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JAPAN-SOUTHEAST ASIA RELATIONS

BOTH PUSH AND PULL: JAPAN STEPS UP IN SOUTHEAST ASIA

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Two political surprises in 2016 will affect Japan's relations with Southeast Asia. The first, the election of President Rodrigo Duterte in the Philippines and his subsequent turn toward China, has likely not disturbed Japan's role as the Philippines' largest investor, trading partner, and aid donor. However, Duterte's abrasiveness toward Washington could have a negative effect on the newly-forged Japan-Philippines security partnership and dampen the possibility of triangulating US, Japan, and Philippine cooperation in the South China Sea. A greater and more long-term impact could be the election of Donald Trump and the resulting uncertainty in US relations with Southeast Asia. Beyond that broad concern, Trump's withdrawal of the US from the Trans-Pacific Partnership (TPP) throws the economic architecture of the Asia-Pacific region into question and could stymie the growth Japan had expected in trade relations with TPP members in Southeast Asia, particularly Vietnam and Malaysia. In January 2017, just days before Trump's inauguration, Prime Minister Abe embarked on a swing through Southeast Asia to make "strategic adjustments" in Japanese relations with the Philippines, Indonesia, and Vietnam.

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Two political surprises in 2016 will affect Japan's relations with Southeast Asia. The first, the election of President Rodrigo Duterte in the Philippines and his subsequent turn toward China, has likely not disturbed Japan's role as the Philippines' largest investor, trading partner, and aid donor. However, Duterte's abrasiveness toward Washington could have a negative effect on the newly-forged Japan-Philippines security partnership and dampen the possibility of triangulating US, Japan, and Philippine cooperation in the South China Sea. A greater and more long-term impact could be the election of Donald Trump and the resulting uncertainty in US relations with Southeast Asia. Beyond that broad concern, Trump's withdrawal of the US from the Trans-Pacific Partnership (TPP) throws the economic architecture of the Asia-Pacific region into question and could stymie the growth Japan had expected in trade relations with TPP members in Southeast Asia, particularly Vietnam and Malaysia. In January 2017, just days before Trump's inauguration, Prime Minister Abe embarked on a swing through Southeast Asia to make "strategic adjustments" in Japanese relations with the Philippines, Indonesia, and Vietnam.

Broadening security

Over the past year, Japanese security policy in Southeast Asia has been driven by three factors: (a) growing concern over Chinese assertiveness in the South China Sea, and its impact on the broader Pacific maritime security environment; (2) changes in Japanese defense law which, among other things, permit the transfer of Japanese defense equipment and technology if it contributes to Japan's security or promotes peace and international cooperation; and (3) Tokyo's decision to develop a regional security framework encompassing all 10 Southeast Asian countries and ASEAN itself.

Tokyo's pursuit of its new "defense diplomacy" agenda is incremental and indirect, focused primarily on expanding Self-Defense Force (SDF) presence in Southeast Asia; strengthening security partnerships; and focusing on shared norms, such as international maritime legal principles. The last approach may become more important if President Trump de-emphasizes the rule of law in maritime security and adopts a more transactional approach to China. Although there is no possibility that Japan will replace the US as security guarantor in the Asia-Pacific – or that it wants to – Tokyo could

become the standard-bearer in upholding norms by default.

South China Sea

Japanese concern over Chinese assertiveness in the South China Sea has grown but Tokyo has been inclined to deny that its policies were geared toward checking Beijing. This began to change in June 2016 when then-Defense Minister Nakatani Gen addressed the Shangri-La Dialogue in Singapore. Nakatani reassured Southeast Asian governments with new directness when he made pointed references to China's "large-scale and rapid land reclamation" and its building outposts "for military purposes" in the South China Sea. Even more welcome was his pledge from the podium to help Southeast Asian nations deal with Chinese unilateralism.

The Nakatani address was also intended to build acceptance for the decision to be announced by the UNCLOS arbitral tribunal on the petition brought by Manila against Beijing, which was delivered on June 12, a decision that President Duterte would subsequently downplay. In the face of Duterte's accommodation of Beijing, Tokyo has since lowered the volume of its rhetoric on the South China Sea – largely to maintain Japanese influence in Duterte's new "independent" foreign policy – but not reversed direction.

In September 2016, Defense Minister Inada Tomomi announced that Japan would step up naval engagement in the South China Sea and participate in joint exercises with the US and multinational exercises with regional navies. However, Tokyo still draws the line at freedom of navigation (FON) operations around the 12-mile limit of disputed islands occupied by China. She reiterated that limit in February 2017, when Defense Secretary James Mattis visited Japan.

Southeast Asian governments generally support Tokyo's more active but still limited approach to the South China Sea. They view Japanese security policy as appropriately "tailored" to Southeast Asia, not least because of Japan's continued constitutional prohibition on offensive military operations. Even without that prohibition, however, Southeast Asian leaders would not likely press for a more assertive Japan: they are uncertain over Tokyo's ultimate security aims.

Nervousness over Trump's policy in the South China Sea continues to grow in the region, but leaders see no real alternative to Washington as a hedge against Chinese maritime assertiveness. However, in the absence of firm assurances from the Trump administration on a continued commitment to Southeast Asia, regional leaders are inclined to pin their hopes on the US-Japan alliance to provide security in the Asia-Pacific region. This places greater pressure on Tokyo to encourage Washington's continued involvement in Southeast Asian security.

Capacity building

In the meantime, Japan and key maritime states in Southeast Asia – Vietnam, the Philippines, Indonesia, and Malaysia – continue to pursue joint efforts in maritime capacity-building. Key “deliverables” in this area featured in Prime Minister Abe's visits to the region in January.



Japanese Prime Minister Shinzo Abe and Indonesian President Joko Widodo (Photo: Japan Cabinet Public Relations Office)

In the Philippines, he oversaw the signing of a Memorandum of Cooperation between the two countries' coast guards (although the two sides assiduously avoided mention of China). In 2016, Japan gave the Philippines two patrol vessels and promised to lease training aircraft, adding aviation security to the menu of bilateral security cooperation. For the long-term, Tokyo had pledged to provide 10 Coast Guard ships to the Philippines during the administration of former President Benigno Aquino III. However, uncertain relations between the Duterte and Trump administration cast an occasional shadow over Japanese-Philippine security dynamics. For example, Japan has observer status in the US-Philippines *Balikatan* Exercises, which have played a prominent training role for the Armed Forces of the

Philippines since 1998. If, as Duterte occasionally threatens, US visiting forces are expelled from the Philippines, Japan would lose that added exposure.



President Rodrigo Duterte and Japan's Prime Minister Shinzo Abe try durian fruit after attending various events at the Waterfront Hotel in Davao City. (Wikipedia)

In Vietnam, Abe pledged to supply Hanoi with new patrol vessels; previously, Japan had only provided used vessels. In Indonesia, which is increasingly nervous over Chinese ambitions to enforce its historic “nine-dash line” claims, Abe and President Joko Widodo agreed to establish a bilateral forum on maritime security. Although Indonesia is not a claimant in the South China Sea, clashes between Chinese and Indonesian vessels have increased in recent years.

In March 2016, the Japanese Maritime Self-Defense Forces made a port call in Malaysia, its first in three years, and participated in joint drills in April. In recent months, however, Tokyo's security relations with Kuala Lumpur have stayed below the radar, primarily because of internal political conflict in Malaysia.

Greater regional reach

In November 2016, Tokyo reached a quiet watershed in its relations with Southeast Asia when Defense Minister Inada unveiled a new Japanese defense initiative with ASEAN at the second ASEAN-Japan Defense Ministers Meeting in Vientiane. The “[Vientiane Vision](#)” was the first- document to articulate a plan for comprehensive Japanese defense cooperation with the region. In broad terms, the initiative will balance Japanese economic objectives in Southeast Asia with common security interests, place specific security concerns – such as the South China Sea and cyber-security – in broader

context, and help Japan develop or expand security relations with new partners, such as Myanmar, in a low-key manner.

As with many new “initiatives,” the “Vientiane Vision” will involve some repackaging of existing Japanese security activities in the region. However, by basing it in ASEAN, it reassures Southeast Asians of a more “bottom-up” approach to security, as well as Japanese fidelity to ASEAN centrality. This compares favorably to the US “hub-and-spokes” configuration, although Washington has been more inclined toward a regional approach in recent years, with its own US-ASEAN Defense Ministers Meeting process.

In fact, the “Vientiane Vision” merely formalizes Japan’s greater security reach in Southeast Asia. Following the Shangri-La Dialogue in June 2016, Defense Minister Nakatani made a high-profile visit to Myanmar to meet Commander-in-Chief Min Aung Hlaing and State Counselor Aung San Suu Kyi to discuss potential defense cooperation. Japan has growing security interests in Myanmar, which range from balancing China to protecting joint infrastructure projects with strategic importance, such as the Dawei Special Economic Zone. Although Tokyo is more forward-leaning in Myanmar than Washington, it moves cautiously in areas of particular sensitivity to the United States. Assistance to the Tatmadaw is generally prohibited by US law at present, and anchoring an emerging Japan-Myanmar security relationship in the broader context of the “Vientiane Vision” is good political insurance.

Economics and trade: Tokyo’s expanding role

Southeast Asia’s importance to Japanese international economic objectives has increased exponentially in the present decade. Although China is the largest trading partner for the ASEAN nations (with the exception of the Philippines, which retains Japan as its top trader), Southeast Asia is a major investment destination for Japan – foreign direct investment (FDI) in Southeast Asia has become the most important aggregate in Japan’s regional FDI strategy.

Investment in the ‘ASEAN-6’ countries – Singapore, Thailand, Myanmar, Indonesia, the Philippines, and Vietnam – now accounts for

more than 50 percent of Japanese FDI in Asia. Vietnam and Indonesia are particularly important, both for investment and trade. Although investment shifts were initially a diversification strategy away from China where labor costs are rising along with anti-Japanese sentiment, the region’s economic promise – because of high growth rates, relatively open markets, and low labor costs (in the less-developed countries) – has made Southeast Asia an investment platform in its own right.

High-speed infrastructure wars

If Southeast Asia is to meet its goal of launching trillions of dollars in [infrastructure projects](#) by 2030 to maintain its present economic trajectory, it will need the active participation (and generous financial packages) of regional powers. Japan and China have been locked in competition to dominate the construction of Southeast Asian “connectivity” for nearly a decade. Both countries view infrastructure investment as a way to boost their own economies, protect strategic interests, and strengthen political influence in Southeast Asia.

In the past year, this competition has opened a new front on the Malay Peninsula, over high-speed rail links. Singapore and Malaysia’s joint decision to build a high-speed railway between Kuala Lumpur and Singapore by 2026 is expected to begin formal implementation in 2017, after several delays, with a 2018 construction start. The 350-km rail will link five commercial cities and cut travel time between Kuala Lumpur and Singapore from four hours to 90 minutes.

Japan, China, South Korea, and France are angling to participate in parts or the entire project, but the rivalry between Japanese and Chinese companies has created tensions in Japanese and Chinese relations with the two Southeast Asian countries. Japan claims superior rail technology, substantial financial concessionary packages, and a reputation in the region for reliability in its investment partnerships.

From Malaysia’s view, Beijing may have the inside track. China has invested heavily in several large Malaysian government projects, including the \$12 billion East Coast Line. Moreover, China helped ease Kuala Lumpur’s debt crisis by taking over some 1MDB assets in 2015. China has also been tapped to build a deep

sea port in Malacca. The question for Kuala Lumpur is less if it can partner with China over the Kuala Lumpur-Singapore high speed rail than if doing so will push Malaysia further into dependence on Beijing.

Drafted into economic leadership?

Prior to Trump's election, Tokyo had assumed that its economic relationship with Southeast Asia would strengthen on the back of the TPP. The withdrawal of the United States from the TPP is a blow to the smaller members of the agreement (most notably Vietnam and Malaysia) but also to the larger ones. The remaining 11 members are exploring possibilities for preserving the agreement, at least until a new US administration might take office. Scenarios range from "organ harvesting" (taking portions of the TPP in a separate agreement) to a go-it-alone TPP among the 11 remaining members, but the outlook is uncertain. Southeast Asian countries do not expect to benefit from the Trump administration's signals that they will negotiate new bilateral trade agreements in the region. For the time being, the Asia-Pacific region is in limbo on a regional economic framework.

In the interim, the ASEAN-based Regional Comprehensive Economic Partnership (RCEP) has become the default regional trade agreement. Under these circumstances, Japan's stake in shaping RCEP has grown, and Tokyo has taken a greater role in negotiations. Negotiations in Kobe Feb. 27-March 3 were the first talks since Trump's TPP withdrawal decision. Although no major breakthroughs occurred, the Kobe negotiations represent an attempt to accelerate negotiations on RCEP. The next round will take place in the Philippines in May.

Contrary to popular media reports, ASEAN is driving force in RCEP, rather than China. RCEP's launch in 2012 was an attempt to merge the ASEAN-Plus-Three (ASEAN + Japan, China and South Korea) and ASEAN-Plus-Six (ASEAN-Plus-Three with India, Australia and New Zealand added). Officially, negotiations proceed according to ASEAN rules, although the larger powers have considerable influence. More significant is the fact that ASEAN contains the smaller and less developed economies in the negotiations. It will likely use its implied chairmanship of the RCEP negotiation process to keep the pace slow enough so as not to

overwhelm countries such as Myanmar, Laos, and Cambodia. Specifically, ASEAN is likely to invoke its preference for "non-binding" agreements to enable smaller economies to exempt "sensitive" products from the RCEP agreement.

Japan has little hope that RCEP can substitute for the TPP as a game-changing force for economic integration and trade liberalization. However, Tokyo has increased its interest and activity in negotiations on the agreement in the hope of accelerating its completion – 2017 has been set as a target date – and raising standards as high as possible. As with picking up the remnants of the TPP, Southeast Asia looks to Japan for renewed economic leadership.

This enhanced economic leadership role for Japan in Southeast Asia was extended with Japan's proposal in late April 2017 to launch a bilateral foreign exchange swap arrangement of up to \$40 billion, to offer relief to Southeast Asian countries in financial crises. The scheme would allow Southeast Asian countries to draw on either dollars or yen to ease liquidity shortages. The framework is a collection of bilateral swap agreements with Japan and individual Southeast Asian countries, rather than a Japan-ASEAN agreement. Thailand and Malaysia have signaled their willingness to enter into agreements immediately.

Can Japan fill policy gaps left by the US in Southeast Asia?

In the face of potential changes in US policy toward Southeast Asia, regional leaders are not inclined to view the dilemma as a zero-sum contest between China and the United States. They are equally, if not more, likely to fill gaps created if the Trump administration backs away from the "pivot" to Asia with a spectrum of regional powers, rather than a single one. However, in practical terms the likely counter-balance to China will be Japan, with Australia, India, and Russia as secondary options.

Tokyo is likely to step up in two areas to compensate for a less-interested Washington. Even before the Trump administration signaled its intention to cut funding from the State Department and USAID, Tokyo had upped the economic assistance packages of key Southeast Asian nations, particularly in the Philippines and Vietnam. Japanese aid to Myanmar, Laos, and Cambodia is also likely to rise, in part to

strengthen these countries as trade and investment partners.

Second, Southeast Asian governments have little faith that the US will continue to lead the Lower Mekong Initiative (LMI), and look to Japan to assume that role. In reality, the LMI functions more as a diplomatic forum than an effective organization for governance of the Mekong River Basin. During the Obama administration it served as an expression of US interest in mainland Southeast Asia after a decade of preferential treatment for maritime SEA. In reality, the LMI provides only modest US funding for projects and is handled at working levels of the State Department; as a result, it may continue into the Trump administration.

However, Southeast Asians see little motivation for the US to continue its role for several reasons: the likely drop in US assistance levels, a reversal in US policy on climate change, and an overall decline in US attention to Southeast Asia. If the LMI is to survive, they believe, Japan will have to take up the leadership role. Given its stake in ASEAN “connectivity,” Tokyo is likely to comply.

CHRONOLOGY OF JAPAN-SOUTHEAST ASIA RELATIONS

MAY 2016 – APRIL 2017

May, 2016: Japan provides capacity-building support to the Thai Ministry of Defense in the form of diesel engine maintenance for naval vessels.

June 4, 2016: At the Shangri-La Dialogue in Singapore, Japanese Defense Minister Nakatani Gen pledges to help Southeast Asian nations strengthen their security capabilities in a speech that pointedly calls out China for its building activities in the South China Sea islands.

June 8, 2016: Defense Minister Nakatani visits Myanmar and meets Commander-in-Chief Sr. Gen. Min Aung Hlaing and State Counselor Aung San Suu Kyi. He discusses support from the Japan Self-Defense Forces (JSDF) for capacity-building for the Tatmadaw (Myanmar's Armed Forces).

June 13, 2016: Defense Minister Nakatani visits Thailand to discuss deepening Japanese-Thai defense ties. Plans include a regular dialogue between the JSDF and the Royal Thai Army (RTA), and RTA observations of Japan's "Nankai Rescue" for the first time.

July 2016: Japan provides its first capacity-building assistance to the Philippines in international aviation and flight safety.

July 26, 2016: On the margins of the ASEAN Regional Forum in Vientiane, Japan joins the United States and Australia in issuing a statement urging China to refrain from constructing military outposts on disputed features in the South China Sea.

Sept. 7, 2016: The 19th ASEAN-Japan Summit is held in Vientiane in concert with the East Asia Summit. In the joint statement, ASEAN leaders pointedly "welcome Japan's intention to contribute more proactively in securing peace ... in the region."

Sept. 7, 2016: Japan and Laos co-host the 8th Mekong-Japan Summit in Vientiane, comprised of leaders from Japan, Laos, Thailand, Vietnam, Cambodia, and Myanmar. The group pledges to pursue a list of priority projects in the Japan-Mekong Connectivity Initiative.

Oct. 20-21, 2016: Ninth ASEAN-Japan Information Security Policy Meeting convenes in Tokyo. Leaders from Japan and Southeast Asia advance planning on cooperation to meet the increasing threat of cyber-attacks in the region.

Nov. 26, 2016: At the second ASEAN-Japan Defense Ministers Informal Meeting in Laos, Japan Defense Minister Tomomi Inada unveils the "Vientiane Vision," in which Tokyo will advance defense cooperation with ASEAN states more comprehensively, with particular focus on promoting the rule of law and strengthening maritime security. The initiative is Japan's first ASEAN-wide defense framework.

Jan. 12-13, 2017: Prime Minister Abe visits the Philippines, making him the first foreign leader to do so since the election of President Rodrigo Duterte in 2016. They sign five agreements, in areas ranging from coast guard capacity-building to low-carbon growth.

Jan. 15-16, 2017: Prime Minister Abe visits Indonesia. The two countries agree to advance a diplomatic and security dialogue on maritime cooperation and to pursue joint projects to develop a deep sea port in Patimban and the Masela gas fields. Preliminary discussions on a Jakarta-Surabaya rail line are also launched.

Jan. 16-17, 2017: Prime Minister Abe visits Vietnam. Japan agrees to provide an unspecified number of new patrol vessels to enhance Vietnam's maritime law-enforcement capabilities, supplementing six used patrol vessels previously supplied. Tokyo also pledges an additional \$1 billion in development assistance to Vietnam.

Feb. 17, 2017: Japan International Cooperation Agency (JICA) awards a contract to Japan's NEC Corporation to help boost cyber-defense capabilities in Southeast Asia, establishing Japan as the pre-eminent provider in this sector. NEC will provide cyber-attack defense training to officials from Indonesia, Vietnam, the Philippines, Myanmar, Laos and Cambodia.

Feb. 29-March 3, 2017: Japan hosts negotiations for the Regional Comprehensive Economic Partnership (RCEP) in Kobe, the first such round of RCEP talks since President Donald Trump withdrew the United States from the Trans-Pacific Partnership.