Will the U.S. Look to Japan to Step Up its Economic Game in Southeast Asia?

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Views expressed in this article are those of the author and not necessarily reflective of Sasakawa USA or the NEXT Alliance Initiative.

The United States and Japan held their first-ever strategic dialogue on Southeast Asian affairs in June, part of a new series of talks aimed at expanding bilateral coordination in the region.¹ The dialogue covered a range of policy areas including trade, supply chain resilience, and regional security, and it followed a flurry of high-level engagements between U.S. and Japanese policymakers focused on advancing their shared priorities with members of the Association of Southeast Asian Nations (ASEAN).

The solid victory of Japanese Prime Minister Fumio Kishida's ruling coalition in July’s Upper House election sets the stage for the expansion of this type of enhanced policy coordination, as

Kishida has demonstrated a commitment to long-standing pillars of Japan’s foreign policy—a strong U.S.-Japan alliance and a diplomatic and economic focus on ASEAN.²

Among the first major deliverables of recent U.S.-Japan high-level engagements was a launch in Tokyo of the Biden administration’s ‘Indo-Pacific Economic Framework for Prosperity’ (IPEF), a new economic initiative that encompasses twelve Asian economies – the majority of which belong to the ASEAN bloc.³ Following recent criticism by some ASEAN countries about the need for the United States to “step up” its economic game across the region, the selection of Tokyo as the location to unveil America’s most significant economic package to Asia in almost a decade—with Biden standing next to Kishida—should come as no surprise.⁴

For years, Japanese policymakers have routinely been recognized for their tactful engagement of Southeast Asian and other Indo-Pacific economies. From ensuring that Southeast Asian states remained in a Trans-Pacific Partnership trade deal after U.S. withdrawal and helping push through a wider Regional Comprehensive Economic Partnership (RCEP), to investing billions of dollars in regional companies and infrastructure, Japan is hard to match in its economic engagement of developing Asia.⁵

Japan has been so successful, in fact, that according to a 2022 survey conducted by the ISEAS-Yusof Ishak Institute (ISEAS) in Singapore, Japan topped China to retain its status as the ‘most trusted’ economic partner of Southeast Asian countries among all major powers.⁶ An analysis of open-source search data conducted last year similarly found that citizens of more than two-thirds of ASEAN countries would choose Japan to relocate for educational or work opportunities before any other country—demonstrating the country’s almost unparalleled reputation within the region.⁷

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⁷ Asia's Most Searched for Relocation Destinations. Remitly, https://preview.redd.it/qjkq8a3t4i361.jpg?width=8000&format=pjpg&auto=webp&s=08a7c72681ab854f9b101b687f36f38b4df777f.
A major reason why Japan wields such outsized economic and political clout in Southeast Asia is because its policymakers generally choose to engage ASEAN countries on their “own terms”—listening to the concerns of regional states and then prioritizing solutions that fit within the confines of their country’s foreign policy. In practice, this has translated into a heavy emphasis on economic development, enhanced bilateral diplomacy, and respect for ASEAN countries’ adherence to the principles of non-alignment and non-interference.

This largely successful approach to Southeast Asia is based loosely on what is commonly referred to as the “Fukuda Doctrine”—a policy first formulated in 1977 by former Prime Minister Takeo Fukuda to normalize Japan’s relations with the regional bloc after a series of anti-Japanese protests rocked ASEAN capitals in the late 1970s.8

The doctrine, as first articulated by Fukuda, included three main principles—that Japan would never pose a military threat to Southeast Asia, would foster “heart-to-heart” relationships with Southeast Asian states, and would develop an “equal partnership” with ASEAN that positively contributed to regional stability.

In this century, the legacy of Fukuda’s doctrine can be concretely measured by the careful orientation of Japan’s political and economic relations with Southeast Asia—the expansion of which continues to play a central role in the broader formulation of Japanese foreign policy towards the Indo-Pacific.

In early 2022, for example, Japanese Trade Minister Koichi Hagiuda encapsulated Japan’s commitment to these principles by launching a new policy initiative called “Asia-Japan Investing for the Future” aimed at accelerating the region’s economic recovery from COVID-19.9 Unveiled in Jakarta during Hagiuda’s first foreign trip as Trade Minister, the initiative detailed Japan's plans to significantly expand the number of investment opportunities across Southeast Asia—with its

primary goal to transform the region into a hub for global supply chains and promote the sustainability of major industries to attract greater Western investment.

While the primary aim of the initiative is to create new economic opportunities for developing ASEAN economies, it also serves Kishida’s goal of protecting Japan’s economic security. By facilitating new public and private sector investments in high-growth sectors such as energy and manufacturing, the initiative aims to incentivize the relocation of factories and other critical facilities away from China and into Southeast Asian economies such as Vietnam, and thus limit China’s ability to apply economic coercion on its trading partners.10

Although the “Asia-Japan Investing for the Future” initiative marks just the beginning of the Kishida administration’s new economic policy toward Southeast Asia, it is only one of several regional economic development programs pursued by the Japanese government in recent years. These include an Initiative on Overseas Loan and Investment for ASEAN that delivered more than $3 billion to improve financial access and literacy, as well as the Partnership for Quality Infrastructure, which poured $110 billion into the development of critical infrastructure.1112 Both programs are among the many examples of Japan spending considerable sums to provide direct assistance to some of Southeast Asia’s least developed economies. Of course, rising inflation and a weaker Yen will cut into this buying power.

One of the most pertinent examples of Japan’s commitment to the region’s economic development is the country’s investments in infrastructure projects across Southeast Asia—which are so large that they actually eclipse China’s.13 In 2021, Japanese investments totaled more than $259 billion, compared to China’s $157 billion—in spite of Beijing’s highly publicized efforts to expand its economic footprint in the region via the Belt and Road Initiative and other state-funded

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infrastructure schemes. Moreover, Japanese development agencies typically engage with local stakeholders to assess the impacts and suitability of individual projects. Thus, when compared to its regional counterparts—Japan’s careful economic engagement grants it significant credibility.

It is this credibility that allows Japan to remain a key economic player in the region despite the country’s wavering economic influence on a global scale. Reflecting this reality, Japan remains the largest foreign direct investor in several of Southeast Asia’s largest economies, and the country also retains its status as one of the largest annual donors of overseas development assistance (ODA) to the region as a whole. But outside of economic development, perhaps the most appreciated factor of Japan’s approach to the region among ASEAN leaders is the country’s long-standing belief that Southeast Asia be a major component of its foreign policy.

In 2013, then-Prime Minister Shinzo Abe revitalized the Fukuda Doctrine with a seminal policy speech entitled “Japan and ASEAN, Always in Tandem”, in which he emphasized the importance of expanding Japan’s economic and security engagement with ASEAN. He then went on to visit all ten ASEAN countries during his first year in that term as Prime Minister, and hosted a special ASEAN leadership summit in Tokyo. Recognizing the importance of the region, Abe also included Southeast Asia as a central component to his then-emerging conception of the ‘Free and Open Indo-Pacific’, and regularly dispatched officials such as then-Foreign Minister Fumio Kishida to substantially engage regional counterparts.

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Even following Abe’s resignation in August 2020, both of Japan’s subsequent prime ministers continued to travel to Southeast Asia for their first official trips overseas, further emphasizing the importance of the region to Tokyo.23 In 2020, then-Prime Minister Yoshihide Suga chose Vietnam and Indonesia; and most recently, current Prime Minister Kishida continued the tradition by traveling to Cambodia—this year’s rotating chair of ASEAN.

Due to the success of Japan’s engagement with ASEAN, arguably no other country is better positioned to assist the United States in “stepping up” its economic game in Southeast Asia. As President Biden remarked at the recent U.S.-ASEAN Special Summit held in May, his administration hopes to usher in “a new era” of U.S.-ASEAN relations.24 After four years of neglect that saw high-ranking U.S. officials skip multilateral forums such as the East Asia Summit (EAS), leave Ambassadorial posts to key Southeast Asian partners vacant, and fail to articulate a coherent vision for ASEAN’s economic development—it seems the Biden administration believes that bilateral cooperation in the region is needed now more than ever.2526

To build on the momentum gained from the U.S.-ASEAN Special Summit and the successful launch of IPEF negotiations, the United States should aim to learn from its closest ally on how to better engage Southeast Asia. By carefully listening to economic desires of regional states—as Japan has done so successfully—the United States can better utilize the IPEF to expand cross-border investment, facilitate digital trade, and ultimately bolster the economic growth of Asia.

In the pursuit of these goals, strategic coordination that assists the policymakers of both countries to navigate the new geopolitical realities of Southeast Asia will become an increasingly critical tool. The IPEF is a potential opportunity for the allies, but this must overcome domestic political

hurdles, especially in the United States. To continue Abe’s foreign policy legacy in Southeast Asia and benefit both countries’ long-term strategic futures—it can be worth the effort required.27

Mr. Sam Baron joined Sasakawa USA as a non-resident scholar for the US-Japan NEXT Alliance Initiative in June 2022. His primary focus will be providing research and analysis on US-Japan relations coordination vis-à-vis Southeast Asia. Alongside his contributions to the NEXT Alliance Initiative, Sam is currently a Visiting Researcher with the Research Center for Sustainable Peace (RCSP) at the University of Tokyo.

Mr. Baron’s expertise is in US foreign policy toward Southeast Asia, specifically Myanmar, and he is currently researching how the Japanese government and private sector have adjusted their engagement and investment strategies with Myanmar in the aftermath of the country’s coup d’état in February 2021. Prior to his research work at the University of Tokyo, Sam was a political risk analyst with the Southeast Asia practice of The Asia Group, an international strategic advisory firm based in Washington, D.C.

He also served as a Human Rights Intern in 2019 with the Myanmar Country Team of the United Nations Office of the High Commissioner for Human Rights (based in Bangkok, Thailand), where he helped spearhead the implementation of an inter-agency ‘early-warning’ system to aid in the prevention of armed conflict across the Rakhine, Kachin, and Shan states. He was also a Policy Intern at the US State Department’s Bureau of Democracy, Human Rights, and Labor in 2018.

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The US-Japan NEXT Alliance Initiative is a forum for bilateral dialogue, networking, and the development of joint recommendations involving a wide range of policy and technical specialists (in and out of government) to stimulate new alliance connections across foreign, security, and technology policy areas. Established by Sasakawa Peace Foundation USA with support from the Nippon Foundation, the goal is to help improve the alliance and how it serves shared interests, preparing it for emerging challenges within an increasingly complex and dynamic geostrategic environment. Launched in 2021, the Initiative includes two overlapping lines of effort: 1) Foreign & Security Policy, and 2) Technology & Innovation Connections. The Initiative is led by Sr. Director Jim Schoff.