minister of Transportation Prajin Juntong sign a Memorandum of Cooperation to construct a high-speed rail link between Chiang Mai and Bangkok.

**June 2-5, 2015:** Philippine President Benigno Aquino visits Japan and meets Prime Minister Abe. They agree on talks on a framework for the transfer of defense equipment and technology.

**June 22-26, 2015:** Philippines and Japan hold second joint naval maneuvers of the year in the South China Sea.

**July 5, 2015:** Japan signs a Memorandum of Intent with Thailand and Myanmar on participation in building the Dawei Special Economic Zone project.

**Sept. 19, 2015:** Japanese Diet passes legislation giving the government the authority to send forces overseas to defend allies even if Japan is not being attacked.

**Aug. 14, 2015:** Japan Maritime Self-Defense Forces participate with US and Philippine naval forces in humanitarian exercises off Subic Bay.

**Oct. 2, 2015:** Indonesian government announces it will award a contract for the country's first high-speed railway to China rather than Japan. Six days after the ground-breaking ceremony, Jakarta suspends the project because of "unresolved issues."

**Nov. 6, 2015:** At the Japan-Vietnam Defense Ministerial Meeting in Hanoi, Japanese Defense Minister Nakatani Gen and Vietnamese Defense Minister Phung Quang Thahn lay out a plan for increased defense cooperation that includes port visits, equipment transfers, and joint exercises.

**Dec. 17, 2015:** The defense and foreign ministers of Japan and Indonesia meet in Tokyo in a "two-plus-two" format and agree to strengthen security and economic ties.

**Jan. 26-30, 2016:** Japanese Emperor Akihito and his wife Michiko visit the Philippines, marking the 60<sup>th</sup> anniversary of the normalization of diplomatic relations between the two countries.

**Feb. 16-18, 2016:** Two Japanese Maritime Self-Defense Force *P-3Cs*, returning home from Djibouti, stop in Danang. It is the first time since World War II that Japanese military aircraft have landed in Vietnam.

**Feb. 29, 2016:** Philippines Defense Minister Voltaire Gazmin and Japanese Ambassador to Manila Ishikawa Kazuhide sign an agreement for Japan to supply defense equipment and technology to the Philippines. It is the first such agreement between Japan and a Southeast Asian country since Japan lifted its self-imposed ban on defense exports in 2014.

**April 3-5, 2016:** Japanese training submarine *JS Oyashio*, accompanied by the destroyers *JS Ariake* and *JS Setogiri* dock in Subic Bay in the Philippines for a goodwill visit and confidence-building exercise.

**April 12, 2016:** Japanese destroyers *JS Ariake* and *JS Setogiri* proceed to Cam Ranh Bay for an historic goodwill visit and joint drills with the Vietnamese Navy.

**April 12-16, 2016:** Japan sends the destroyer *JS Ise* to multinational exercises hosted by Indonesia in conjunction with a meeting of the Western Pacific Naval Symposium.

**May 2, 2016:** Japan agrees to lease five *TC-90* planes to the Philippines, which will effectively double the range of the Armed Forces of the Philippines in maritime monitoring.

**May 2, 2016:** On a visit to Bangkok, Japanese Foreign Minister Kishida Fumio announces the three-year, \$7 billion Japan-Mekong Connectivity Initiative.

**May 3, 2016:** In Myanmar, Foreign Minister Kishida pledges a \$35.7 million bilateral assistance package, in response to State Counselor Aung San Suu Kyi's February request for increased aid.