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Implementing the Indo-Pacific: Japan's region building initiatives

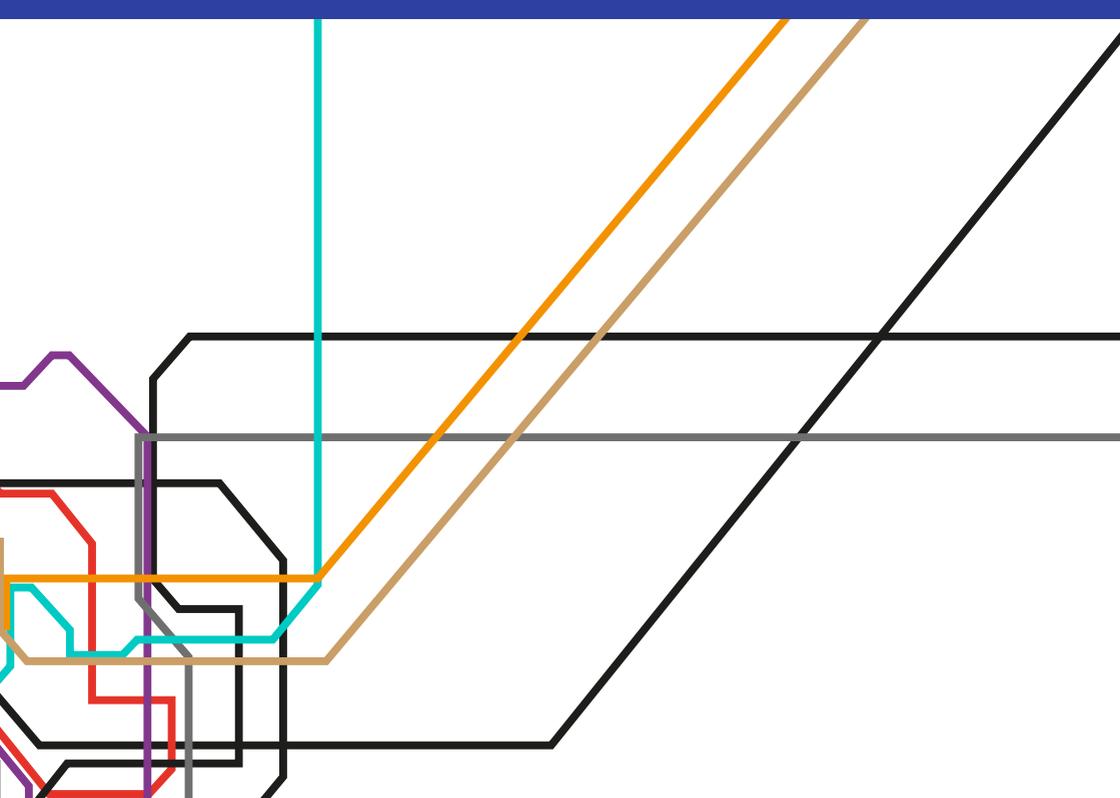
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 Perth USAsia Centre







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Introduction

By Kyle Springer

Japan is an active player in the development of the economic and political architecture of the Indo-Pacific region. Japan's economic diplomacy has been low profile but successful. Since 2000, Japan has completed infrastructure projects in Southeast Asia worth \$230 billion. However, Japan's leadership in this area has been overshadowed in recent years by China's establishment of the Asian Infrastructure Investment Bank (AIIB) and its Belt and Road Initiative (BRI). The fact that Japanese firms still outspend their Chinese counterparts in infrastructure in Southeast Asia despite these developments is telling. On the trade front, Japan worked closely with partners like Australia to finish negotiating the Trans-Pacific Partnership (CPTPP) even after the U.S. exit from the agreement.

Meanwhile, Japan's ability to contribute to the security of the region is growing after it redefined Article 9 of its constitution. For Australia-Japan relations, the Indo-Pacific region has emerged as a key driver of bilateral cooperation. At the Perth USAsia Centre's Japan Symposium in March 2019, discussions focussed on how both could work with ASEAN states to shape the future of the region.

This Perth USAsia Centre Special Report examines Japan's role in the evolving Indo-Pacific regional order. This report brings together a diverse mix of authors with a variety of perspectives to offer analysis of the opportunities and challenges facing Japan's economic, security, and diplomatic role in the Indo-Pacific.



KEY QUESTIONS:

1. What are Japan's objectives with respect to regional governance in the Indo-Pacific, across the economic, security and architectural domains?
2. What are Japan's principal contributions to regional institutions and governance mechanisms in key issue areas?
3. How has its Indo-Pacific diplomacy with regard to these issues evolved in recent years, and what is driving these changes?
4. How and why are Japan's relationships with key diplomatic partners changing?
5. What are the implications of Japan's new approaches for the regional architecture?

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INPEX



Partner Foreword

INPEX was founded in the 1960s as a Japanese government-owned entity with a mandate to boost Japan's energy security. Today, INPEX is listed on the Tokyo Stock Exchange but remains Japan's flagship energy company.

We aim to become a top-ten energy company by 2040. We want to support global economic growth and social development as a stable supplier of energy to Japan and the region—and see our investment in Australia as key to that ambition.

INPEX is involved in over 70 projects across more than 20 countries, but it is Ichthys LNG, in Northern Australia, that is the crown jewel in our global portfolio. It represents:

- the largest discovery of liquid hydrocarbons in Australia in more than 50 years
- the largest semi-submersible platform in the world, Ichthys Explorer
- the largest ever Japanese overseas investment
- the longest subsea pipeline in the southern hemisphere

Ichthys is a practical but important example of the strength of the long-standing Australia-Japan partnership. For Australia, it demonstrates the economic benefits of collaboration with Japanese partners on projects of regional significance. For Japan, it exemplifies the importance of Australia in achieving its strategic and economic security goals.

The PerthUSAsia Centre's Special Report on Japan explores the role Japan plays in the development of the economic and political architecture of the Indo-Pacific, and the importance of an evolving regional order.

On 16 November 2018 at INPEX's first gas celebrations, Prime Minister Shinzo Abe reminded us of the contribution business can play through trade and investment to shape cooperative partnerships between countries in our regions:

"As a great nation of both the Pacific and Indian Oceans and a country that respects democracy, Australia is an invaluable partner of Japan in promoting peace, prosperity and the rule of law in a free and open Indo-Pacific. ...

The relationship between our countries has become one of true soul mates who share the great responsibility of protecting and fostering prosperity and order of the region and the world.

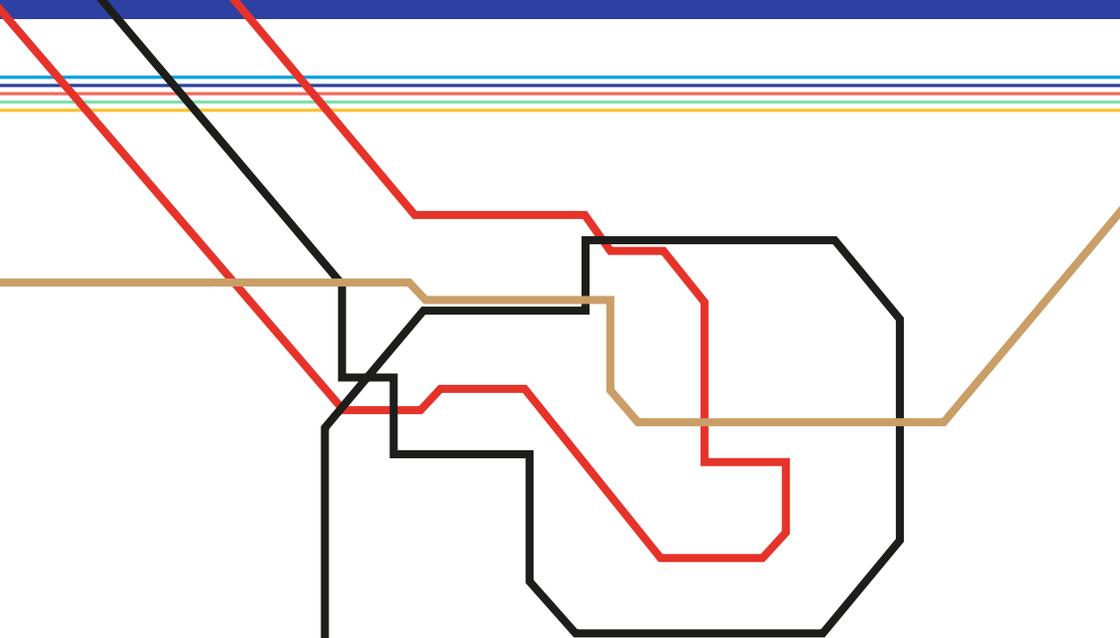
The commencement of Ichthys is not only timely, but extremely symbolic as I believe the project reflects an even stronger bond between Japan and Australia."

It is our hope that we can continue to play this part.

Hitoshi Okawa

INPEX, PRESIDENT DIRECTOR AUSTRALIA





CHAPTER 1.

An economic justification for Japan's free and open Indo-Pacific vision

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Introduction

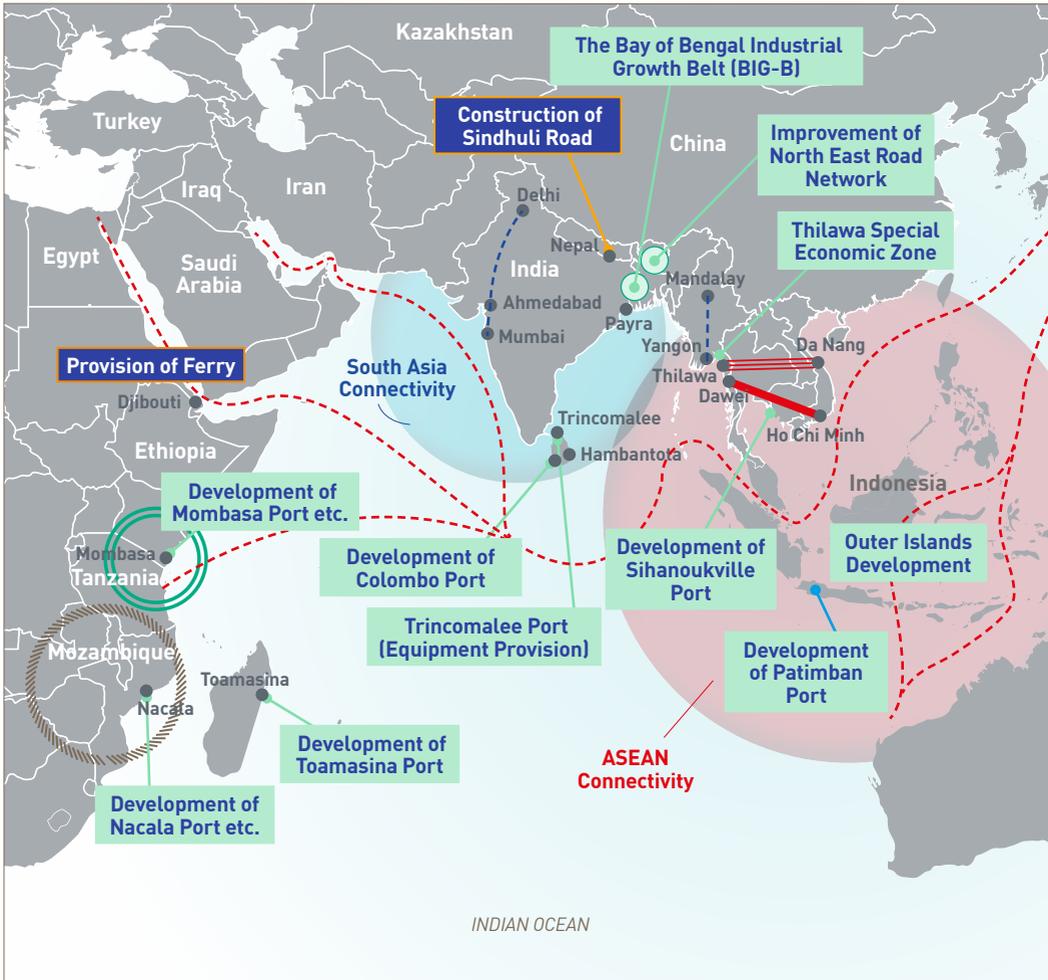
This chapter seeks to find an economic justification for Japan's "Free and Open Indo-Pacific" (FOIP) vision. In August 2016, Prime Minister Abe announced his vision for FOIP in his keynote address at Tokyo International Conference on African Development (TICAD) VI held in Kenya¹. FOIP, according to the Government of Japan, is a vision to combine "Two Continents" and "Two Oceans" to create dynamism for stability and prosperity of the international community². By envisioning the above as an overarching, comprehensive concept, FOIP broadens the horizon of Japanese foreign policy. Three pillars to realize FOIP are 1) Promotion and establishment of the rule of law, freedom of navigation, free trade; 2) Pursuit of economic prosperity; and 3) Commitment to peace and stability.

The Government of Japan does not draw clear boundaries of the Indo-Pacific region but emphasises that "Japan will cooperate with any country that supports this idea." In FOIP, Japan views the Association of Southeast Asian Nations (ASEAN) as "the hinge of the two oceans" connecting Asia and Africa.

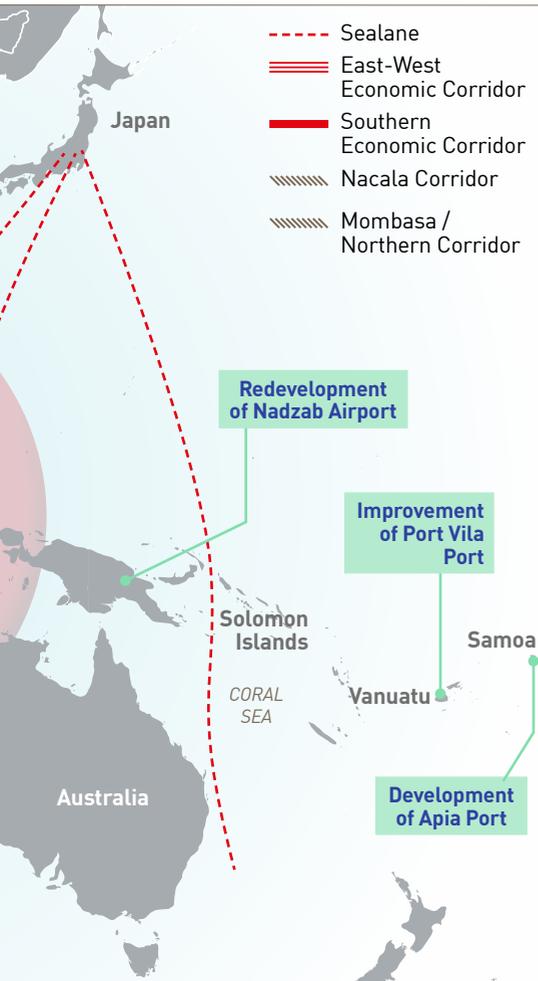


To this end, the Government of Japan singles out connectivity initiatives in East Africa, South Asia and Southeast Asia including the Northern Corridor connecting East African countries; the Nacala Corridor in Mozambique; the Delhi-Mumbai Industrial Corridor in India; the Bay of Bengal Industrial Growth Belt in Bangladesh; the Yangon-Mandalay Railway in Myanmar; the East-West Economic Corridor connecting Vietnam, Laos and Myanmar; and Southern Economic Corridor connecting Vietnam and Cambodia³.

Japan's Connectivity Initiative



It is well-known that Japan has consistently run a current account surplus since the 1980s. This means that the Japanese economy has saved more than it has invested domestically. The excess saving is invested in foreign assets (the current account equals the change in net foreign assets). Foreign investment has made Japan the world's largest creditor nation, a position that it has kept since 1990, with the net value of assets held by the government, businesses and individuals standing at USD 3 trillion at the end of 2017.



■ Completed

■ Ongoing

EAST-WEST ECONOMIC CORRIDOR

▸ Construction of Hai Van Tunnel (Vietnam)

▸ Improvement of Da Nang Port (Vietnam)

▸ Construction of Second Mekong International Bridge (Laos)

▸ Improvement of National Road No.9 (Laos)

▸ Improvement of East-West Economic Corridor (Myanmar) etc.

etc.

SOUTHERN ECONOMIC CORRIDOR

▸ Construction of Neak Loeung Bridge (Cambodia)

▸ Construction of Cai Mep-Thi Vai International Port (Vietnam)

▸ Improvement of National Road No.1 (Cambodia)

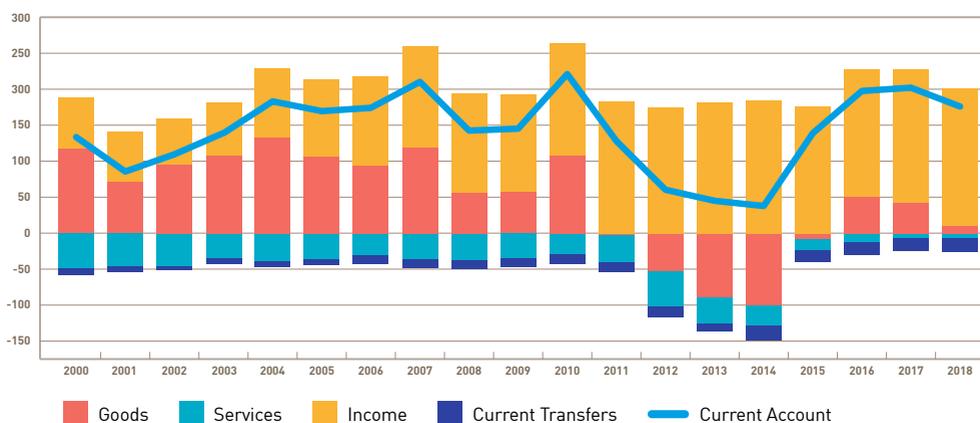
▸ Improvement of National Road No.5 (Cambodia)

etc.



Less known is that there has been a fundamental shift in contributing factors to the current account surplus in Japan. Looking at the breakdown since 2000, we see that the balance of trade in goods turned negative in 2011 for the first time, meaning that exports became smaller than imports (Figure 1). The balance of trade in services is negative throughout the period from 2000 to 2018. On the other hand, net income has been positive and growing; earnings on foreign investments have been growing faster than payments made to foreign investors*. In fact, earnings on foreign investments have become the largest contributor to Japan's current account surplus after the 2008 global financial crisis. This shows a fundamental shift in Japan's international economic engagement: from a focus on trade to investment.

Figure 1. Japan's current account (USD, billions). Source: JETRO



It is widely acknowledged that Japan's Official Development Assistance (ODA) has focused on infrastructure projects and paved the way for Japanese foreign direct investment (FDI)⁴. The Organisation for Economic Co-operation and Development (OECD) defines ODA as flows to developing countries and multilateral institutions provided by official agencies, including state and local governments. ODA needs to be administered with the promotion of economic development as its main objective and needs to convey a grant element of at least 25 percent. In the 2019 budget, the Government of Japan referred to using ODA to substantiate its FOIP vision⁵.

* Foreign investments are recorded in the capital account, but income from foreign investments is recorded in the current account.



This chapter first examines Japan's ODA by region to identify its geographic distribution from 1960 to 2017, the longest data set available on the OECD database. Second, we will examine Japan's other official flows (OOF) and foreign direct investment (FDI) by region, from 1996 to 2017, the longest data set available for all countries on the Japan External Trade Organisation's (JETRO) database. Third, we analyse Japan's success in linking ODA and OOF with FDI in Southeast Asia. Lastly, we identify the main challenges facing Japan's FOIP vision in the coming decades.

Japan's ODA

Japan in 1954, joined the Colombo Plan, the earliest intergovernmental effort for development assistance after World War II. Japan's ODA began the same year as reparations to Burma (now Myanmar), the Philippines, Indonesia, and Vietnam (then South Vietnam) and offering grants-in-aid to Laos, Cambodia, Malaysia, and Singapore⁶. Japan's reparations ended in 1976, and its ODA expanded with the growing Japanese economy. In 1989, Japan became the largest donor country in the world (since 2002, the second largest donor after the United States).

In 1992, the Cabinet of Japan established the ODA Charter in response to the post-Cold War world, clarifying its principles and strengthening its policies. Thereafter a shift has taken place from quantity to quality, strengthening cooperation with non-governmental organisations (NGOs) and the private sector. In 2003, the Cabinet revised the ODA Charter for the first time including new keywords such as "human security" and "peace building".

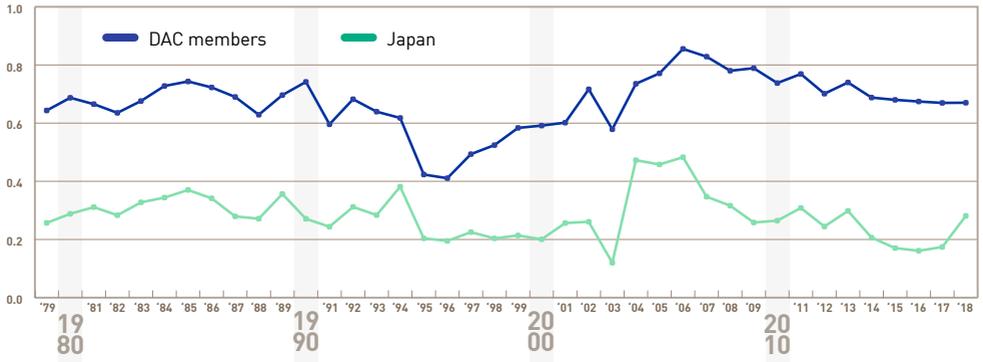
On February 10, 2015, the Cabinet established the Development Cooperation Charter in conjunction with the National Security Strategy that presented the policy of "Proactive Contribution to Peace" (decided by the Cabinet on December 17, 2013). The Development Cooperation Charter acknowledges that private sectors, local governments, and NGOs play important roles in attracting private flows to developing countries, and that Japan needs to address development challenges, not only through ODA, but also by mobilising various other resources⁷. Here, OOF and United Nations peacekeeping operations (PKOs) are explicitly mentioned to enhance synergetic effects for development.

What distinguishes Japan's ODA is its percentage of loans in total bilateral commitments (grants plus loans). The average percentage of grants from 1979 to 2017 has been 28 percent, far below the Development Assistance Committee (DAC) members' average of 68 percent (Figure 2)⁸. This shows Japan's preference for a more market-based approach for development assistance, although ODA loans still need a grant element of at least 25 percent.



Figure 2. Percentage of grants in ODA (total bilateral commitments)

Source: OECD, Aid (ODA) tying status [DAC7b]

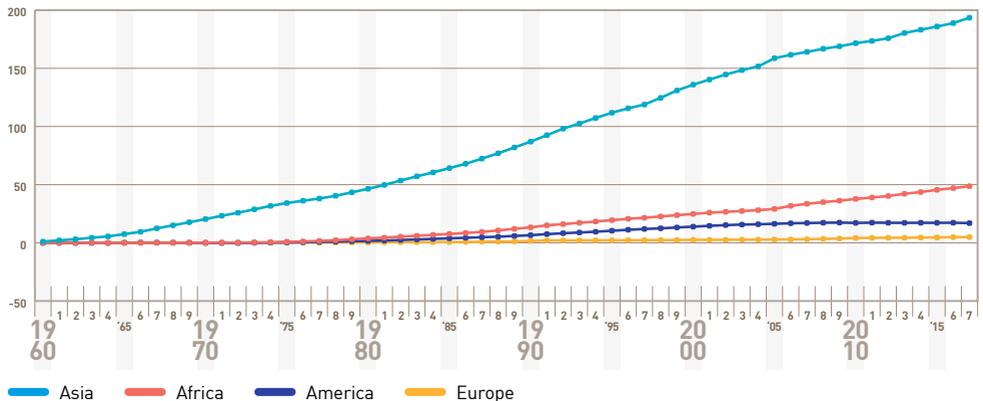


Globally, Japan's ODA has fluctuated around USD 7 trillion in the last three decades. By region, Asia has been the largest recipient of Japan's ODA from 1960 to 2017 (Figure 3). Africa has become the second largest recipient since the mid-1970s, after most African nations gained independence from European countries. America has become the third largest recipient from the mid-1970s but has largely "graduated" from Japan's ODA in the late 2000s, meaning that most countries have either stopped receiving ODA or loan repayments have become larger than new ODA. Today, roughly 60 percent of Japan's ODA goes to Asia and 20 percent to Africa.

Figure 3. Japan's cumulative ODA (USD, billions).

Source: OECD, Aid (ODA) disbursements to countries and regions [DAC2a].

Note: When loan repayments are higher than new ODA, net ODA is shown as a negative number.

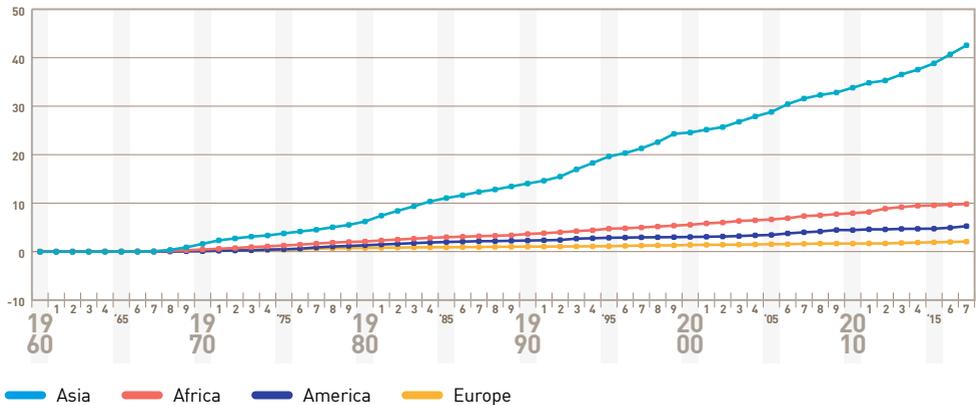


Japan's OOF and foreign direct investment

We next look at OOF, which are official bilateral transactions that are either not concessional or are primarily trade facilitating in their character. OECD defines OOF as official sector transactions that do not meet ODA criteria including official direct export credits, the net acquisition of securities issued by multilateral development banks at market terms, subsidies to the private sector to soften its credits to developing countries, and funds in support of private investment. By region, nearly 70 percent of Japan's cumulative OOF, USD 426 billion, goes to Asia (Figure 5), which is more than twice Japan's cumulative ODA to Asia (USD 194 billion). In contrast, both ODA and OOF from Japan to Africa are around USD 50 billion cumulatively. We find that Japan's ODA ratio between Asia and Africa is 3.9, which is roughly equal to the population ratio between Asia (4.5 billion) and Africa (1.2 billion) in 2016. However, Japan's OOF ratio between Asia and Africa is 8.5 showing a strong bias of OOF to Asia.

Figure 5. Japan's cumulative OOF (USD, billions).

Source: OECD, *Total official flows by country and region (ODA+OOF)*.



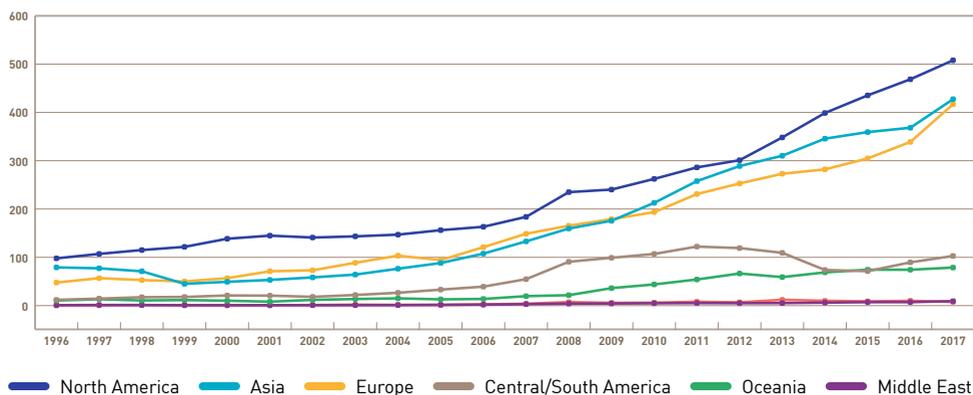
The high OOF from Japan to Asia reflects high market-transactions (i.e. trade) between Japan and Asia. In fact, the cumulative OOF to Asia is almost as high as Japanese FDI stock in Asia (including the Middle East, USD 417 billion). This indicates high complementarity between Japan's OOF and FDI in Asia.

From 1996 to 2017, Japanese FDI stock has grown six times from USD 260 billion to USD 1.5 trillion globally. When we analyse the Indo-Pacific region, it is important to keep in mind that 60 percent of Japanese FDI stock is still in North America (33 percent) and Europe (27 percent) indicating that the FOIP vision is primarily Japan's



overarching, comprehensive concept for developing countries (Figure 6). Japanese FDI stock in Asia declined after the Asian financial crisis in 1997, started to increase again from 1999, and surpassed that of Europe after the global financial crisis in 2008. In 2017, Asia accounted for 28 percent of Japanese global FDI stock. On the other end of the spectrum, the Middle East and Africa accounted only for 0.6 and 0.5 percent of Japanese FDI stock respectively in 2017. This shows that Japan's ODA and OOF in the Middle East and Africa have not yet led to Japanese FDI in the region.

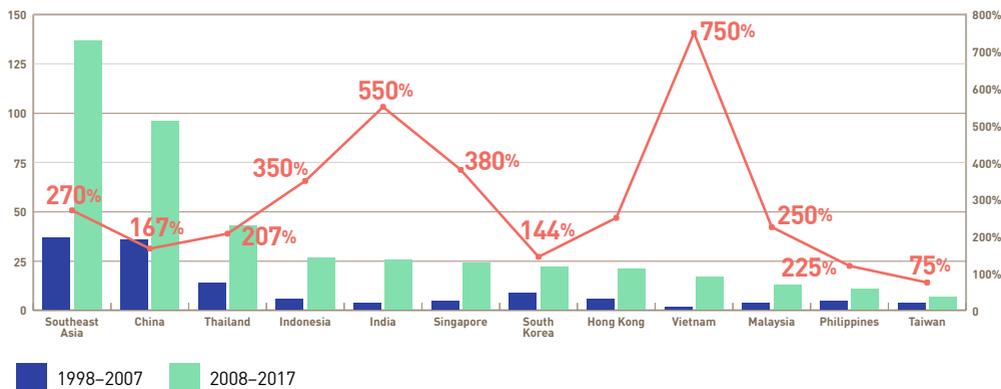
Figure 6. Japanese FDI stock (USD, billions). Source: JETRO



To understand further the dynamics of Japanese FDI within Asia, we examine the cumulative Japanese FDI flows in two periods of 10 years each (Figure 7). The first 10 years from 1998 to 2007 represent a decade after the Asian financial crisis to the onset of the global financial crisis. The following 10 years from 2008 to 2017 represent a decade after the global financial crisis. First, we see there is an acceleration of Japanese FDI across countries in the last decade. Second, while Japanese FDI flows in China and in Southeast Asia were equally large in the first decade, Southeast Asia surpassed China by a wide margin in receiving Japanese FDI in the following decade.



Figure 7. Japanese FDI flows (USD, billions). Source: JETRO



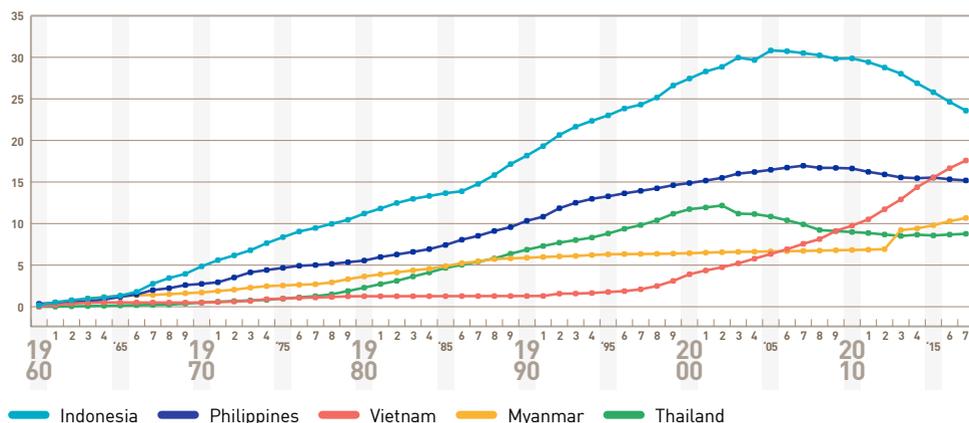
Singapore, as the regional financial hub, and Thailand, as the manufacturing hub, have received the largest volumes of FDI from Japan. Indonesia has been the third largest recipient while Malaysia, the Philippines, Vietnam have received almost the same amount. These six countries have, on average, received 99 percent of Japanese FDI to Southeast Asia so far. What stands out is that Japanese FDI in Vietnam has grown 750 percent in the last decade, compared to the preceding decade. It shows that Japanese supply chains are expanding in Southeast Asia. Outside the region, Japanese FDI to India has grown 550 percent in the last decade from the preceding decade.

Japan's success in Southeast Asia

We saw above that Japan's ODA to Southeast Asia has amounted to USD 86 billion from 1960 to 2017 (28 percent of Japan's ODA). Within Southeast Asia, Indonesia, the Philippines and Thailand have historically been the main recipients of Japan's ODA until they stopped being net recipients. Disbursements to Thailand turned negative for the first time in 2003, followed by Indonesia in 2004 and the Philippines in 2008 (Figure 8). Replacing them, Vietnam and Myanmar have become the main recipients of Japan's ODA in Southeast Asia.

Japan's relationship to Southeast Asia has evolved over time. Historically, Japan has supported the region in infrastructure and human resource development⁹. The wave of following Japanese business activities, however, caused a backlash culminating in anti-Japanese demonstrations in Indonesia and Thailand in 1974. To assuage growing regional concerns, Prime Minister Takeo Fukuda visited Manila in 1977 and

Figure 8. Japan's cumulative ODA (USD, billions)



Source: OECD, *Aid (ODA) disbursements to countries and regions (DAC2a)*.

articulated Japan's foreign policy, which became the blueprint of Japan's foreign policy towards Southeast Asia¹⁰. The so-called Fukuda doctrine promised that "(1) Japan is committed to peace, and rejects the role of a military power; (2) Japan will do its best to consolidate the relationship of mutual confidence and trust based on "heart-to-heart" understanding with the nations of Southeast Asia; and (3) Japan will cooperate positively with ASEAN while aiming at fostering a relationship based on mutual understanding with the countries of Indochina and will thus contribute to the building of peace and prosperity throughout Southeast Asia."¹¹ Since then, Japan has become ASEAN's "Dialogue Partner" and participates in regular summit meetings with its leaders. The diplomatic efforts have yielded fruits resulting in Southeast Asia attracting nearly half of Japanese FDI to Asia. In 2017, the region accounted for 13 percent of Japanese FDI stock globally or USD 205 billion.

We can group countries in Asia into three categories according to their relationship to Japan (Figure 9). The first group consists of those who have received a relatively small amount of ODA from Japan and stopped receiving it relatively early such as Singapore, Hong Kong, and Taiwan. Singapore stopped receiving Japan's ODA in 1990, Taiwan in 1996, and Hong Kong in 1997. Singapore and Hong Kong have attracted high Japanese FDI inflows. The second group consists of countries who have received a sizable amount of ODA from Japan and attracted proportionally high Japanese FDI inflows such as Malaysia, South Korea, Thailand, and China. The third group consists of countries who have received a large amount of ODA from Japan but have not yet



attracted Japanese FDI inflows in proportion to the ODA they have received such as the Philippines, Indonesia, Vietnam, and India. This group has the highest potential to attract Japanese FDI inflows in coming decades.

Southeast Asia has shown remarkable resilience after the global financial crisis and has outperformed other emerging market and developing economies in real GDP growth, achieving an average growth of 5.1 percent up to 2018 (Figure 10). The IMF forecasts the growth trajectory to continue until 2024. In the same period, South Asia achieved the second highest average GDP growth rate of 7 percent after China's 7.9 percent. The IMF forecasts China's growth to slow down but South Asia's growth to keep its momentum.

Figure 9. Japan's ODA from 1960 to 2017 and Japanese FDI stock in 2017 (USD, billions). Source: JETRO and OECD

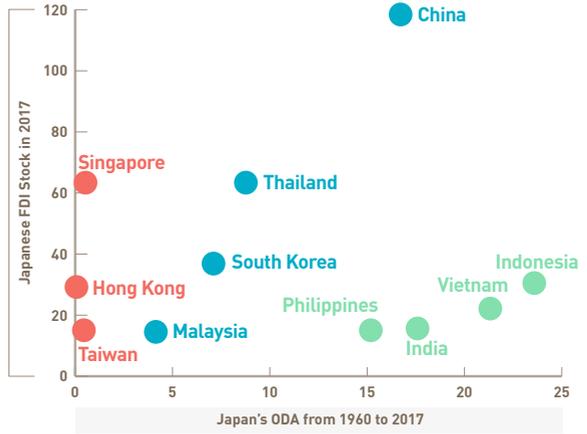
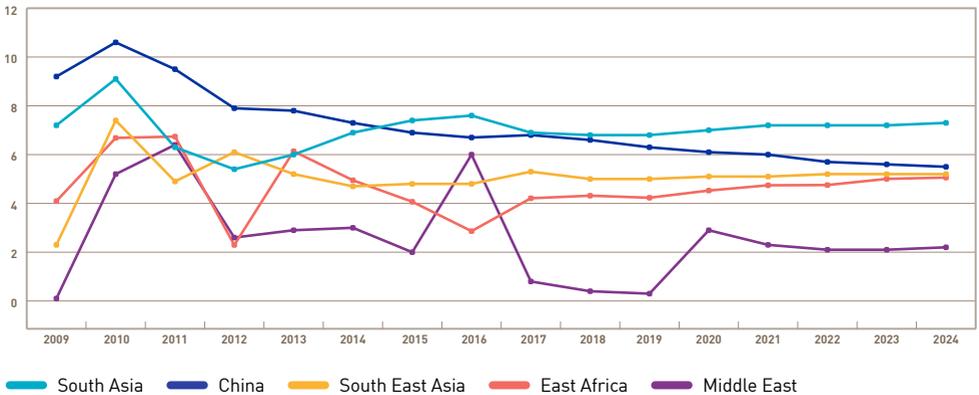


Figure 10. Real GDP growth (annual percent change). From 2019 to 2024 are IMF forecasts.

Source: IMF.



Note: South Asia includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Southeast Asia includes Brunei Darussalam, Cambodia, Indonesia, Lao P.D.R., Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Vietnam.



Free and Open Indo-Pacific

Being at the frontier of the dynamic Indo-Pacific region, Southeast Asia and South Asia are a focus of the FOIP vision. The shift of Japan's ODA from the "graduates" to India, Bangladesh, Vietnam, and Myanmar can be seen in the FOIP connectivity initiatives in South Asia and Southeast Asia. These include the Delhi-Mumbai Industrial Corridor in India, the Bay of Bengal Industrial Growth Belt in Bangladesh, the Yangon-Mandalay Railway in Myanmar, the East-West Economic Corridor connecting Vietnam, Laos and Myanmar, and the Southern Economic Corridor connecting Vietnam and Cambodia.

On the other hand, it is not immediately obvious why the Middle East and Africa, which account only for 0.6 and 0.5 percent respectively for Japanese FDI stock globally, is a focus of the FOIP vision too. The Middle East and Africa, after all, lagged behind in its average GDP growth rate, 2.6 and 3.9 percent respectively, in the past decade, which is below 5 percent of the emerging market and developing economies.

On the other hand, East Africa has performed better achieving average GDP growth rate of 4.6 percent. The IMF forecasts the GDP growth rate of East Africa to converge to that of the emerging market and developing economies by 2024. From 1960 to 2017, East Africa has 7 percent of Japan's ODA globally and 42 percent of Japan's ODA to Africa. The FOIP connectivity initiatives found in East Africa include the Northern Corridor connecting East African countries and the Nacala Corridor in Mozambique.

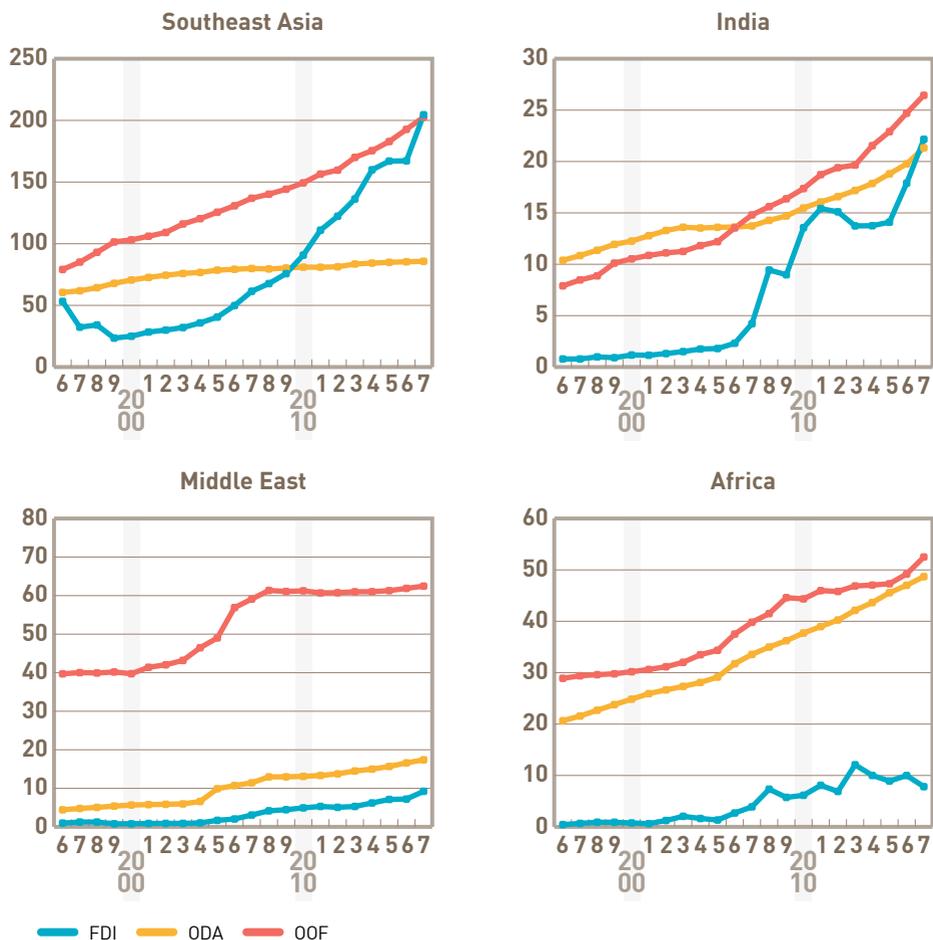
To realize the FOIP vision, the Government of Japan aims to "expand Southeast Asia's success to the Middle East and Africa." Despite Japan's substantial and continuous ODA, these two regions have not yet attracted sizable Japanese FDI. They have been attractive for Japanese businesses primarily as potential markets and a source of natural resources; Japan imports 86 percent of crude oil from the Middle East and Africa's population is expected to grow from 1.2 billion (16 percent of global population) to 2.5 billion (26 percent of global population) in 2050¹².

We can clearly see challenges of the FOIP vision in the Middle East and Africa by comparing the three types of Japanese financial flows we have examined above, namely, ODA, OOF and FDI (Figure 11). First, we can see that FDI has the lowest volume in the Middle East and Africa. This shows that FDI has barely taken off in those regions. Second, both OOF and FDI are rising in Southeast Asia and India and FDI has surpassed ODA and shows an accelerating upward trend to surpass OOF. This shows that FDI has gained momentum independently from OOF in Southeast Asia and India. Third, OOF are stagnant but there is a large gap between FDI and OOF in the Middle East and Africa. ODA is just above FDI in the Middle East and just below OOF in Africa. In the case of the Middle East, the relatively high OOF can be explained by the high



volume of crude oil trade with Japan. However, the low FDI shows that there is little investment beyond the natural resource sector. In the case of Africa, the relatively high ODA has not contributed much to attracting FDI.

Figure 11. Japanese FDI stock, OOF (cumulative), and ODA (cumulative) (USD, billions).



Source: JETRO; OECD, Total official flows by country and region (ODA+OOF), Aid (ODA) disbursements to countries and regions (DAC2a).



We must acknowledge that the Middle East and Africa face unique development challenges. In the case of Africa, poverty and terrorism are issues of “human security” and “peace building” as stressed in Japan’s ODA Charter. Therefore, the Development Cooperation Charter is linked to the National Security Strategy, which articulates the “Proactive Contribution to Peace.” To this end, Japan should cooperate with any country that supports the rule of law, freedom of navigation, and free trade.

If Japan were to expand ASEAN’s success in attracting Japanese FDI to the Middle East and Africa, the relationship must go beyond merely trading transportation equipment, machinery, and automobiles for natural resources. Government, business, and NGOs need to cooperate more to enhance synergetic effects for development. In Asia, we find that Japan’s ODA and OOF have contributed to the region’s growth and stability through developing infrastructure and human resources, facilitating trade and investment, and enhancing the business environment. This has laid the foundation for developing regional supply chains. The improved business environment has created a virtuous cycle, in which Japanese FDI has increased employment and consumption contributing to high economic growth, which in turn has attracted Japanese FDI. It is this virtuous cycle that needs to take place to realize Japan’s FOIP vision.

Japan should leverage its experience in Southeast Asia to “provide nation-building support in the area of development as well as politics and governance, in a way that respects the ownership of African countries, and not by forcing on or intervening in them.”¹³ The FOIP vision will be put on test whether Japan can replicate the successful process in Southeast Asia, from nation-building support through bilateral development assistance to private investment in the Middle East and East Africa. I propose the Government of Japan to announce a version of the Fukuda Doctrine for Africa to elevate Japan-Africa relationship in cooperation with the African Union in TICAD 7 to be held in Yokohama on August 28-30, 2019.





CHAPTER 2.

Dr Kei Koga

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**Japan and
Southeast Asia in
the Indo-Pacific**



Southeast Asia has been geo-strategically important for Japan, and ever more so in advent of Japan's "Free and Open Indo-Pacific" (FOIP) concept, which Prime Minister Shinzo Abe launched at TICAD VI (the Sixth Tokyo International Conference on African Development) in August 2016. The FOIP emphasized the importance of fundamental values, such as freedom, the rule of law, and the market economy; the economic development and the connectivity between African and Asian continents; and the confluence of the Indian Ocean and the Pacific Ocean¹⁴. There are other examples in the past of other speeches and actions Japanese leaders and their governments have undertaken that focus on what we now call the Indo-Pacific, but this 2016 speech has become a point of reference as the origin of the current FOIP strategy.

That said, Japan's concept of FOIP is evolutionary. While its geographical scope, focusing on the Indian and Pacific Oceans, remains constant, its emphasis has changed over time, by explicitly including areas such as the Pacific Islands¹⁵. Even the name changed from the "Free and Open Indo-Pacific Strategy" (FOIPS) to the "Free and Open Indo-Pacific" in the second half of 2018 due to political concerns raised by some ASEAN member states¹⁶. The actions that the FOIP focuses on were not necessarily clear at the beginning, but they now more clearly fit into the context of the regional strategic environment as many official documents stated. In particular, the freedom of navigation and overflight, connectivity through quality infrastructure development, and rule of law enhanced by maritime law enforcement capacity building.

Among them, one of the most important changes in Japan's FOIP concept was the inclusion of ASEAN. Surprisingly, the notion of how ASEAN geopolitically fits within the concept was absent despite Southeast Asia's strategic location at the geographical centre of the Indo-Pacific. Japan's 'Diplomatic Bluebook 2017' discussed FOIP, but it did not touch upon ASEAN's role¹⁷. It was only around 2018 that concepts such as ASEAN unity and centrality have come out as some of the most important principles that Japan endorsed and began to reconcile with its FOIP concept¹⁸. This poses the question: how does Japan situate Southeast Asia and ASEAN in its current FOIP concept or strategy?

This chapter first discusses Japan's objectives in the Indo-Pacific region and its policy toward regional institutions, including ASEAN and the quadrilateral cooperative framework between Japan, the United States, Australia, and India, known as the "Quad." Second, the chapter analyses the evolutionary process of FOIP's strategic focus and its causes, and examines Japan's relationship with regional partners, including the ASEAN member states. Third, the chapter will discuss Japan's current plan of cooperative actions with ASEAN/ Southeast Asian states with regard to the Indo-Pacific region. Finally, it draws out the implications of Japan's approaches to Indo-Pacific regional architecture.



Objectives of Japan's FOIP

The primary objective of Japan's FOIP is to maintain the existing rules-based order in Asia, which is currently led by the United States. This order mainly consists of a balance of power in favour of the United States, U.S.-led global institutions, and liberal democratic values. This U.S.-led order designed and constructed in the post-World War II era has enabled Japan to achieve rapid economic development. In fact, Japan followed the so-called "Yoshida Doctrine", by which Prime Minister Shigeru Yoshida formulated a post-war strategy that Japan kept a low profile, concentrating its resources on economic modernisation and growth rather than strengthening its military and its strategic position. This became possible largely because the U.S. military presence in Northeast Asia and its extended nuclear deterrence have long contributed to the strategic stability in East Asia and guaranteed Japan's security. Japan supported this U.S. military presence by providing bases in Japan in order to deter regional adversaries (e.g. the Soviet Union during the Cold War) and prevent rising powers from becoming a regional hegemon (e.g. China in the post-Cold War). The alliance also reassured others in the region, including Southeast Asian states, by keeping Japan's post-war behaviour and remilitarisation in check.

Nevertheless, this order has faced an acute emerging challenge, particularly due to the shift in the balance of power caused by China's economic and strategic rise starting in the 2000s. China has strengthened its political and economic influence in developing states in Southeast Asia and beyond, and Japan acknowledged that the United States, although it will likely remain the most powerful state in the world in the foreseeable future, is now in a relative decline vis-à-vis not only China but also other rising regional powers such as India. In this changing strategic environment, Japan attempted to enhance its alliance with the United States by relaxing its own political and legal constraints on its defence capabilities, which derived from Japan's constitution, particularly Article 9¹⁹.

Despite these efforts, China's influence has become more visible since the mid-2010s. Particularly before the announcement of Japan's FOIP, two incidents have become salient. One is the strategic narrative of the Belt and Road Initiative (BRI). In Southeast Asia and beyond, BRI was welcomed as a much-needed economic development opportunity for those states which were suffering from a gap in physical infrastructure. This trend became a certain concern for Japan as the standard of the BRI infrastructure investment did not meet internationally recognised standards, such as environmental protection and labour rights. BRI has also come under criticism as a duplicitous tool for expanding China's influence and saddling smaller countries with unsustainable amounts of debt. The other is China's rejection of the 2016 South China Sea Arbitration Tribunal's Award. Although China expressed its intention to reject the Tribunal's decision well before the Award was announced in July 2016, the issue

was that the international community, including ASEAN, did not have a diplomatic, legal, economic, or military tool to enforce the ruling. It was in this context that Abe announced a new strategy—FOIPS (now FOIP).

Specifically, Japan now pursues three main principles under its FOIP concept:

- 1 Promotion and establishment of the rule of law, freedom of navigation, free trade, etc.;
- 2 Pursuit of economic prosperity; and
- 3 Commitment to peace and stability²⁰.

Apparently, Japan's power projection capabilities have been limited; however, in order to uphold the existing international norms and rules, Japan has made diplomatic efforts and used indirect methods to inform a wider international community of the danger of failing to follow the existing international rules and norms and empower other states' capabilities, such as the capacity-building efforts. For example, Japan uses international conferences, such as the G-7, to ensure consensus on the importance of international laws, including peaceful resolution of territorial disputes and non-unilateral actions in the South China Sea²¹.

In addition, Japan attempted to strengthen diplomatic, economic, and security ties with regional states and organisations, particularly the United States, Australia, India, and ASEAN. Since 2017, the Quad states have frequently held senior official meetings and discussed the Indo-Pacific strategic situation. They agreed with the three basic principles that Japan raised while emphasizing the importance of ASEAN unity and centrality in the region²². On the other hand, other mini-lateral frameworks began to conduct wider strategic cooperation. For instance, the Joint Statement of Japan-Australia-the United States Trilateral Partnership in November 2018 indicated further cooperation on physical infrastructure, energy infrastructure, and digital connectivity in the region²³.



Further, Japan has concentrated its capacity-building programs to enhance maritime-law enforcement capabilities in Southeast Asian states. Japan provided support to strengthen the law enforcement and defence capabilities of the Philippines and Vietnam, which face increasing pressure from China on the South China Sea, by providing important assets such as coast guard ships and radars²⁴. Japan also issued the “Vientiane Vision” in 2016, aiming to enhance Japan-ASEAN defence cooperation for the purpose of protecting international rules and norms, facilitating maritime security, and managing complex security issues²⁵.

In this context, Japan’s FOIP strategy is largely directed toward the challenges to the existing international order posed by China and can be summarized as “US in, China down, and Australia/India/ASEAN up”:

- To keep the United States engaged in the region;
- To constrain China’s challenge against the existing international order and shape China’s behaviour to follow the international rules and norms; and
- To coordinate its strategy with Australia, India, and the ASEAN member states to cooperatively and visibly consolidate the current international order²⁶.

31st ASEAN Summit



ASEAN, Japan, and Evolving Concepts of the Indo-Pacific

For its part, ASEAN's main objectives as a regional organisation include the maintenance of regional autonomy and independence and was initially cautious about Japan's FOIP strategy. This is because the strategy (1) was perceived as a potential containment strategy against China, (2) lacked a clear role for ASEAN, and (3) seemed to be based on the Quad framework. Singapore's Foreign Minister Vivian Balakrishnan's speech in May 2018 clearly illustrates these concerns. While Balakrishnan pointed out that the FOIP concept was rudimentary, he stated that Singapore would not join the Quad; ASEAN would need to be central in the Indo-Pacific, and ASEAN needed to maintain relevance in great power competitions²⁷.

To be sure, this was not ASEAN's consensual view on the FOIP. While many did not explicitly express their posture, Cambodia, Vietnam, and Thailand supported Japan's FOIP concept, focusing on its infrastructure investment efforts, by early 2018²⁸. Moreover, given different conceptual frameworks that Japan, the United States, Australia, and India had for the Indo-Pacific, it was not clear to which FOIP concept Balakrishnan was referring. Nevertheless, given ASEAN's consensus-building decision-making process, Singapore's position toward FOIP became a certain reference point to understand ASEAN's cautious diplomatic posture.

It is also true that Japan's FOIP concept does not constitute a containment strategy against China, which would aim to block China's influence in the Indo-Pacific region. While some observers consider it as such, the Japanese government has explained FOIP as a non-exclusive concept. In the 2017 US-Japan summit, Abe clearly expressed that Japan and the United States would "cooperate with any country that shares this vision of a free and open Indo-Pacific."²⁹ Additionally, despite Japan's behaviour mentioned above to counter China's assertive behaviour in particular domains, including the maritime sphere, Japan has continuously engaged with China as illustrated in the 2018 Japan-China summits, discussing potential bilateral cooperation in infrastructure development, one of the FOIP objectives. In this sense, it is similar to a traditional "engagement" strategy—engaging and shaping the target state's behaviour.

Despite Japan's reassurance, ASEAN remains cautious about its FOIP concept, partly due to two factors. First, Japan has maintained a certain degree of vagueness vis-à-vis FOIP. This is because Japan has been conducting "tactical hedging." Tactical hedging refers to "a declaratory policy doctrine that aims to utilize temporal strategic ambiguity to understand and determine whether any long-term strategy shift is necessary or possible."³⁰ In the midst of a shifting balance of power, the state has an advantage if it can first understand the changing dynamics of the strategic environment surrounding it and then formulate its policy accordingly. However, if the





“wait-and-see posture” is not sufficient to examine such environmental changes, the state would issue a vague declaratory policy to elicit reactions from other states, including allies, partners, and adversaries, which can reveal other states’ strategic thinking and plans. In response, the state can change the meaning of doctrine and shape its own policies. If the FOIP concept falls into this category of a declaratory policy, it is deliberately vague and evolutionary on purpose³¹. While this provides ASEAN with an opportunity to shape Japan’s FOIP, nevertheless the outcome of the doctrine remains uncertain.

Second, the United States, Japan’s foremost ally in the Indo-Pacific, has begun to take a tougher approach toward China. The 2017 National Security Strategy, the 2018 National Defense Strategy, and the 2019 Indo-Pacific Strategy Report all indicate China as a “revisionist” state that challenges the existing rules-based international order³². To date, the Trump administration has clearly engaged the strategic competition against China in areas such as the maritime, trade, digital infrastructure, infrastructure investment, and cyber domains. Since policy coordination between the United States and Japan is tightly institutionalized, and since Abe has consistently advocated a stronger Japan-US alliance, ASEAN needs to consider the possibility that with the United States, Japan quickly takes a tougher diplomatic posture against China.

Given this, ASEAN has begun to discuss its own concept of the Indo-Pacific, the “Indo-Pacific Outlook.”³³ Indonesia’s Foreign Minister Retno Marsudi took the initiative in May 2018, at the Global Dialogue organized by the Centre for Strategic and International Studies (CSIS), Jakarta, to facilitate discussions about the Indo-Pacific as a cooperative concept. Its principles include “open, transparent and inclusive, promoting the habit of dialogue, promoting cooperation and friendship, and upholding international law” by focusing ASEAN’s role on nurturing friendly environment through dialogues, tackling non-traditional security issues, and facilitating an open and fair economy³⁴. In fact, Indonesia was the first ASEAN member state to propose an idea regarding ASEAN’s role in the Indo-Pacific. The former Indonesian Foreign Minister Marty Natalegawa discussed its Indo-Pacific concept as early as May 2013. As the power shift in the Indo-Pacific region occurs, Natalegawa believed that promotion of trust-building, peaceful resolution of territorial disputes, and a “dynamic equilibrium,” were necessary. Natalegawa proposed the idea to extend ASEAN’s “Treaty of Amity and Cooperation in Southeast Asia” to the Indo-Pacific region³⁵.



However, Indonesia's proposals have faced difficulty in reaching a consensus among the ASEAN member states. Natalegawa's proposal was only noted in the ASEAN Foreign Ministers and Summit from 2013 to 2014, and it was not adopted as ASEAN's plan of action³⁶. Likewise, Marsudi's proposal has faced diverging views among the ASEAN member states. Subsequently, ASEAN agreed to further discuss the concept and set up the Senior Official Meeting (SOM) for this purpose, and the members have agreed with the existing principles, such as "inclusiveness," "openness," "transparency," "rules-based," and "ASEAN centrality."³⁷ In addition, emphasizing the importance of developing the "habit of dialogue," Indonesia agreed to convene the "High-Level Dialogue on Indo-Pacific Cooperation" in March 2019 by inviting the member states of the East Asia Summit to seek conceptual synergies of the Indo-Pacific and discuss "concrete collaboration."³⁸ However, it is not clear the extent to which such principles can translate into new actions for Indo-Pacific cooperation. In fact, the newly created "ASEAN Outlook on the Indo-Pacific" (AOIP) in June 2019 reiterates ASEAN's principles and its political proclivity to prevent inter-state rivalry, particularly great powers, from dictating regional politics and the discussion on concrete collaborative actions remain to be seen³⁹.

Furthermore, ASEAN faces internal and external challenges in this conceptualisation process. Internally, each ASEAN member state has different interests and perspectives towards the Indo-Pacific, which makes it difficult for ASEAN to expand its roles beyond East Asia. Of course, ASEAN's geographical scope of the Indo-Pacific is still unclear. The AOIP only refers to its geographic scope "not as contiguous territorial spaces but as a closely integrated and interconnected region"⁴⁰. However, if the scope covers the entire Indian Ocean and Pacific Ocean, ASEAN's limited political and material capability can be easily over-stretched, weakening the principle of the ASEAN Centrality and diluting its own diplomatic strength. On the other hand, if ASEAN defines the Indo-Pacific narrowly, little difference exists between a new concept and the current engagement of ASEAN. Externally, as the pressure of major powers rivalry between the United States and China increases, it will become more difficult to facilitate regional cooperation through emphasizing the habit of dialogue. The intensification of these strategic rivalries also pose threats to ASEAN unity since each member state has a different diplomatic stance towards China and the U.S.

Given this, if ASEAN's cooperative concept of the Indo-Pacific Outlook fails, its second-best strategic option is to neutralize any Indo-Pacific concepts that exacerbates great power rivalry. To this end, ASEAN would likely engage further with regional powers other than China and the United States, which facilitates the Indo-Pacific concept, namely Japan, Australia, and India. As such, it attempts to prevent major powers from creating a concrete regional bloc against China.



The Opportunities and Challenges for Japan and ASEAN over the Indo-Pacific

While the conceptualisation process is ongoing, collaborative actions between Japan and ASEAN have continued. Indeed, Kentaro Sonoura, Special Advisor to Prime Minister Abe, stated that Japan would make the year 2019 “a year of action to realize a free and open Indo-Pacific.”⁴¹ Specifically, Japan’s FOIP focused on three elements—peace and security, connectivity, and rule of law, which can be illustrated by cooperation over maritime capacity building, physical and digital infrastructure development, and fundamental rights. To pursue Japan-ASEAN cooperation in these areas, there are both opportunities and challenges.

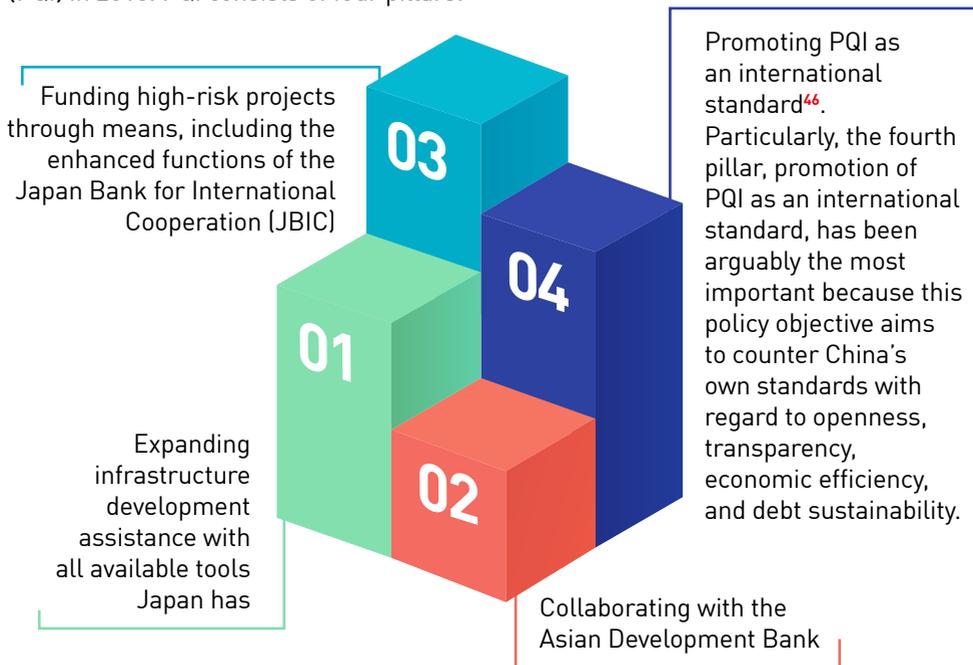
Japan’s maritime security cooperation with the ASEAN member states has been steadily institutionalized. While the legal, political, and military limitations still exist that Japan’s defence capacity building programs need to be separate from its official development program, Japan has continued to enhance its coast guard and naval capacity building. For maritime law enforcement, Japan in 2013 provided ten coastguard vessels to the Philippines, including two Parola-class patrol boats, while it promised to provide Vietnam six new patrol vessels in 2017, in addition to providing older Japanese vessels in the past⁴². Furthermore, the Japanese Coast Guard Ship “Echigo” made a port call at Davao, Philippines and Da Nang, Vietnam, in 2017, and participated in joint training near the Port of Manila in 2018 for the purpose of surveillance of the sea-lanes of communication⁴³. Confidence-building and educational exchanges have also been enhanced, such as the Maritime Safety and Security Policy Program in the National Graduate Institute for Policy Studies (GRIPS), Japan⁴⁴. In fact, maritime ASEAN member states, like Vietnam, the Philippines and Indonesia, are the most important states to enhance maritime law enforcement capabilities for not only non-traditional security purposes, such as anti-piracy missions, but also countering paramilitary and coast guard advancements made by other states, particularly China.

For capacity building, the Japanese Self-Defense Force (SDF) has increased the number of programs in Southeast Asia since 2016. According to the Ministry of Defense, the total number of capacity building programs from 2012 to June 2019 is 145, but two-thirds have been conducted in the ASEAN member states⁴⁵. Among them, Japan provides maritime security-related seminars, such as humanitarian assistance/disaster relief (HADR), underwater medicine, aviation safety, and international maritime law. Also, in order to facilitate transferring Japan’s defence assets or skills more smoothly, Japan has several bilateral agreements with Southeast Asian states, such as a defence agreement with the Philippines in 2016, a defence memorandum of understanding with Malaysia in 2018, and a defence cooperation and exchange



memorandum between Japan and Vietnam in 2019. Japan's defence cooperation is still constitutionally constrained, but Japan and Southeast Asian states attempt to find ways of enhancing cooperation by institutionalising defence dialogues.

Japan is historically active in providing infrastructure development assistance to Southeast Asia. Since 2015, Japan launched the Partnership for Quality Infrastructure (PQI) in 2015. PQI consists of four pillars:



These recent active development policies were triggered by China's strong presence in large infrastructure development assistance through the Belt and Road Initiative (BRI). A case in point is China's successful bid to build Indonesia's High-Speed Rail between Jakarta and Bandung in 2015. Through PQI, Japan has focused on not only infrastructure itself, but infrastructure sustainability, such as human development in Myanmar and Vietnam; peace-building in Laos, Thailand, Myanmar; and the Philippines, and environmental protection in Myanmar, the Philippines,





and Indonesia⁴⁷. To date, PQI has put Japan's investment in infrastructure on an upward trend and has contributed to positive views of Japanese investment overall. Meanwhile, Southeast Asian states have become more cautious about China's investment due to its increasingly negative image stemming from "debt-trap" diplomacy, such as Sri Lanka's Hambantota port, and problems with poorly managed projects like the delayed implementation of the Jakarta-Bandung High-Speed Rail⁴⁸. China has also begun to hold dialogues with Japan to explore cooperation on infrastructure projects in a third country, which would lay a foundation for future healthy business competition in infrastructure development⁴⁹.

More recently, digital infrastructure has become a centre of international attention in the context of the emergence of Industry 4.0. This field has yet to have concrete rules and norms, and transformation into automated, networked socio-economies supported by digital infrastructure, including big data, artificial intelligence, and 5G, would yield the tremendous economic and technological opportunities. Further, although it is not yet clear the degree to which these technological and economic benefits would empower the states, given that the international and domestic rules and norms are created by the states, they are the primary actors in this field⁵⁰. Japan and Southeast Asian states thus aim to collaborate together through the "ASEAN-Japan Fourth Industrial Revolution Initiative" which aims to facilitate private sector-led innovation, human development, and e-commerce⁵¹. However, the current fierce digital rivalry between the United States and China could hinder Japan-ASEAN cooperation. The United States is seriously concerned about the Huawei 5G technology, through which information can be monitored by the Chinese government. The U.S. has explicitly taken a tougher political stance against Chinese technologies. Take for instance the *Executive Order on Securing Information and Communications Technology and Services Supply Chain* on May 15, 2019, which prohibits the private sector from acquiring foreign telecom devices or services if it presents risks to U.S. national security⁵². This would potentially force Japan and the ASEAN member states into an either/or choice between the U.S. or China in the digital field, as the U.S. would potentially prohibit doing business with those companies that acquire or use Chinese technologies⁵³. As such, digital infrastructure looks likely to become one of the emerging areas of strategic competitions between the United States and China, which has serious implications for Japan-ASEAN relations.





Chinese president Xi Jinping (R) welcomes Japanese Prime Minister Shinzo Abe (L) in G20 summit in Hangzhou, 4 September 2016

The other pillar of Japan's FOIP is to facilitate rule of law, but it is unclear whether Japan can apply this to both the international and domestic arenas. Considering FOIP includes the term, "free", and that Japan's diplomatic principles have long included democratisation and human rights, Japan's "rule of law" would apply to the domestic arena. In fact, the earlier statement made by Japanese government officials touched upon the importance of democratisation. Nevertheless, this emphasis gradually disappeared within the conceptual framework of the FOIP. In fact, the current three pillars do not indicate democratic values, human rights, or democratisation, are a part of the strategy and the rule of law focuses on international application⁵⁴.



This does not mean that Japan completely ignores such values. For example, before and after the 2018 Cambodian general elections, Japan continuously raised the issue of the democratic process of elections⁵⁵. Moreover, Japan held the 9th Japan-Cambodia Human Rights Dialogue in May 2018, received Cambodian judicial officials to inform Japan's democratic process in February 2019, and continuously supports Cambodia's infrastructure development without disruption. Japan's softer approach to facilitate democratisation in Southeast Asia and beyond has been traditionally different from those of the Western states, including the United States, which would likely impose negative sanctions if they observe the violation of those fundamental rights. This is because Japan tends to be sensitive with regard to the non-interference principle. However, if FOIP were to counter China's international practices that put little emphasis on the fundamental rights, which challenges the existing international order, on the contrary, Japan would be propelled to emphasize the importance of these issues, including human rights and democratisation, taking a tougher stance with the United States and other Western allies and partners. If this becomes the case, ASEAN would raise its concerns with Japan. Thus, fundamental values could become a diverging strategic point for Japan.

In sum, most of Japan's actions to facilitate FOIP are not necessarily new. Rather, FOIP as a concept has repackaged Japan continuous activities in Southeast Asia. The difference is that, through the FOIP concept, Japan enhanced the existing programs in maritime security and infrastructure development. Japan has provided its FOIP programs with a larger budget and, the FOIP framework lends strategic meaning to each of Japan's activities in Southeast Asia. This is important because the concept clarifies and signals Japan's broader objectives within the changing strategic environment. On the other hand, the challenge that Japan likely faces are the issues of fundamental human rights and digital infrastructure in the region. How Japan handles these issues is likely to shape the direction of Southeast Asia, either dividing the region or bridging the strategic needs of the region with those of Japan's Western partners.



The Future of Japan-ASEAN Cooperation in the Indo-Pacific

Japan, despite its earlier neglect of Southeast Asia in the FOIP concept, Japan now places ASEAN as the most important of FOIP factors. While ASEAN is still cautious about Japan's FOIP concept, this change makes it easier for ASEAN to cooperate under its name. Nevertheless, as the US-China rivalry intensifies, the concept itself would become a political obstacle because it can entrap those supporters into one camp despite their political intentions.

Of course, actions are important, as action reveals the credibility, substance, and commitment of the FOIP concept. However, the concept itself should not be taken lightly. Each state's strategic concept is imperative in determining its national budget and spending on strategic projects, its defence posture, and expectations for the behaviour of other states⁵⁶. Without taking it seriously and clarifying its meaning, the FOIP concept would end up producing unintended consequences in the region. In this sense, the strategic concept is deeply consequential.

In this sense, the bilateral discussion on the FOIP/Indo-Pacific concept between Japan and ASEAN through closer communication becomes essential to further enhance their cooperation and avoid miscommunication and misunderstanding in the future.





CHAPTER 3.

Accommodating the Past, Present, and Future: Japanese aid and investment in Indonesia

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Introduction

Over the past six decades, trust, investment, and a spirit of partnership have enabled Japan and Indonesia to avoid colonial and post-war animosity and deepen their bilateral relations across economic and political spheres. Japanese investment realisation reached US\$ 4.95 billion in 2018 with hundreds of joint ventures and partnerships established across a range of industries⁵⁷. Japan has also played significant role to the country's infrastructure development, contributing to 20 percent of the toll road construction around greater Jakarta, port development, power plants, and the development of five airports, including Bali, Surabaya, Jakarta, Palembang, and Kertajati International Airport, as well as Jakarta's long-awaited first Mass Rapid Transit (MRT)⁵⁸. Aside from contributing to the regional economic growth, other distinctive Japanese infrastructure projects include three large-scale multipurpose dams (known as 3K) – Karangates, Kali Konto, and Riam Kanan – and the Brantas River Basin Development project. These projects have also secured full-scale technology transfer mechanisms, knowledge on the water resource management, and trust developed between Japanese professionals, the Indonesian government, and the public over the past forty years⁵⁹. During the 60th anniversary of Japan-Indonesia relations in 2018, the two countries deemed the quality of their strategic partnership as 'sahabat sejati' or 'kokorono-tomo' meaning 'true friend'⁶⁰.

That Japan and Indonesia would reach such robust a partnership would have been unthinkable 60 years ago. Suelo Sudo (1992) and Lam Peng Er (2012) argue that the antecedent to the strategic partnership was former Prime Minister Takeo Fukuda's 1977 'Fukuda Doctrine', which constructed a model of relations with Southeast Asian countries that simultaneously advanced 'heart-to-heart' relations with Indonesian communities⁶¹. While this constructivist idea might be partially true in explaining Indonesia's warm welcome to Japanese aid and investment, Japan's persistently dominant position in Indonesia reveals the political-economic settlements it made in the background. Despite losing its bid for the contract to build the controversial Jakarta-Bandung High Speed Railway Project, six decades of Japan's engagement in Indonesia clearly demonstrates its indisputable capability to weather political upheavals in Indonesia and trade disputes. It is also apparent that Japan has increasingly grown very adept at accommodating a contradictory mix of Indonesian economic policies – a mixed system of massive state regulation and liberalisation, an old nationalist and the pro-market liberalisation.

Against this background, the core idea of this chapter is to examine the ways Japan served its long-term interests in Indonesia, and how it directed its Official Development Assistance (ODA) and investment alongside Indonesia's ever-changing economic orientation and political landscape. The remaining discussion proceeds as follows; Section 1 begins with how Japanese aid and investment historically



operated on Indonesia's own political and economic terms and ultimately enhanced Japan's leverage. The next section then examines how Japan maintained its leverage over Indonesian infrastructure development, arguing that there is a significant and growing effort in Japan, at a governmental level as well as the private sector, to 'institutionalise' the infrastructure business aiming at reconciling Japan's ever-changing economic needs with Indonesia's developmental trajectories. This chapter closes with a discussion of contemporary challenges amidst the fragmented power and sectoral interest, and implications for Japan's efforts to harmonise policy and bilateral relations with Indonesia.

Navigating the Japanese "Aid Trinity" in Indonesia

It would not suffice to underpin Japan's long-standing presence and the way it has incorporated its interests with Indonesian political and economic institutions without elucidating the so-called "aid trinity" (*san-mi ittai*). The concept refers to a comprehensive economic cooperation packages with the three areas or "trinity" of aid (ODA), direct investment, and importation (from developing countries)⁶². The aid trinity has a "vanguard effect", whereby Japanese aid promotes FDI from Japan to the recipient countries by deepening information-sharing and minimising investment risk through close cooperation between the government and private sector⁶³. Different from the approach of OECD-dominated Western countries that place a high priority on grants for eradicating poverty, the salient characteristic of Japanese ODA was the support for large-scale infrastructure, credit for resource development projects, and heavy use of concessional loans. The loan projects are tied to the procurement of Japanese products to boost trade volume and eventually serve to help establish Japanese industry in the host country⁶⁴. In short, investment and aid are equally important as trade in goods and services. In Indonesia, Japanese trade, aid (particularly loan), and investment are "three cards held in one hand."⁶⁵

Table 1. The Actual Amount of Japanese ODA to Indonesia (millions of USD)

Type	1960-1970	1971-1980	1981-1990	1991-2000	2001-2010	2011-2016
Loan	326.16	1,982.21	5,753.25	12,129.72	15,231.90	4,791.44
Grant	232.1	101.72	383.56	770.01	727	109.82
Technical Cooperation	5.25	141.52	638.69	1,525.17	1,026.89	447,14

Source: Author's calculation, based on JICA Data and Japan MOFA.



In a remarkable sequential process, the workings of the Japanese aid trinity in Indonesia has been driven and reshaped by the alignment of interest and power relations between political forces and economic groups in two countries. During the 1950s and 1960s, Japan's isolation from Northeast Asia natural resources had been a problem limiting Japan's industrialisation efforts. Southeast Asia, particularly Indonesia, came into the picture when Japan wanted to redirect its capital to find an alternative market and supply base for raw materials⁶⁶. Nonetheless, during that time, the initial plan was to invest in resource extraction sectors, but this was constrained by revolutionary forces in Indonesia, mainly from Soekarno-led nationalist camp that were largely opposed to the flow of foreign capital. Japan backed off its investment plan and Tokyo moderated the language of its strategic vision by using "economic cooperation" (*keizai kyoryoku*) as the key word and paid war damage reparations requested by Soekarno's administration⁶⁷.

Consequently, reparations combined with soft loans in exchange for resources appeased Indonesia and the sectors Japanese capital tapped into were not confronting local capital⁶⁸. Not only successfully accommodating nationalist interests in Indonesia, the approach ultimately contributed to the rehabilitation of Japanese manufacturing and to the revival of its consulting firms and trading companies (*sogo shosha*, which grew in number from sixteen in 1958 to sixty in 1965)⁶⁹. With payment guaranteed by the Japanese government, Japanese companies would be given a subsidy to export their products such as industrial machinery, fertilizers, agricultural machinery, and to also to undertake construction projects in Indonesia. Among these construction projects were the Brantas River Development Project and Tanjung Priok Port⁷⁰. Japan's economic entry into Indonesia was further strengthened by the establishment of institutions that later were in charge of the 'economic cooperation' (*keizai kyoryoku*) activities – the Overseas Economic Cooperation Fund (OECF) in 1961, and the Overseas Technical Cooperation Agency (the future Japan International Cooperation Agency 'JICA') in 1962, and the Institute of Developing Economies (IDE) for research and information exchange⁷¹.

Soon after Soeharto took office in 1968, the Five Year National Development Plan Phase I (Repelita I 1969-1974) began. Tokyo pledged US\$30 million to Soeharto's Indonesia for economic recovery efforts and provided them with one-fourth of Indonesia's foreign aid from 1967 to 1970⁷². Yet, having lacked their own development specialists such as engineers and economists, JICA and OECF heavily relied on the private sector to work for development projects⁷³. Japanese consulting firms and trade associations were quick to see the connection between aid, services, and capital-intensive products and cashed in on the opportunities. The central



position of commodity loans was replaced by loan projects, for example roads, water supply, power plants, factories, etc. *Puro-fai* activities (project-finding missions) for infrastructure projects were frequent throughout Repelita I. The *puro-fai*'s key focus was large-scale preliminary project proposals to reach high-level, informal agreements with Indonesian agencies in charge of ODA over which large aid projects to implement. It was thus commonplace for line agencies in Indonesia to have several ready-made proposals on hand, which were submitted by Japanese private companies, such as Nippon Koei and Pacific Consultants International. In other words, much of the aid would remain tied to goods and services of Japanese origin because in many cases it was Japanese companies that prepared and were awarded ODA projects on behalf of the Indonesian government making the requests⁷⁴. Those companies were supported by the largest and most powerful chamber of commerce, *Keidanren* (Japan Business Federation)⁷⁵. Established in 1946, the highly influential business lobby group in Japan had the power to exert and command influence over economic policies, including the implementation of ODA in recipient countries.

In addition, *Repelita*'s heavy emphasis on the establishment of state-owned (SOE) resource companies and restrictions on foreign ownership in the resources sector had also opened another point of entry for Japan. Japanese capital was involved at every level in joint ventures in resource development, textiles, car assembly, and pharmaceuticals throughout the 1970s. Japanese loans were issued for major projects in petrochemicals and natural gas⁷⁶. The North Sumatra Offshore Petroleum Exploration company (NOSOPEX) signed a contract with Pertamina in 1966– the only Indonesian SOE authorised to operate in the oil and gas sector. Through this contract Japan actively promoted development of overseas oil resources and entered into a production sharing contract (PSC) for Attaka Field in Offshore Mahakam Block⁷⁷. Reportedly, since Japan made long-term purchase contracts to hedge risks, the price of Indonesian oil exported by Pertamina to Japan was determined through consultations between Indonesian and Japanese officials instead of being indexed to the London Exchange⁷⁸. Likewise, in the case of liquefied natural gas (LNG), the Japanese had also secured a twenty-year sales contract beginning in 1977. Indonesian LNG export prices were similarly tied to prices received for Indonesian crude-oil exports. These contracts and extension of loans for exploration were nothing more than projects by which trading companies pursued profits through shipping arrangements and resales to Japanese domestic industries⁷⁹. For Indonesia, endowed with extensive reserves of oil and gas, but tending to be weak in management and capital inflows, Japan's long-term commitment to develop such capital-intensive sector in this fashion was definitely a boon.



Because Soeharto's administration enforced regulations restricting local ownership, using majority ownership as an indicator of Japanese capital flow can be very misleading. In many cases, the Japanese lent the partner money with which to buy shares; the loan could have been repaid out of future dividends, or the Japanese may simply have purchased shares in the name of influential army generals. The generals were powerful figures involved in numerous joint ventures where a substantial source of Japanese leverage was on loans for the import of equipment for daily operating expenses⁸⁰. More interestingly, as there were also government regulations in Indonesia prohibiting foreigners from engaging in domestic trade, the responsibility for local sale of the product was therefore assigned to the Indonesian partner. Partners were mostly ethnic Chinese Indonesians, who were not only distribution partners, but also served as advocates and trouble-shooters for the Japanese to resolve problems that might arise with the military and bureaucracy⁸¹.

Furthermore, as the oil boom began, Soeharto's Repelita II (1974-1979) pressed ahead with import substitution and reopening of capital market and it indeed was linked with the increasing operations of Japanese firms in Indonesia. As of 1974, nine out of the ten multinational companies with the largest investments in Indonesia were Japanese. The top four investments during the oil boom period were the basic metal industry, amounting to US\$963.2 million, the metal goods industry amounting to US\$746.1 million, the chemical industry amounting to US\$250.8 million, and textile industry amounting to US\$218.5 million⁸². The increasing number of investment projects also led to strong dependency of Indonesia's economy on imports from Japan. For the whole period of Repelita II, an average of 64 percent of imports from Japan consisted of capital goods and industrial raw materials. One of large-scale industry projects included the controversial Asahan project⁸³. Under a Master Agreement for Asahan Hydroelectric and Aluminium Project, Japanese government prepared a grant and loan for 12 Japanese investors for equity participation totalling 411 billion Yen⁸⁴. On 6 January 1976, PT. Indonesia Asahan Aluminium (INALUM) was established and recorded as a pioneer and the first aluminium smelting industry⁸⁵.

Entering 1980s, several issues like the appreciation of the Yen against the US dollar, negative association with the debt from Japan, globalisation, and Indonesia's entrenched vested interests among competing ministries and powerful groups in the country, added both complexities and opportunities to the workings of the aid trinity. Learning from the 1974 Tanaka Riots⁸⁶, also known as the Malari Incident, Japan reckoned signs of a vastly more complicated set of investment, trade, and institutional relationships in Indonesia. It was not Japanese capital and business practices that provoked the riot⁸⁷. It was also aggravated by competition between two generals, among them, Soedjono, one of four Inspector-Generals of Development and



members of the Economic Stabilisation Council. Indeed, the biggest challenge for Japan is how to position itself within Indonesian political landscape that have become the “field” of many actors with competing and sometimes conflicting interests. Having foreseen the kind of political environment that it could have encountered in 1980s, Japan increasingly placed the importance of political settlement among various scale of groups and interests to ensure the sustainability of its aid trinity. Accordingly, the concentration of Japanese ODA and investment in Indonesia had produced a distinctive pattern that enabled political settlements to be reached among four key camps, namely: (1) The Military (ABRI); (2) technocrats; (3) nationalists; and (4) CSIS Intellectuals⁸⁸. Despite trade friction and rising debt to Japan, these camps were aware that few real alternatives could really match Japan in the short-term, particularly in helping Indonesia to become an industrialised economy. More interestingly, CSIS Intellectuals consisting of a group of important civilian and military figures, namely Benny Murdani and Ali Murtopo, who had the closest access to the top leadership in Indonesia have also provided Japanese think-tanks a variety of information and knowledge considered useful in mitigating conflict. Over a period from 1987 to 1992, politico-economic settlements such as this were indeed the cue for Japan to step in with its New Asian Industries Development Plan (New AID Plan). The MITI-led strategy attempted to create an industrial plan for Asia that would harmonise with the needs of Japanese industry. For Indonesia, the targeted sectors were handicrafts, rubber-based products, electrical machinery, plastics, aluminum downstream products, and ceramics⁸⁹. This was followed by high volume of machinery and equipment imports from Japan, which amounted US\$5.3 billion in 1994 (see table 2)⁹⁰.

Table 2. Japan's trade balance with Indonesia 1950-2017 (millions of USD)

	1950	1960	1970	1985	1990	2000	2010	2017
Exports	46.20	110.80	316.40	2,190.50	5,051.93	7,603.74	15,918.21	15,240
Imports	-	63.90	452.30	8,593.50	10,923.44	14,415.19	25,781.81	17,790.81

Source: Statistics Indonesia and IMF Trade Statistics



Japan's relations with Indonesia have broadened and is underpinned by economic interdependence particularly since the 1998 Asian financial crisis. Following the announcement of the New Miyazawa Plan⁹¹, Tokyo provided yen loans to Indonesia worth 150 billion yen in 1998 and additional loans totalling 500 billion yen over the next three years. The primary focus of these loans was on renovations to existing infrastructure⁹². There continued to be criticism from Indonesian economists regarding projects born out of the plan. Huge volumes of aid instead went to Japanese affiliates and subsidiaries in Indonesia that had difficulty securing funds. Half of the amount of the Miyazawa package was spent to underwrite short-term trade insurance for infrastructure development projects in Thailand, Indonesia, and South Korea which required procurement of Japanese goods⁹³. At any rate, the loan package demonstrates how the Japanese government had for too long put an emphasis on economic growth that served the interests of Japanese firms. However, such a mercantilist aid tradition barely faded away as it somewhat has served to prevent economic backsliding in Indonesia. Both countries are fully aware that Japanese capital was incorporated into the domestic production process which allowed broader spill over effects into local economies and made the market work well. This was possible because Japanese investment has always been cyclical in Indonesia; investment has been the largest in economic infrastructure, where economies of scale in processing encourages investment in large-scale production entities. The expansion of independent or state-supported smallholders is seen by many in the infrastructure sector. For example, PT Yokogawa Indonesia, set up in 1994, has been the leading automation provider in the LNG industry (the industry in which Japan has large stake). Aside from gaining profit and enlarging business through its involvement in the gas sector, they also contribute to Indonesian capacity through technology transfer and co-innovation in the areas of engineering, measurement, control and automation.





Rationalising Infrastructure Development

Regardless of changes in external and domestic factors, there has been a parallel pattern showing how different stages of Japanese economic rationalisation have been well aligned with every phase of political transformation and economic reform in Indonesia⁹⁴. This was possible because Japan had always continuously paid a great deal of attention to bridge differentiated institutional mechanisms and sectoral foci across Indonesia. Particularly with regard to the export of infrastructure systems, the Japanese government had always found ways of effectively facilitating a closer working relationship between different interests groups in the two countries. After the revision of the ODA Charter in 2003, Japan actively promoted poverty eradication





Jakarta Mass Rapid Transit Tunnel

programs through its human development program and environmental projects. However, the assistance modalities influenced by MITI and the private sector (or often coined 'Japan Inc.'⁹⁵) remained intact to consolidate the foundation for investment, to strengthen the role of the private sector, and establish production networks through economic infrastructure. Likewise, Indonesia has also understood that its own economic recovery and Japanese-driven regional integration was dependent upon harnessing the benefits of globalisation, trade, and infrastructure development.



The basic policy of assistance modalities is clearly stated in the Japanese Ministry of Foreign Affairs' (MOFA) published paper in 2004, entitled *The Country Assistance Policy for Indonesia*, emphasised that Japan's concessional loans are directed at a wide range of areas to achieve "sustainable growth driven by the private sector" and the "development of the economic infrastructure" must be one of the supporting measure⁹⁶. The policy was in line with the Special Terms for Economic Partnership (STEP) loans launched in 2002 by JICA, for which procurement of Japanese goods and service, including contractors and consultants for designated infrastructure projects are required⁹⁷. In relations to the STEP loans, the High-Level Public/Private Sector Joint Forum on Investment between two countries was established in December 2004. The forum drew up a Strategic Investment Action Plan (SIAP) in May 2005, in which concrete measures and a time schedule in the four key policy areas of infrastructure were presented while the biggest immediate beneficiaries of the plan were the automotive, electronics, and construction sectors⁹⁸. Through the scheme of STEP, Japan's aggregate loans to Indonesia totalled about US\$4 billion used for financing several large-scale projects (see table 3).

Table 3. JICA STEP Loans in Indonesia

No.	Project name	Sector	Year of Approval	Amount of approval (millions Yen)	Tying status
1	Patimban Port Development Project	Transportation	2017	118,906	Japan tied
2	Construction of Jakarta Mass Rapid Transit Project (MRT) II	Transportation	2015	75,218	Japan tied
3	Construction of Jakarta MRT I	Transportation	2009	48,150	Japan tied
4	Construction of Jakarta MRT I	Transportation	2009	48,150	General untied
5	National Geo-Spatial Data Infrastructure Development Project	Social services	2007	6,373	General untied
6	Engineering Services for MRT Project	Transportation	2006	1,869	Japan tied (consulting)
7	Tanjung Priok Access Road II	Transportation	2006	26,620	Japan tied
8	North Java Corridor Flyover Project	Transportation	2005	4,287	Japan tied
9	Tanjung Priok Access Road I	Transportation	2005	26,306	Japan tied
10	Lahendong Geothermal Power Plant Project	Electric Power and Gas	2004	5,866	Japan tied

Sources: Compiled by author, using data from JICA ODA Loan Project Data.



More interestingly, Japan's approach also transitioned from a reliance on informal business relationships and bilateral ties to a strategy founded upon multiple channels to institutionalise government-business partnerships. Since 2010, Tokyo has been pursuing seemingly coordinated policies to integrate the regional production chain with the Indonesian infrastructure development blueprint and to harmonise competing ideas and interests regarding infrastructure at all levels. Starting from the early development of Partnership for Quality Infrastructure (PQI) to date, continued synergy among different levels of policy – Japan's grand strategy of aid modalities, the regional connectivity approach, and Indonesian national plan – has been evident. Long before China's economic expansion in Indonesia, the original form of the PQI has been inherently existent – reflected within the New Growth Strategy that formulated in June 2010. The grand strategy was used as a framework for supporting private companies' initiatives in the field of infrastructure with a 'one-voice and in a united front' approach, aiming to expand the market of exports to 19.7 trillion yen by 2020⁹⁹.

This was also followed by the establishment of internal organs of each key ministries to deal with the deployment of infrastructure systems overseas. In October 2010, MOFA established the Promotion Headquarters on Deployment of Integrated Infrastructure Systems in October 2010, while the Ministry of Land, Infrastructure, Transport, and Tourism set up a new senior post of Director-General for International Affairs as well as two new sections within the Policy Bureau. These were done in order to advance integrated policy formation, which have been carrying out various collaborative environmental projects with key Indonesian agencies and local

Table 4. External Debt Position of Indonesian Government to Japan

	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Q3)
Japan	30,488	30,932	26,382	20,950	17,014	15,544	14,634	13,960	12,978
Share of Total Indonesia's Gov. External Debt to creditor's country (%)	67.7	69.5	66.6	60.4	55.8	55.2	54.8	52.9	51.9
In Comparison									
USA	1,854	1,709	1,575	1,634	1,584	1,504	1,422	1,235	1,104
Australia	855	819	816	752	664	580	528	506	437
China	486	787	833	921	986	984	1,035	1,278	1,518
Germany	2,521	2,240	2,070	1,983	1,769	1,650	1,882	2,101	2,209

Source: Compiled by author, using data from Indonesian Ministry of Finance.





governments until recently¹⁰⁰. The grand strategy also allowed the Japan Bank for International Cooperation (JBIC, the successor of Japan EXIM) to take a more proactive role in its guarantee operations and Other Official Flows (OOF) for Public Private Partnership (PPP) projects¹⁰¹. By the same token, the function of JICA-led ODA has also been increasingly diversified, among others supporting viability gap funding (VGF), equity-backed finance (EBF), credit enhancement facility for government guarantees and Two-Step Loan to guarantee infrastructure risks¹⁰².

The leverage of New Growth Strategy (later, PQI) is evident in Indonesian regional initiatives. There have been serious attempts of Tokyo and private sectors to make the strategy and the use of financing modalities compatible with the Indonesian infrastructure master plan. In 2011, Indonesian government formulated the Master Plan for Economic Development for Acceleration and Expansion of Indonesia's Economic Development (MP3EI) in which 33 PPP projects are listed and divided into three categories: potential projects, priority projects, and projects ready for offer. One of the primary goals of the MP3EI is to develop six economic corridors, namely Sumatra, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara, and Papua-Maluku corridors, where the government is inviting investors to participate in designing, financing, operating infrastructure projects and finally contributing to the national connectivity¹⁰³. Here, JICA subsumed the deployment of infrastructure systems through the Master Plan of Jabodetabek (Greater Jakarta) Metropolitan Priority Area (MPA) by cooperating with Indonesian Coordinating Ministry for Economic Affairs and Bappenas, Indonesia's Ministry of National Development. The final version of the MPA published in 2013 listed 45 Projects, including 5 Flagships and 18 Fast Track Projects as well as Java High Speed Railway/Jakarta-Bandung High Speed Train¹⁰⁴. The Master plan study estimated that roughly 1 billion Yen (US\$10 billion) is expected to be forthcoming externally, including Japanese ODA. Furthermore, Japan's unified approach also succeeded in making sure most of the planned projects were included in the Indonesian National Strategic and Priority Projects (PSN)¹⁰⁵. They include Cilamaya (replaced by Patimban Port¹⁰⁶), the successful Jakarta MRT, and Batang Coal Fired Power Plant, which is considered the largest PPP in the power sector in Asia¹⁰⁷. Presently, coinciding with PQI's launch, Japan and Indonesia are also focusing on advancing their ties through Vision 2045 roadmap. Japanese assistance will contribute to human development, science and technology mastery, sustainable economic development, equal development and national resiliency and good governance – with infrastructure development are the main foci aiming at making Indonesia become the world's fifth-largest economy¹⁰⁸. The number of infrastructure projects under the scheme of Vision 2045 will also pave the way for further involvement of other key agencies attributed to the PQI, namely Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN) and Nippon Export and Investment Insurance (NEXI).



More interestingly, between Japan's grand strategy and its footprint in the Indonesian national plan, these are also multi-layered regional initiatives driven by "Japan Inc." to bring about synergistic effects of Indonesian infrastructure development, Japanese scale of investment, and regional value chain. It is apparent that Japanese infrastructure export strategy is executed in a way coherent with a regional plan within which Indonesia has a large stake. Deepening politico-economic ties with Indonesia by using a regional plan might also match Indonesia's interests as achieving its 'largest-economy' status in Southeast Asia is hinged upon its integration with the regional value chain. Enhancing regulatory harmonisation between national and regional level strategies also allows Japanese policy makers and various interest groups to open up partnerships to share risk. For example, Japanese-proposed projects in PSN, such as Cilamaya (now Patimban) port development, the Jakarta 3rd Airport Development Projects is also included in Japan-led regional initiative, namely CADP 2.0 (Comprehensive Asia Development Plan) addressed for the East Asia Summit. The projects are also listed in the Master plan of ASEAN Connectivity that is strongly supported by Japan. It is clear that private capital and International Financial Institutions (IFIs) like the Asian Development Bank (under de facto Japanese control) will have to become significantly more involved, both on multilateral and bilateral basis. This kind of multi-layered financing vehicle is clearly seen in the Leading Asia's Infrastructure Fund (LEAP), jointly set up by ADB and the JICA to provide co-financing to infrastructure projects, including the Muara Laboh geothermal power project in Indonesia.

Challenges Ahead

As a leading scholar on Southeast Asian political economy, Jomo KS once argued, "There is more to East Asia's development than the flying geese model or China's emergence. There are also serious risks inherent in the development paths adopted since the 1997-1998 crisis." It is true that Japan-Indonesia relationship has been overshadowed by the rapid rise of China. The Jakarta-Bandung High Speed Railway also illustrates how China has bested Japan by winning a high profile infrastructure project in Indonesia. The project was expected to be awarded to a Japanese consortium since 2011, but China won the bid after offering more generous terms. However, Japan in fact has far more daunting tasks beyond simply competing with China. Several sets of problems merit note, some of which reflect the very nature of Japanese institutions, combined with Indonesia's inherent weaknesses.

First, from the demand-side perspective, Indonesia is still chasing the US\$150 billion needed to fund the infrastructure plan, concerning only US\$15 billion can be used from the state budget¹⁰⁹. In a nutshell, this should give Japanese business

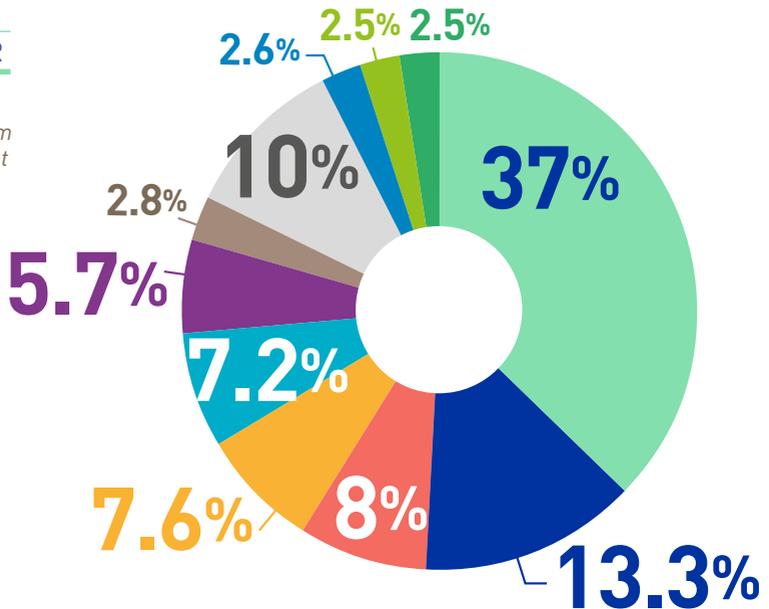


leeway to boost infrastructure exports. However, inherent structure and operational logic of Japan does not always meet Indonesia's growing needs. Although Tokyo has been diversifying its financing vehicles and loosening the conditions, three tacit preconditions remain intact, namely: (1) Large-scale projects with long-term and significant spill-over, (2) higher return on investment, and (3) projects supported by government guarantee¹¹⁰. It is thus not uncommon that Japanese-funded ports and railway construction have always been located close to both concurrent and prospective industrial areas built by Japanese companies and the investments tend to be concentrated on Java Island, the main hub of Indonesia economic activities (as shown by the following diagram). For instance, Tanjung Priok Port and the North

Diagram 1. Investment Realisation (excluding oil sector) from Japan by Location and Sector (2013-2018 Q3)

BY SECTOR

Source: Compiled by author, using data from Indonesian Investment Coordinating Board

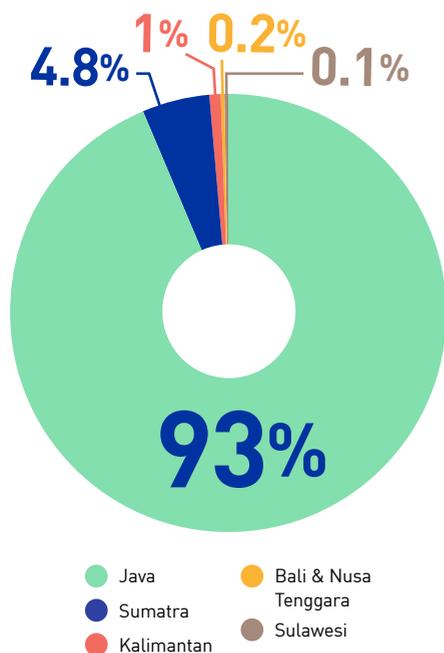


- Transportation, Equipment and other transportation mode industry
- Machine, electronic, medical instrument and electronic equipment
- Basic chemical, chemical and pharmaceutical industry
- Mining
- Electricity, gas and water
- Basic metal, metal goods, non-machinery and its equipment industry
- Food industry
- Rubber and plastic industry
- Real estate, industrial estate & business activities
- Others
- Paper industry



Java Corridor Flyover Construction Project, which are financed under the scheme of STEP loan, are easily connected to Karawang International Industrial City (KIIC) of which 80 percent of tenants are Japanese companies¹¹¹. Moreover, a JETRO survey counted at least 1,517 Japanese firms operating in Indonesia are mostly located in industrial zone east of Jakarta¹¹². Most of Japan-funded electrification projects in Indonesia are considerably large-scale projects and located in Java Island, such as 2,045 MW Paiton power plant and 2,640 MW Tanjung Jati coal-fired power-plant. Both plants have government guarantees and involve an agreement by the “off-taker”, namely PLN (The Indonesian state-owned Electric Company). This simultaneously ensures revenue for the Japanese companies involved and helps them recover their outlay¹¹³.

BY LOCATION



There are indeed greater tendencies among Japanese companies to finance brownfield infrastructure projects that pose less construction risk than greenfield projects and are already backed by particular off-taker. A case in point is the Jokowi administration pledges an ambitious agenda and even has pushed a controversial decision to relocate the capital city from Jakarta to Palangkaraya in Central Kalimantan with the view to develop industrial estates and economic infrastructure off Java and in outer islands¹¹⁴. The Indonesian president has also called for around 70 percent of the infrastructure plans to be financed by the private sector. In this sense,

there would be many projects that are unlikely to generate much cash but require significant investment, and the risks involved already deter prospective Japanese investors. For decades, the Japanese ‘playing field’ in infrastructure relatively faced moderate risks. Japanese companies have been especially eager to promote private financing of infrastructure projects in Indonesia through build-operate-transfer (BOT) and build-operate-own (BOO) schemes. Both financing schemes mean that Japanese companies involved in a given infrastructure project through an ODA mechanism (with government guarantee) and can later recuperate their profits by operating what they have built¹¹⁵. As a result, such a ‘safe’ playing field has caused Japanese companies



to become more segmented. They also do not have enough experience in the transit-oriented development (TOD) models that Jokowi's administration strongly promotes.

In addition, as PPP projects will be the core means to advance its infrastructure targets, Jakarta has started simplifying investment procedures and relaxing regulations. For instance, Jokowi's administration has introduced the one-stop integrated service (PTSP) at the Investment Coordinating Board (BKPM) in order to create a business-friendly bureaucracy and simplify around 42,000 regulations along with 3,000 bylaws that have been impeding the implementation of development-related projects. Yet, Japan for its part, has its own challenges. Some key agencies in Indonesia that are mandated by Jokowi to shorten time gap between planning and implementation often lament the Japanese decision-making approach on PPP projects. Although Tokyo has started loosening its rigid loan procedures, Japanese risk-averse private sector and bureaucratic inertia makes it difficult for fast decisions to be made. This can be somewhat frustrating alongside Indonesia's "build fast, fix later" approach to a proposed PPP project¹¹⁶. The widely differing developmental mindset has indeed been problematic. Therefore, it is important for two countries to find an alternative model for infrastructure financing that could bridge the gap of time, 'quality', and risk and combine the strength of each Indonesian and Japanese private sector.

Another challenge is the wide distribution of power and authority in Indonesia. Decentralisation has been underway and consequently there is no such narrative that the president's preference carried weight. During Soeharto's era, Bappenas (whose key figures had strong connection with Japan) was a powerful superagency with combined authority over development budget, planning, and foreign aid mobilisation. At times, the chair of Bappenas also doubled as the Coordinating Minister of Economic Affairs. Yet, now it tells different story in Indonesia¹¹⁷. The transfer of the development budget to the Ministry of Finance in 2013; overlapping authorities between Coordinating Ministry of Maritime Affairs and Economic Affairs; Indonesia's SOEs "crowding out" infrastructure sectors; the ever-changing regulations; and growing influence of local government have added complexities further. Political reform and economic liberalisation has led to the fragmentation of power, which to some extent rattled Japan's confidence in the government's ability to manage the infrastructure sector. A key illustration is, since 2005, Japan has actively promoted waste management system by using water-to-energy (WTE) technology in Mamminasata Metropolitan Area, Makassar which basically gained support from the central government¹¹⁸. However, with the application of Law No. 23/2014 on Regional



Governance and the Law No.38/2007 delegates the allocation of governmental affairs to national, provincial, and district/city governments, responsibility of handling infrastructure projects (except for ones deemed as National Strategic Projects) has shifted from central to local (province/city/district government)¹¹⁹. While a detailed engineering design (DED) for regional landfill carried out by JICA was already implemented, the construction plan was unfortunately backed off due to site disapproval by the new Head of a District in Mamminasata¹²⁰. Instead of addressing structural problems, the development of regulatory frameworks only compounded complexities among different agencies and sectors.

Another point worth noting is the rise of economic nationalism amidst economic globalisation and national deregulation. The conflicting nature of these two trends is evident in the working of Japanese capital in Indonesia. On the one hand, the liberalisation of state policies has led to increasingly globalised circuits of capital accumulation. This has to some extent paved the way for Japan to tap into the finance industry and have more diversified equity-based investments. On the other hand, the traditional principle of Indonesian public interest is that economic policy should protect and preserve competition as the most appropriate means of ensuring the efficient allocation of resources and protection of local enterprises. As such, what tends to happen is that many sectors which Japan actually could have involved in and contributed to technology transfer are centred around political constraints and public opposition. Aside from being pushed to divest stakes in the extractive sectors, Japan also struggles in the Indonesian infrastructure sector. Its leverage over infrastructure development is constrained by inward-oriented policies. Recent example includes Indonesian government's plan for extending the East-West corridor of Jakarta Mass Rapid Transit (MRT) with a length of 37 km. Different from the previous phase that used JICA STEP loan, Jokowi has been encouraging private sector involvement as well as Indonesian SOEs to finance the extended corridor¹²¹. In fact, for the capital-intensive and technology-intensive project like MRT, pure private sector involvement, let alone SOEs is not always a panacea. Yet, under popular mobilisation and electoral politics in a bid to attract voters, it is understandable that Jokowi's government needs to avoid "rising debts".



Conclusion

It is clear that trading companies and small-and medium-scale enterprises (SMEs) have gained an advantage through Japanese loan and investment projects in Indonesia. However, the preceding discussion does not simply cast Japan as acquisitive. Rather, from a political standpoint, Japan's rational moves gave it greater flexibility to curry favour with competing ideas and interests in Indonesia while gradually enforcing good governance practices. In terms of development, such multi-layered policy and master plans are critical to making sure the Indonesian government addresses short-term, medium-term, and long-term infrastructure issues and stay consistent with its domestic and regional development strategy. Prominent features of Japan's political economy – vigorous institutions and a proactive approach to state transformation – place particular importance on such a large and complex country such as Indonesia. Far from being at odds, Japan's strong presence in Indonesia largely demonstrates that collective capacities – the ability to reconcile interests, to provide infrastructure, and to encourage cooperation – have functioned well. Yet, ensuring the combination of home-based practice and modification arrangements in infrastructure cooperation concurrently provides the best way to maintain a mutually beneficial relationship between Indonesia and Japan, the two key middle-powers in the region.



The page features several decorative elements: a red line starting from the top left and zig-zagging down; a grey line starting from the top center and zig-zagging down; a teal line starting from the top center and zig-zagging down; and a teal line starting from the top center and running vertically down. At the bottom, there is a green line-art illustration of a city skyline with various buildings, a pagoda, a Ferris wheel, and a hot air balloon.

Regionalising India-Japan Relations in the Indo-Pacific

CHAPTER 4.

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No two countries have been as ambitious as India and Japan in their efforts to transform their bilateral partnership into a regional partnership in the Indo-Pacific. In 2018, the Prime Ministers of Japan and India, Abe Shinzo and Narendra Modi, outlined a shared vision for “peace, stability and prosperity of the Indo-Pacific”¹²². This shared vision encompassed a commitment to an Association of Southeast Asian Nations (ASEAN)-centred regional architecture and a rules-based order that protects sovereignty and territorial integrity, upholds international law and prioritises peaceful conflict resolution and collaboration on connectivity and development initiatives in India, South Asia, Southeast Asia, the Indian Ocean and Africa.

This chapter evaluates the undercurrents of India-Japan relations to evaluate how and why the two countries are seeking to shape regional order through this ambitious blueprint. It is argued that their shared vision aims to move the relationship beyond bilateralism to a regional framework of socio-economic and political integration that will serve the Indian and Japanese interests in the face of the expanding, and potentially dominating, influence of China in the region. The chapter traces the development of this vision and blueprint and identifies the major challenges it must overcome.



Tracking the Partnership

The Indo-Pacific, as a geostrategic frame for the India-Japan relationship, has its roots in Mori Yoshiro's visit to India in August 2000, which resulted in a pledge





Indian Navy warships at Kanagawa, Japan, June 5 2012

to build a “Global Partnership between Japan and India in the 21st Century”¹²³. The partnership evolved to imbibe a global security character in 2004, when Japan and India undertook naval coordination with other countries in humanitarian relief operations following the Indian Ocean tsunami. The government of Abe Shinzo in 2006–07, and from 2012 onwards, in particular, advanced India-Japan relations further with an emphasis on building a more active security understanding for Japan.



India-Japan relations acquired a security dimension in late 2008 with the release of “Joint Declaration on Security Cooperation”. This institutionalised a closer defence and security relationship which would later be formalised in the ‘Strategic and Global Partnership’¹²⁴. Prior to this, Abe’s historic speech in the Indian Parliament titled ‘Confluence of the Two Seas’ on August 22, 2007, had provided a new fillip to the evolving regional context to their strategic partnership with a focus on the region as “the Arc of Freedom and Prosperity”, essentially contextualising a new beginning to the narrative of Indo-Pacific. In this speech Abe declared that:

Japanese diplomacy is now promoting various concepts in a host of different areas so that a region called “the Arc of Freedom and Prosperity” will be formed along the outer rim of the Eurasian continent.... By Japan and India coming together in this way, this “broader Asia” will evolve into an immense network spanning the entirety of the Pacific Ocean, incorporating the United States of America and Australia¹²⁵.

The Defence Cooperation Agreement was a significant development in Japan’s evolving security spectrum, especially outside the purview of its closer security pact with the United States and Australia. An adjustment in Japanese policy, positioning towards India, gathered momentum with the 2016 civil nuclear deal between the two sides, signalling the new wave of thinking in Japan about India as a global partner, despite India not being party to the Nuclear Non-Proliferation Treaty (NPT).

Various defence dialogues, a Coast Guard level dialogue and exercises between the three Services and Coast Guard units between India and Japan have since generated a new level of engagement. Japan’s involvement in the Malabar naval exercise with the United States and India, the Passage Exercises, counter-terrorism drills and the negotiation for the Acquisition, Cross-Servicing Agreement have all served to strengthen their security cooperation. Maritime domain awareness and mutual logistical support brings greater security assurance at present to their evolving Indo-Pacific partnership.

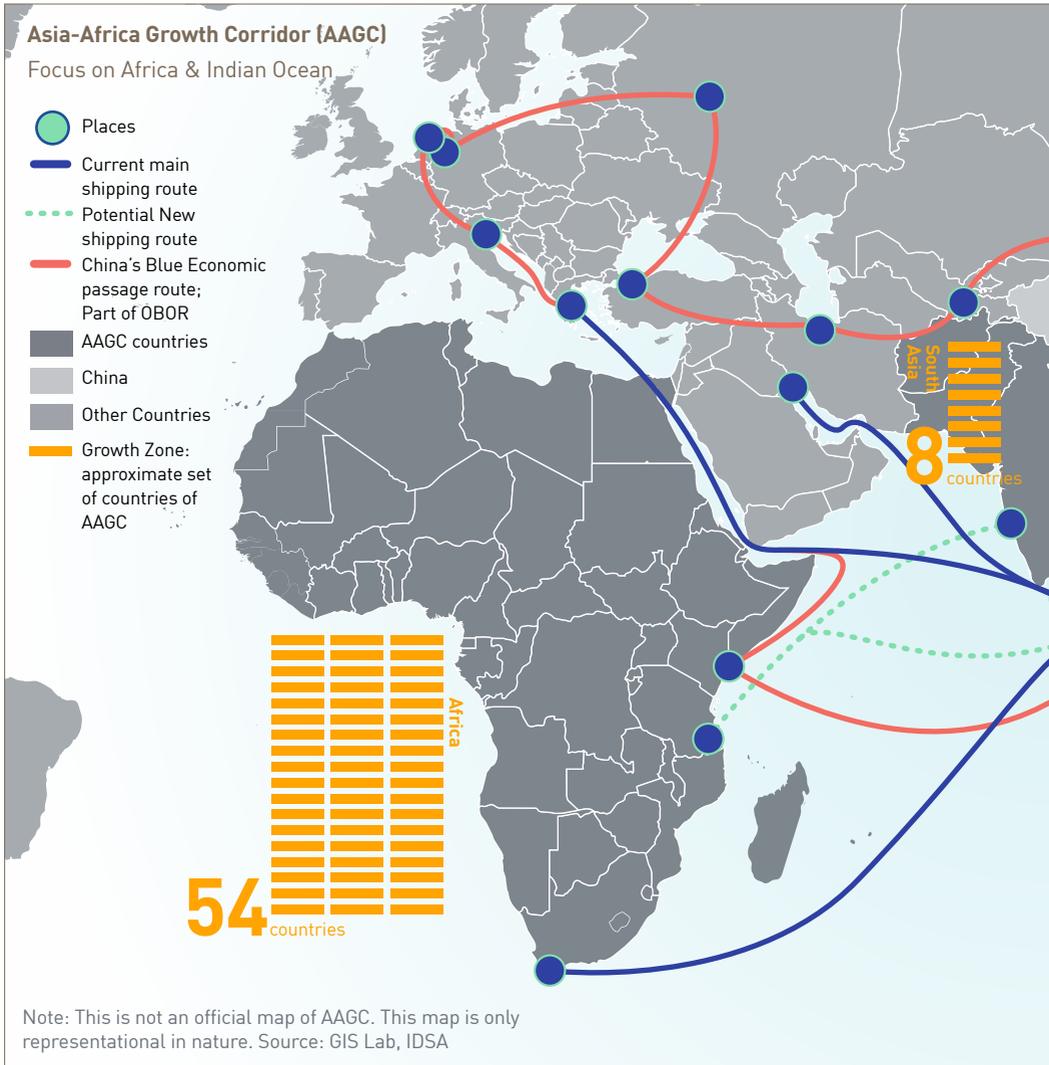


Their growing strategic depth in defence cooperation is strongly backed by an enabling framework to nurture a stronger defence equipment and technology cooperation¹²⁶. India and Japan also have a stated intention to cooperate in areas such as robotics and artificial intelligence, including through collaboration with the Indian and Japanese private sectors¹²⁷. Under Abe, Japan has shed its reluctance to export arms internationally, thereby opening a “new chapter” of India-Japan defence cooperation. For instance, Japan’s ShinMaya and India’s Mahindra Group recently signed a Memorandum of Understanding on the maintenance, repair and servicing of US-2 aircraft. This indicates a new phase in India-Japan cooperation, marking a departure from “low-key engagement” to a stronger and more substantial defence partnership in the Indo-Pacific¹²⁸.

In the economic realm, although trade and investment ties between India and Japan have been historically weak, in recent years the pace of investment has increased and diversified. Investment in 2016-2017 for instance, rose to US\$4.7 billion from US\$2.6 billion in the previous year of 2015-2016¹²⁹. Japanese investment has been particularly evident in the construction of industrial corridors and clusters, Japanese Yen loans have supported the building of subway systems in major Indian cities and a Japanese low interest loan financed India’s first bullet train¹³⁰. In 2017, moreover, Japanese investment in Indian start-ups surpassed Chinese and American investment¹³¹.

This economic cooperation took on a regionalised dimension since 2016, when Abe and Modi announced a desire to improve connectivity between Asia and Africa, building on Japan’s Expanded Partnership for Quality Infrastructure (EPQI) and India’s Act East Policy (AEP). This idea was later developed into a proposal for an Asia-Africa Growth Corridor (AAGC) in an officially sanctioned vision document produced by Indian, Japanese and ASEAN think tanks. The AAGC involves development and cooperation projects, infrastructure and institutional connectivity, building capacities and skills and enhancing people-to-people contacts.





Further, in 2017, India and Japan established the Act East Forum which sought to synergise Japan's Free and Open Indo-Pacific Strategy, and India's Act East Policy to enhance connectivity and infrastructure development, forming industrial links and promoting people-to-people contacts between India's North-East region and neighbouring countries in Southeast Asia. This cooperation was also aimed at





stimulating the development of long moribund subregional initiatives, like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which involves India, Bangladesh, Nepal, Bhutan, Sri Lanka, Thailand and Myanmar, and the Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM).



Changing Foreign Policy Aspirations of Japan and India

The significant advances in the India-Japan relationship from 2006 are often attributed to Abe's emphasis on building a more active security policy for Japan, and his 'neo-conservative' values which sought to promote democracy, a market economy and the rule of law in diplomacy with like-minded partners¹³². Among his reforms in the ensuing years were the establishment of a National Security Council, a National Security Strategy and the reinterpretation of Japan's Article 9 'peace clause' in its pacifist constitution to enhance the ability of its Self-Defense Forces (SDF) to participate in collective self-defence¹³³.

This pro-active foreign relations strategy positioned India as a prospective partner in an evolving regional order. Abe's positioning of India's and Japan's growing interests in a framework of "broader Asia" was primarily based on four reasons. First, to enhance Japan's positioning in the maritime domain in the Indian Ocean Region (IOR); second, to enhance a leadership vision for Japan along with India in a regional and global framework, partnering with the USA and Australia; and third, to enhance Japan's bilateral security understanding with a host of countries outside its powerful alliance partner, the United States; and fourth, to search for new avenues of business and commerce, aiming to expand Japan's business interests in India.

Abe's pro-active foreign relations strategy gradually found strategic consonance with India and its diversifying foreign policy paradigm outside the framework of its alliance partners, such as the United States and Australia. Prior to Abe, Japan's search for alternative security and economic partners equally had encouraged New Delhi to visualise and strengthen the relationship with Japan. For instance, Manmohan Singh, India's previous Prime Minister from 2004-2014, promoted a values-driven developmental foreign policy in India that emphasised pluralism, secularism and liberal democracy, complementing Japan's changing foreign policy narratives. While this did not entail a neo-conservative agenda of promoting these values internationally, India was to lead by example, an endeavour that would be helped through cooperative relationships with other states¹³⁴, including Japan. By prioritising foreign economic relations, and seeking great power status, the Manmohan Singh government sought to transform the international environment in ways that supported its developmental goals for India¹³⁵. Japan's willingness to contribute to India's developmental goals, and to assist in creating an international environment conducive to these goals, made it an ideal partner.

The momentum in this relationship has been maintained by Prime Minister Narendra Modi and his National Democratic Alliance (NDA) government which was elected in 2014, and re-elected in 2019. The Modi government advanced the relationship with Japan to a 'Special Strategic and Global Partnership' in 2014 while asserting a



desire for India to be a leading power that shoulders greater global responsibilities¹³⁶. Modi's nationalist and aspirational politics resonates with the ideology of the current Japanese government. The Japanese government's nationalist tendencies are reflected in their naming of Japan's new imperial era, the *Reiwa*, following the ascension of a new Japanese Emperor to the Chrysanthemum Throne. As a name derived from classical Japanese poetry, *Reiwa* breaks with the tradition of deriving the era name from classical Chinese literature, thus reflecting the Abe government's concern for national harmony, pride in tradition and "hopes for tomorrow"¹³⁷.

China's 'Going Global' 2.0 vis-à-vis India-Japan Ties

While Japan and India's changing foreign policy aspirations underpin their growing cooperation, the nature of the collaboration suggests that a key motivation for both countries is shared concerns about China's growing regional influence. The Belt and Road Initiative (BRI) launched by the Chinese President Xi Jinping, aims to link China's various regions to Africa, Southeast Asia, the Middle East and Central Asia and the Mediterranean. The scheme will further increase China's already sizable economic and strategic footprint in Asia and Africa, and will deepen its maritime presence in the Indian Ocean Region.

For Japan, the rapid rise of China has always been a strategic concern on two fronts. First, China's growing commercial footprint across the world has posed competition to Japan's commercial interests. In a departure from the ideological and self-reliant economic governance model that China pursued under Mao Zedong, its 'Going Global' strategy encouraged Chinese business firms to take advantage of the global trading opportunities¹³⁸. In fact, one of the hallmarks of China's rise was its 'Going Global' strategy (now known as 'Going Global 1.0'), which had its inception in 1999-2000, and started posing a challenge to Japanese business enterprises globally. For instance, China has overtaken Japan as an influential economic actor and investor in Africa and Central Asia, particularly over the last two decades. Japan's constructive engagement with Africa dates back to 1993, with the launch of the Tokyo International Conference on African Development (TICAD). The growth of Japanese business interests has since lagged behind China. Likewise, China has taken over the 'Silk Road Diplomacy' in Central Asia that was once envisioned by the former Japanese Prime Minister Ryutaro Hashimoto's in the 1990s. Second, due to its assertive stance over the East China Sea, China poses a maritime territorial and commercial threat in this contested zone. As a result, Japan have introduced new projects and policies to strengthen its maritime commercial outreach in Southeast Asia and the Indian Ocean Region (IOR). In addition to this, the U.S. President Donald Trump's capricious approach to regional security and its non-committal attitude to Japan's long-term security has compelled the Japanese government to search for new security partners. India have figured prominently as a partner of choice.



India and Japan do not have identical perspectives on China. Yet their growing security concerns over China's maritime and military activism in the Pacific and Indian Oceans has undoubtedly fortified the desire for joint efforts toward "shared security" as outlined in their 2018 Joint Statement. Japan's indirect, yet explicit, support to India on the India-China Doklam border stand-off was one outcome of this commitment. Kenji Hiramatsu, the Japanese Ambassador to India, who also holds the Ambassadorship to Bhutan concurrently, stated that it is important for the "parties involved in the Doklam border tension to not resort to unilateral attempts to change the status quo by force". Offering India explicit support, he acknowledged India's stance by stating that "India is involved in this incident based on its bilateral agreement with Bhutan"¹³⁹. Japan's stance on the Doklam stand-off mirrored its position on the attempt by Chinese maritime law enforcement agencies to change the 'status-quo' with respect to the Senkaku islands in the East China Sea and the South China Sea.

China's diplomacy witnessed a revision in 2004, with Hu Jintao strengthening the country's economic outreach through the 'Bring In' and 'Go Out' strategies, with a special focus on developing countries in Africa and Latin America¹⁴⁰. This was the beginning of 'Going Global 1.0' where the focus was on the maritime zone, especially the Indian Ocean Region and Africa. Through two prominent initiatives – the BRI and capacity building development cooperation – China's 'Going Global 1.0' has turned into 'Going Global 2.0' with an ambition of becoming a 'free trading economy' globally, with an intent to turn China into an innovation-driven economy¹⁴¹.

The inclusion of the BRI into the Communist Party of China's (CPC) constitution in the 19th National Congress of the CPC was a major development guiding China's 'Going Global 2.0' strategy. With a proposed US\$ 900 billion investment¹⁴², the BRI is undoubtedly an initiative with global scope. Nevertheless, the inclusion of the BRI into the CPC constitution signified a long-term Chinese state strategy, exemplifying China's external engagement policy¹⁴³. More than just an infrastructure-building connectivity scheme, the BRI is a regulatory project that entails the transnationalisation of Chinese regulatory standards and rules through investment and policy coordination¹⁴⁴.

A focus on Africa has been a key part of this Chinese strategy and the second BRI Forum held in Beijing in April 2019, stressed China's growing linkages with African countries¹⁴⁵. Chinese investments in the Indian Ocean region includes strategic ports, commercial points and naval bases. Many countries, including Japan and India, have recalibrated their foreign policy initiatives in light of this rising Chinese presence. The proposal for the AAGC is a clear reflection of this recalibration even though enhancing commercial interests and promoting a growth and development zone is the main intention behind this proposed corridor between Asia and Africa.



India has a long presence in Africa through trade, political engagement and the diaspora, and more recent efforts to source energy requirements and cultivate new markets for the Indian private sector. Resource constraints, however, have limited its engagement, which lags far behind that of China. Africa is also seen as a partner for India in its bid to fashion multilateral regimes and institutions in ways that benefit the interests of developing states. Though Japan has long been engaged in Africa through official development assistance (ODA), it has had a limited business and cultural presence. The Japanese private sector has, however, increasingly expressed interest in the growing African market including through the market expansion of Japanese-Indian manufacturing hubs¹⁴⁶. Moreover, Japan views African states as potential allies in shaping a rapidly changing global order, in which China's political and economic ability to influence regulatory norms and institutions, in ways counter to Japan's interests, is increasing.

Further, the proposal for an Act East Forum also reflects the challenge posed by the BRI to India's dominant position in South Asia and the Indian Ocean region. China has fast emerged as a significant actor in South Asia through its stronger commercial engagement and political outreach. To promote a chance to balance the growing Chinese commercial and political outreach, India needs to better integrate its economy with the countries of South and South-East Asia. A partnership with a stronger economic actor such as Japan is always coming as a bonus to India.

In addition, India needs to better integrate its economy with the countries of South and South East Asia to be able to compete with China as an economic power. The countries of South Asia are crucial to the BRI and have been major recipients of BRI funding for the building of ports, roads and economic zones. Pakistan, for instance, has been the one of the biggest recipients of BRI funds due to the importance of the China-Pakistan Economic Corridor which connects Xinjiang in China with Pakistani Provinces that provide access to the Gulf, Europe, Africa and Central Asia. Bangladesh has been another major recipient of BRI funds due to the access it offers to the Indian Ocean. Indeed, the BCIM economic corridor was initially envisaged as a key part of the BRI, connecting Kunming to Kolkata. India's refusal to participate in the BRI, has since led to the BCIM economic corridor being removed from China's list of BRI projects¹⁴⁷, though it is still an integral part of China's BRI or Silk Road diplomacy. Other South Asian countries, like Sri Lanka, Nepal and the Maldives have also been the sites of major Chinese investments in ports, roads, economic zones and other infrastructure under the banner of the BRI.



It is difficult for India to compete economically with China's infrastructure investments in South and Southeast Asia, and it lacks a convincing track record on infrastructure building. By pairing with Japan to offer "reliable, sustainable and resilient infrastructures" and "industrial networks and regional value chains with open, fair and transparent business environment in the region", however, it seeks to develop a viable alternative¹⁴⁸. Together, Japan and India have sought to implicitly characterise Chinese infrastructure-building as promoting unsustainable debt burdens and poor-quality practices¹⁴⁹. This seeks to reinforce Japan's efforts to counter China's growing economic and political influence in Southeast Asia by advancing its EPQI scheme.

Regionalising Relations through the AAGC and the Act East Forum

The AAGC and the Act East Forum are strategic propositions that seek to bring India's and Japan's national and foreign policy strategies together in the Indo-Pacific region, as envisioned in the *Vision 2025* plan outlined in 2015.

The main thrust of *Vision 2025*, which was conceptualised by India and Japan in 2015, as part of their 'Special Strategic and Global Partnership' is to foresee "deep, broad-based and action-oriented partnership" in the Indo-Pacific region. Showing a commitment to a "peaceful, open, equitable, stable and rule-based order" in Indo-Pacific region, *Vision 2025* encourages principles of sovereignty and territorial integrity where the focus is on "open global trade regime" along with "freedom of navigation and overflight", among many other things. Further, it proposed the construction of "reliable, sustainable and resilient infrastructures", aiming to enhance connectivity in the Indo-Pacific region. This not only complements India's Act East and Japan's EPQI policies, but also forms a strategic convergence between their security interests in the Indo-Pacific region. *Vision 2025* is designed to create a synergy of strategic understanding between India and Japan in the Indo-Pacific region against the backdrop of China's emergence as an influential power.

The multi-faceted AAGC, like the BRI, has an economic and developmentalist form with strategic implications. By stressing people-to-people, consultative and responsive aspects of the AAGC, Japan and India seek to gain an edge over the BRI, which is characterised as a 'unilateral' initiative. Moreover, by creating a regional, inter-continental framework of commercial and strategic cooperation between Asia and Africa, India and Japan seek to play a leadership role in building infrastructural development and fast-tracking investment. Both Asia and Africa suffer from extensive infrastructure gaps¹⁵⁰. Working with multilateral banks and other states, India and Japan seek to address some of these infrastructural needs through the AAGC. Project-based cooperation between India and Japan has recently begun with the cooperation of third countries such as Sri Lanka, Bangladesh, Myanmar and Africa.



Further, by promoting digital and institutional connectivity in and between Asia and Africa, the AAGC aims to amalgamate India's and Japan's bilateral and domestic investment priorities to their regional initiatives. Much Japanese investment in Indian start-ups is in the areas of the digital and platform economy, and both countries view these sectors as the drivers of future economic growth¹⁵¹. In the process, they seek to regionalise their preferred regulatory frameworks, such as public-private modes of participation that involve a consultative process between local, national and regional or international actors.

In addition, by leaving room for the participation of third countries in AAGC initiatives, Japan and India seek to further Indo-Pacific trilateral initiatives, like the US-India-Japan and India-Japan-Australia cooperative forums. Such trilateral initiatives can be used to shape the nature of regional order in the Indo-Pacific through forms of regional connectivity that promote a multilateral regional architecture and collective rules¹⁵².

Ministerial statements on trilateral US-India-Japan cooperation have also suggested joint efforts at building connectivity between South Asia and Southeast Asia¹⁵³. As with the AAGC, this cooperation could build on the framework established by India and Japan in the Act East Forum. For India, the Act East Forum is aimed at spurring the development of its North-Eastern region, through its integration with the dynamic economies of Southeast Asia. Increasing economic growth in the North-East is seen as essential for stabilising an area riven with secessionist movements and discontent. The North-East is also seen as a springboard for Indian companies, more generally, into Southeast Asia. For Japan, India's willingness to involve it in developing the politically-sensitive North-East demonstrates trust and has the potentially attractive long-term benefit of linking Japan through India to Thailand where Japan has an established manufacturing base¹⁵⁴.

Above all these, both the AAGC and the Act East Forum provide a practical way for India and Japan to materialise a trilateral framework of cooperation in Southeast Asia. For instance, an India-Japan-Vietnam trilateral has been a discussion point for some time among strategic experts from India and Japan and could become a reality in the future¹⁵⁵. Equally, cooperation with Indonesia and Thailand in a trilateral format is also a possibility. Connectivity cooperation and infrastructure development could form the basis of these trilateral forums, thereby boosting a regional framework of cooperation in India-Japan relations.



Challenges Ahead

This chapter has argued that changing foreign policy aspirations and China's rise have been central drivers of the strengthening relationship between India and Japan. Indo-Pacific cooperation aims to deepen their mutual strategic interests, primarily Japan's established role in East Asia, and India's presence in Africa and the Indian Ocean region, while better integrating India with East Asia and Japan in Africa and the Indian Ocean region.



Narendra Modi and Shinzo Abe during a tea ceremony at Akasaka Palace

Progress in this regional cooperation, however, has been slow, and faces several significant challenges. The success of the AAGC depends significantly on the Japanese and Indian private sectors. Yet, despite greater interest by Japanese companies in the African market, their presence is small, and Asian and European markets remain preferred destinations. Even though Tokyo's outreach in Africa is quite old, Japanese private sector investment in Africa suffers from a lack of understanding of local practices, market demand, and laws. Difficulties finding local staff, reluctance by Japanese workers to reside in African countries, language barriers, and concerns



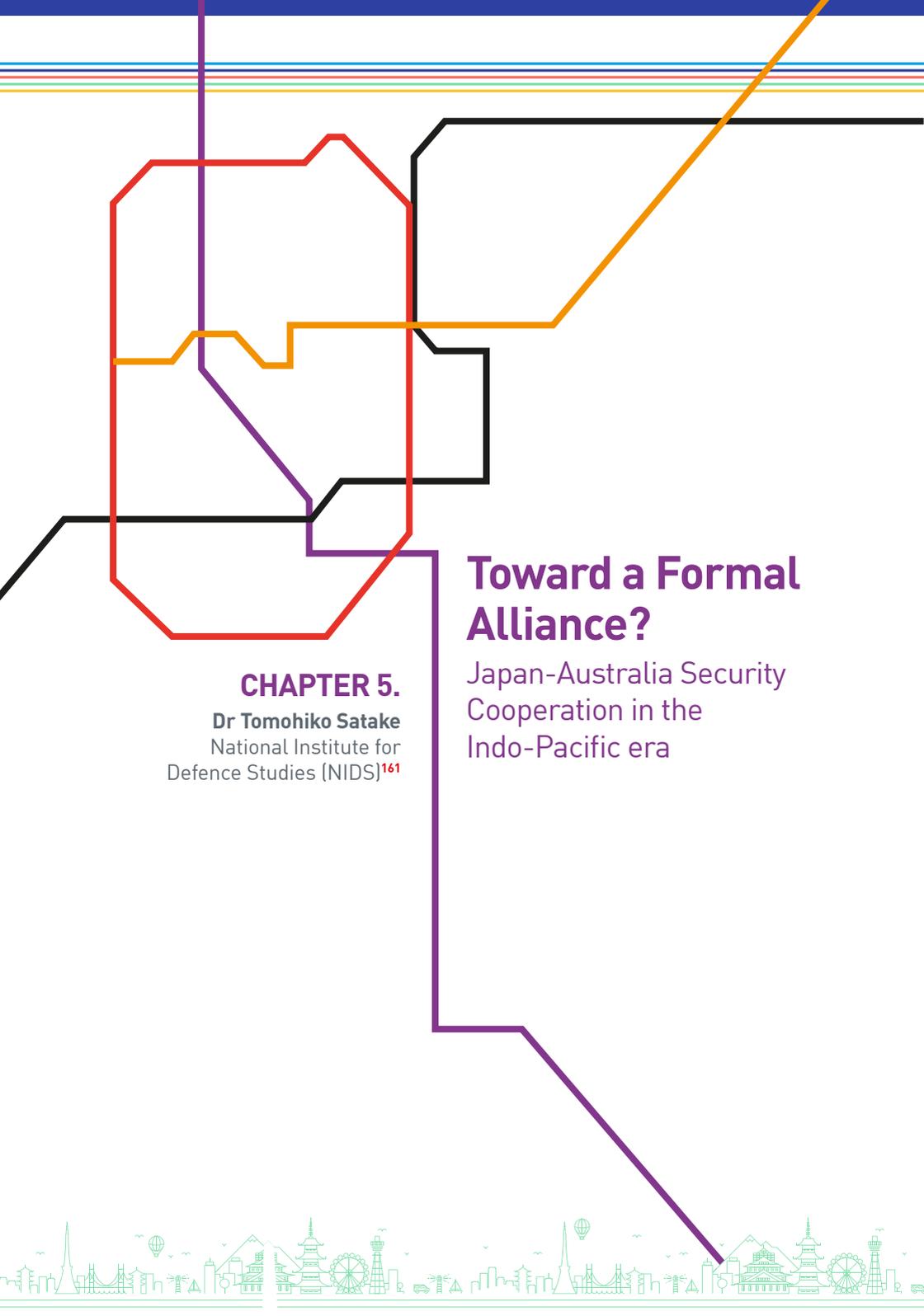
about political stability are also significant barriers¹⁵⁶. Indian investment in Africa is dominated by a very few public and private sector firms. It is focused on large-scale investment in resources and mining by public firms and remains concentrated in Eastern Africa. While Indian private sector involvement is rising, in Africa it is dominated by a few large companies in sectors such as manufacturing and hotels, and is confined to one or two companies¹⁵⁷. To succeed, the AAGC must provide institutional mechanisms to address these limitations.

With respect to the Act East Forum, Japan's involvement in India's North-East region faces a number of security challenges. In particular, the Japan International Cooperation Agency (JICA) sees insurgencies, objections from China, which claims the Indian sovereign state of Arunachal Pradesh, and jihadist militancy from Bangladesh as potential problems¹⁵⁸. In this context, attracting private sector involvement in the region will be difficult. India's sub-regional initiatives in the North-East region have long suffered from a lack of consistent political attention and resource commitments, as well as "over-centralisation" with no adequate devolution of power from the top down, and no responsibility given to local governments and actors¹⁵⁹. This trend has continued under the Modi government, despite its claims to be promoting 'cooperative federalism'.

More broadly, the extent to which India and Japan endorse a U.S.-led order will invariably influence the regionalisation of their relationship. While Japan, as a military alliance partner would subscribe to a U.S.-led regional order, this may not necessarily be the case with India. Even though it might find strategic complementarity in pursuing 'issue-based' alliances with U.S.-sponsored Indo-Pacific schemes, India's desire to maintain its strategic autonomy through simultaneous issue-based alliances with China in various multilateral forums could pose a strategic impediment to regionalising India-Japan relations. Besides, India and Japan do not necessarily share strategic complementarity on a range of issues that are key to Japanese and American interests. India not signing the Osaka declaration on cross-border data flow at the recently concluded G-20 summit comes as a strong reference to this effect.

Finally, India and Japan's promotion of an ASEAN-centred regional architecture for a regionalised Indo-Pacific may be hampered by lingering suspicions within ASEAN that the Indo-Pacific concept will pit China against the United States and its allies, thereby diminishing the role of South East Asian countries and undermining ASEAN's emphasis on incrementalism, dialogue and consensus. Nonetheless, with Indonesia now championing the Indo-Pacific as a "single geo-strategic theatre" and promoting "concrete collaboration among stakeholders in the region in the areas of maritime cooperation; infrastructure and connectivity; and sustainable development goals", India and Japan have an opportunity to turn their ASEAN-centred vision for regionalisation in the Indo-Pacific into reality¹⁶⁰.





CHAPTER 5.

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Toward a Formal Alliance?

Japan-Australia Security
Cooperation in the
Indo-Pacific era

The Evolving “Quasi-alliance”

In March 2007, Japanese Prime Minister Shinzo Abe and Australian Prime Minister John Howard signed “Japan-Australia Joint Declaration on Security Cooperation” in Tokyo. Although the declaration itself contained no new initiative or substance, it created an impetus for the two countries to upgrade their security cooperation to the level of what some analysts describe as the “quasi-alliance”.

Following the first Foreign and Defence Ministers’ meeting (“2 plus 2”) in June 2007, the two countries announced the action plan to implement the joint declaration, which outlined a number of detailed initiatives in areas like peacekeeping, Humanitarian Assistance and Disaster Reliefs (HA/DR), and maritime security. Japan, Australia, and the United States in April 2008, also launched Security and Defence Cooperation Forum (SDCF)—a trilateral consultation mechanism consisting of regular meetings of defence and foreign affairs officials. They also concluded the Acquisition and Cross-Services Agreement (ACSA) in May 2010, to enable reciprocal support of food, fuel, transportation, ammunition, and equipment between the Self Defense Forces (SDF) and Australian Defence Force (ADF), and Information Security Agreement (ISA) in May 2012, to share highly classified information. In April 2014, Japan and Australia upgraded their security cooperation to a “special strategic partnership”.

Meanwhile, both countries have increased the number of bilateral and trilateral military exercises, not only in non-traditional security fields but also in more conventional security areas like amphibious operations, anti-submarine warfare and jet fighter trainings/exercises. Japan and Australia hold the bilateral naval training exercise, *Nichigo Trident*, on an almost annual basis since 2009. In 2011, Australian forces joined the U.S.-Japan air exercise *Cope North Guam*. In 2013, forces from all three initiated a trilateral anti-submarine warfare exercise, *Pacific Bond*, and a new ground forces exercise, *Southern Jackaroo*; and in 2015, Japanese forces joined the large joint U.S.-Australia exercise *Talisman Sabre*. There has also been increased bilateral and trilateral cooperation in missile defence, space, and cyber security.

The momentum for closer defence and security cooperation between Japan and Australia has endured despite Japan losing the highly publicised bid to build the next generation of the Australian Navy’s *Collins*-class submarines in April 2016. This is evidenced by the Trilateral Strategic Dialogue (TSD) ministerial meeting in July 2016, which was held for the first time in three years, and in the signing of a Trilateral Intelligence-Sharing Agreement (TISA) with the U.S. in December 2016, and the revising of bilateral ACSA between Japan and Australia in January 2017. Regular bilateral and trilateral military training and exercises have continued, sometimes involving the participation of a fourth or fifth country such as India, Republic of Korea (ROK) or other European partners. Japan and Australia have also sought to sign a



Reciprocal Access Agreement (RAA), which would improve and simplify administrative, policy and legal procedures for when SDF and ADF units visit one another's home country.

A New Impetus for Cooperation



In addition to these developments, an emerging impetus for the further enhancement of bilateral security cooperation has come about because of the following key developments between 2016 and 2018.

First, Japan, Australia and the United States have expanded their strategic scope from the previous Asia-Pacific region to a broader Indo-Pacific regional construct. In August 2016, Japanese Prime Minister Shinzo Abe announced the vision of “Free and Open Indo-Pacific” (FOIP). Subsequently, U.S. President Donald Trump also announced the American version of a FOIP strategy as its new approach to the Indo-Pacific region in November 2017. Although Australia has not publicly used the term FOIP, it agreed with both Japan and the U.S. to “fully share the grand vision for realising a free and open Indo-Pacific based on the rule of law”, and “cooperate with each other while also coordinating with their regional partners” to achieve such a vision¹⁶².

With this greater focus on FOIP, all three countries have attempted to revive the Quadrilateral Security Cooperation or QUAD—which had been suspended since Australia's withdrawal in February 2008—by inviting India to this group of regional democracies. In October 2017, Japanese Foreign Minister Taro Kono revealed his plan to seek the possibility of a strategic dialogue at the Foreign Ministers and Summit-



level meetings between QUAD countries. A spokesperson of the U.S. Department of Defence endorsed Kono's proposal as it was "a natural stepping stone" for trilateral cooperation between the U.S., Japan and India¹⁶³. Australia's former Foreign Minister Julie Bishop said the country would "welcome" Kono's proposal, and said that Australia has a "bipartisan approach toward the Quadrilateral"¹⁶⁴. As a result, the four countries resumed their meetings at the senior official level on November 2017.

The second development giving Australia and Japan a renewed impetus for greater security cooperation is Australia's changing perceptions for China, which have gradually become severe over the past few years¹⁶⁵. In his keynote speech at the Shangri-La dialogue in June 2017, former Prime Minister Malcolm Turnbull expressed his grave concerns by introducing a "dark view" that sees "China will seek to impose a latter-day Monroe Doctrine on this hemisphere in order to dominate the region, marginalising the role and contribution of other nations, in particular, the United States."¹⁶⁶ It is unusual for the Australian Prime Minister to use such a strong term when referring to China.

Australia has been especially concerned with China's continuous reclamation and militarisation of artificial islands in the South China Sea, as well as its rapidly growing economic and political influence through aid and infrastructure investments in the South Pacific. In fact, the ADF has activated naval patrols, naval exercises, or port calls to countries around the South China Sea. China has criticized Australia's activities, and the People Liberation Army (PLA) ships or aircraft has occasionally challenged the ADF ships or aircraft operating in the region. In May 2019, for example, the Australian Navy was closely followed by the Chinese military in its transit of the South China Sea¹⁶⁷. As a part of Australia's "step-up" in its engagement with the South Pacific, moreover, Prime Minister Scott Morrison announced plans to open five new diplomatic missions in Pacific islands (Palau, the Marshall Islands, French Polynesia, Niue and the Cook Islands), as well as to create \$2 billion infrastructure initiative to support infrastructure development in Pacific countries and Timor Leste¹⁶⁸.

Rapidly increasing infrastructure investment by China, including digital infrastructure such as 5G networks, has also raised concerns about data security in Australia. In August 2018, Australia made a decision to effectively ban Chinese companies such as Huawei and ZTE from supplying equipment for a 5G mobile network, citing national security risks. After the Solomon Islands government decided against Huawei's plan to lay a submarine cable from the Solomon Islands to the Australian mainland, the Australian government announced the plan to build its own cable that links the South Pacific and Australia¹⁶⁹. The Australian government has maintained a cautious attitude to China's Belt and Road Initiative (BRI) without fully endorsing it, and Australia joined an infrastructure fund with Japan and the U.S. in July 2018 to counter Chinese growing regional influence.



Furthermore, there have been growing concerns about Chinese “interference” in Australia’s politics and society. The high-profile scandal involving Australian Labor Party Senator Sam Dastyari’s acceptance of political donations from China brought the Australian public’s awareness of Chinese political interference and covert operations in their country to the forefront. As a result, Australian Parliament passed in June 2018, national security and foreign interference laws that criminalise covert, deceptive, or threatening actions by foreign agencies. Moreover, in December 2018, Foreign Minister Marise Payne and Home Affairs Minister Peter Dutton released a joint statement that expressed their “serious concern about a global campaign of cyber-enabled commercial intellectual property theft by a group acting on behalf of the Chinese Ministry of State Security.”¹⁷⁰

Finally, but perhaps the most important development is the emergence of the new U.S. presidential administration led by Donald Trump in January 2017. On the one hand, the victory of Donald Trump – as well as his nationalistic, isolationist and protectionist remarks during and after the election campaign – raised serious concerns about the credibility of the U.S. commitment to Asian allies like Japan and Australia. On the other hand, the uncertainty about the Trump administration provides a greater incentive for Japan and Australia to cooperate closely and work together to maintain the rules-based international order and encourage a continued U.S. military presence in the region.

For example, both Japan and Australia work together to conclude the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP-11, after the U.S. withdrawal in January 2017. Furthermore, both Japan and Australia have accelerated their defence efforts with their increasing budgets. Such efforts include Japan’s decision to introduce long-range hypersonic missiles and to renovate its *Izumo*-class helicopter destroyers to operate the F-35B short take-off and vertical landing (STOVL) variant. Australia has already undergone its largest-ever naval build-up project, including the construction of twelve new submarines, three *Hobart*-class Air Warfare Destroyers, nine new future frigates optimized for anti-submarine warfare, 12 new offshore patrol vessels, and 21 patrol boats.

With their enhanced power-projection capabilities, the SDF and the ADF may have more opportunities to work together to respond to regional flashpoints such as Korean Peninsula or South China Sea. Indeed, Australia’s former Prime Minister Malcolm Turnbull promised that Australia would invoke the ANZUS Treaty and “come to the aid of the United States” if North Korea launched an attack against the United States¹⁷¹. Since 2018, Australia has occasionally dispatched P-8A Poseidon maritime patrol aircraft to Japan to join maritime surveillance operations in support of United Nations Security Council sanctions against North Korea.





JS IZUMO and JS MURASAME crews visited the Royal Australian navy, HMAS CANBERRA

Amid the uncertainties caused by the Trump administration, an increasing number of regional experts have started to discuss Japan-Australia security cooperation in the context of a “Plan B” for worst-case scenarios, such as a U.S. withdrawal from the region. Peter Jennings, one of most influential strategists in Australia and the head of Australian Strategic Policy Institute (ASPI), proposed “ten steps” to build Australia’s more independent defence posture, including the conclusion of “a formal defence treaty with Japan”¹⁷². Another ASPI expert Malcolm Davis also asserts that Australia should develop a “formal alliance relationship with Japan” as a key step for Australia’s “forward defence in depth” strategy. Such cooperation could, according to Davis, see “forward deployments of Japanese and Australian air and naval forces along the second island chain in a crisis, pivoting around Manus and Momote, as well as Darwin-Tindal in the south, Guam and Micronesia in the centre, and Okinawa to the north.”¹⁷³

The discussion for “Japan-Australia alliance” remains unpopular in Japan. Still, it has become increasingly common to discuss Japan’s preparation for undesirable scenarios, including the significant reduction of the U.S military presence in the region¹⁷⁴. While discussing a “Plan B” is seen as too premature in Japan, and many believe that there is no alternative to the US-Japan alliance, already many experts view Japan’s diverse array of strategic partnerships with regional countries like Australia, as a sort of hedging strategy to prepare for future uncertainties, including the decline of U.S. military presence in the region¹⁷⁵. While Japan’s security cooperation



cannot become an alternative for Japan, Australia has been increasingly seen as the most reliable security partner for Japan next to the United States in an increasingly uncertain and unpredictable security environment.

Toward a Formal Alliance?

Will Japan-Australia security cooperation continue to develop, and depending on circumstances, become a formal alliance underpinned by a mutual defence treaty? Although predicting the future is impossible, this question can be considered from at least three perspectives—geography, China, and domestic factors.

First, despite their close defence and security relations, Japan and Australia have different strategic priorities due to their different geographies¹⁷⁶. Although Japan has stressed its vision for FOIP, Japan's primary security and strategic interests remain concentrated on Northeast Asia for the defence of the Japanese homeland, rather than the broader Indo-Pacific (or even narrower Asia-Pacific). True, Japan has recently increased its defence engagement with countries in Southeast Asia, the South Pacific and the Indian Ocean. However, many of those initiatives, except for some military exercises with the U.S. and its allies, remain low-key cooperation such as communication or search and rescue training and exercises, capacity building in non-traditional security fields, and norm-setting or rulemaking¹⁷⁷. Some Australian experts argue that the introduction of new capabilities, such as the renovated *Izumo*-class destroyers equipped with F-35B aircraft, will "directly support Japan's long-range maritime strike, air interdiction and fleet aviation capabilities, which are critical to defending Japanese territorial and economic interests in the Indo-Pacific"¹⁷⁸. Japan also established the Amphibious Rapid Deployment Brigade in April 2018 to improve the ground-based SDF's amphibious operation capabilities. However, most of these forces are primarily directed towards defending Japan's territory, including its offshore islands, rather than projecting Japan's strike capabilities beyond its homeland defence. Except for some peacetime operations, it is highly unlikely that Japan will use these capabilities overseas independently from the U.S. military. As will be discussed later in this paper, SDF activities beyond its homeland defence are still highly limited by domestic legal constraints.

For Japan, the most important aspect of FOIP is keeping and strengthening the U.S. military presence in the region by expanding the scope of U.S.–Japan cooperation, rather than strengthening Japan's independent military role. While Japan will support and if necessary, supplement U.S. regional security roles with other like-minded democracies, it has no will or capacity to replace the U.S. as a security guarantor in the South China Sea or Indian Ocean. Indeed, due to the lack of finance and manpower of the Maritime SDF (MSDF), as well as the deterioration of the regional security environment surrounding Japan, the MSDF has reduced (or considered reducing)



some of its overseas activities. Those activities include counter-piracy missions in the Gulf of Aden and the Antarctic Research Expedition mission, which has continued since 1965¹⁷⁹.

The Japanese government has attempted to respond to a shortage of personnel and resources through labour-saving or raising the retirement age of the SDF officers. Nevertheless, the SDF's serious shortage of personnel would likely to continue to be a problem so long as Japan's population ages with a low birth rate¹⁸⁰. Already a number of Japanese experts argue that Japan should concentrate its available resources on its "core interests". These interests include addressing the threats and challenges regarding the Senkaku Islands dispute in the East China Sea, China's anti-access/area-denial strategy close to Japan's own shore and North Korea's nuclear and ballistic missile developments, instead of geographically expanding its defence and security activities¹⁸¹.

Likewise, Australia's primary strategic focus beyond its homeland is "maritime South East Asia and the South Pacific", rather than Northeast Asia or the Indian Ocean¹⁸². As Prime Minister Turnbull promised, Australia would come to aid the U.S.-led coalition mission in the case of a crisis on the Korean Peninsula by dispatching ADF aircraft, ships and even Special Forces. Most of these assets are, however, likely to be used for Non-Evacuation Operation (NEO), supporting missions for the U.S.-led land-based battles, or post-conflict missions¹⁸³. More importantly, Australia's commitment to the Korean Peninsula comes from its status as a U.S. ally or a member of United Nations forces, which are still, in effect, in a state of war with North Korea. Australia's commitment to the ANZUS alliance becomes much less obvious in other cases such as the Taiwan Strait crisis or Sino-Japanese conflicts.

According to a former naval officer of the ADF, "Australia has no realistic strike capability more than a few hundred miles offshore and covering only a small percentage of its SLOCs [Sea Lanes of Communications]."¹⁸⁴ The ongoing defence build-up plan, with its increasing defence budget could help offset such a weakness of Australia's power-projection capabilities. However, the successful implementation of the defence build-up, including the construction of 12 new French submarines, manufactured by a French firm, has already fallen under scrutiny due to increasing costs and delays to the planned schedule¹⁸⁵. According to Malcolm Davies, the current plans for Australia's future force structure depend heavily on Attack-class submarines to provide long-range strike and deterrence. As Davies writes, however, the first of those submarines will not go into service until the mid-2030s at the earliest, and "a sizeable force won't be available until the late 2040s."¹⁸⁶ The "tyranny of geography" between Japan and Australia will continue for at least the next two decades.



The China Factor

Closer defence and security cooperation between Japan and Australia also risks provoking China, the largest economic partner for both countries. As the relationship becomes increasingly “alliance-like”, two countries would need to face this dilemma with their potential adversary, as well as address abandonment and entrapment concerns from their alliance partners¹⁸⁷.

Compared to Australia’s economic relations with China, little has been discussed about Japan’s economic relations with China in the context of defence and security issues. Like Australia and other regional powers, however, China is also the largest trading partner for Japan, and the amount of both imports and exports has continued to grow despite a political tension between two countries. The total amount of Japan’s trade with China in 2018 was US\$353.7 billion, 7.4 percent increase from 2017 (In the same year, Japan’s trade amount with the U.S. was \$206.5 billion)¹⁸⁸. Exports increased 9.3 percent while exports increased to 5.5 percent, and Japan’s trade surplus with China increased from 2017 when Japan’s trade moved into surplus for the first time in 6 years¹⁸⁹.

The number of Japanese firms operating in China, which had decreased due to Chinese anti-Japan riots and increasing labour costs since around 2012, has also recovered. As of October 2017, the number of China-based Japanese firms was 32,349, the largest number in the world, followed by the U.S. (8,606) and India (4,805)¹⁹⁰. According to METI’s annual survey, these firms’ ordinary profit temporarily dropped in 2012, but later recovered and reached ¥2,600 billion, which is almost 20 percent of the total share of profit of Japanese firms globally¹⁹¹.

Japan’s investment in China, which has plummeted to less than half of its peak in 2016, has also gradually recovered due to the improvement of Japan-China political relations. Due to China’s improved manufacturing productivity, Japanese companies that were considering shifting their production to Southeast Asia have begun to re-evaluate China as a manufacturing base and increased local production and sales in China¹⁹². Uncertainty over the U.S. market due to Trump administration’s protectionist policies have contributed to this trend. While the impact of the U.S.-Sino trade war remains unknown, Japanese companies maintain strong incentives for the investment to China under the prediction of an increasing Chinese domestic demand. In addition to the Chinese government’s recent move to invite more investments from Japan, strengthening of intellectual property right protection and easing of forced technology transfer as “side effects” of U.S.-Sino trade war are also said to create a favourable environment for Japanese companies¹⁹³.



The number of Chinese visitors to Japan has seen significant growth since 2013, mainly due to the depreciation of the yen. In 2014, 2.4 million Chinese visited Japan. It was an 83 percent increase on the previous year¹⁹⁴. In 2015, China became a top country to send tourists (4.99 million) to Japan overtaking Korea's 4 million. The number of Chinese visitors to Japan reached 7.36 million in 2017, a 15.4 percent increase from the previous year¹⁹⁵. China is now a top destination for Japanese inbound market, sharing 38.4 percent followed by Taiwan (13 percent) and Korea (11.6 percent)¹⁹⁶. Given that Chinese tourists support a significant tourism industry in Japan, the government has sought to lower the barriers to entry for even more visitors from China by changing its visa policy¹⁹⁷.

Japan's deepening economic relations with China may undermine Japan's ability to deploy diplomatic and military pressure against China more than ever before. Even though the Trump administration has taken an increasingly tougher stance in its China policy, exemplified by the tariffs applied against Chinese exports and barring some Chinese companies from the U.S. market, Japan has been reluctant to take as tough a stance as the U.S. has in its policy towards China. Instead, during his visit to China in November 2018, Prime Minister Abe reportedly agreed with President Xi on "three principles", including shifting from "competition to collaboration", working together as partners that will not threaten each other, and developing a free and fair trading system¹⁹⁸. Japan also resumed defence exchanges with China in 2018. Such exchanges, including high-ranking officials' visits and security dialogues, had been suspended since 2012.

Ironically, such a changing relationship between Japan and China, along with Australia's changing perception of China, has narrowed the "China gap"—different threat perceptions of or attitudes towards China—between the two countries¹⁹⁹. Increasingly, Japan and Australia share a similar dilemma between their largest economic partner and their most important security partner. While some Japanese (and American) policymakers used to be frustrated by Australia's reluctance to step up its commitment to counter-balancing against China, such concerns have seemed to be muted at least for now. Instead, both Japanese and Australian policymakers have been more concerned with the negative impact of rapidly deteriorating U.S.-China relations, and have sought ways to navigate intensified strategic competition²⁰⁰.



Domestic Factors

Finally, defence and security cooperation between Japan and Australia must be examined from a domestic perspective, such as legal constraints and public opinion. In September 2015, the Japanese Diet passed new security legislation, which came into force in March 2016. This was the most significant revision of Japanese security legislation, including amendments of 10 laws related to defence and security, in the post-war period. Most importantly, the new security legislation allowed Japan to partially exercise the right of collective self-defence, which, under certain conditions, enables the SDF to protect other countries' militaries even in case Japan is not directly attacked.

The new security legislation increased opportunities for the SDF to collaborate with the U.S. and Australian defence forces without any geographical limits, at least theoretically²⁰¹. The SDF could, for instance, engage with refuelling, resupplying or undertaking emergency repairs for the U.S. or Australian militaries operating in the Middle-East or the Indian Ocean. Japan-Australia ACSA, which was revised after Japan's introduction of new security legislation and came into force in September 2017, also expanded the scope of Japan-Australia bilateral cooperation, enabling the SDF and ADF to exchange services and goods including ammunition, even during the "internationally coordinated peace and security operations" which fall outside United Nations auspices²⁰².

Even so, there remains a number of legal and normative constraints on Japanese security policy. During peacetime or "grey-zone" operations, for example, the SDF is now able to protect military assets of foreign countries, including Australia. Such operations are, however, limited to the protection of foreign countries that engage in "activities that contribute to the defence of Japan". They are also limited to "non-combatant areas" and operations should be immediately terminated once a conflict breaks out between foreign defence forces and enemy countries²⁰³.

In situations like those above, Japan could apply the following clause of the new security legislation, "Situations that will have an Important Influence on Japan's Peace and Security" (or "Important Influence Situations"), enabling the SDF to provide a logistical support, including weapons and ammunition, to the U.S. or Australian defence forces. Yet SDF's logistical support should also be conducted in a "non-combatant area" and terminated once the area turns into a conflict zone. In principle, these activities need prior approval of the Diet. This would significantly delay the SDF deployment by provoking a debate in the Diet over whether situations meet the legal test of having "an important influence on Japan's peace and security".



Japan could deploy SDF forces overseas more flexibly once “an armed attack against a foreign country that is in a close relationship with Japan occurs and as a result, threatens Japan’s survival and poses a clear danger to fundamentally overturn people’s right to life, liberty and pursuit of happiness”²⁰⁴. In such a “Survival-threatening Situation”, and if there is no alternative measures, Japan can exercise the right of collective self-defence to support or even engage in battles against an enemy’s forces with the ADF, although the use of force should be only the “minimum necessary”. The prior approval of the Diet is necessary in principle, but it can be exempted more easily than in “Important Influence Situations” as these circumstances are expected to be much more intense and require an immediate response by the SDF.

Nevertheless, it is not entirely certain that an armed attack against Australia or the ADF legally falls within the scope of “Survival-threatening Situations” for Japan. Prime Minister Abe did not rule out the possibility that the government would acknowledge an armed attack against Australia or the United Kingdom as qualifying as a “survival-threatening situation.” At the same time, however, Abe said that such a possibility is “highly limited in reality”²⁰⁵. After all, it depends on how much Australia can play a significant role in keeping Japan secure. However, as previously discussed, Australia’s role protecting Japan would be quite limited, just as Japan’s direct contribution to Australia’s security is highly limited.

In addition to its legal constraints, Japan’s security cooperation with Australia may be challenged by domestic pacifism, which has constrained Japan’s security policies for many years²⁰⁶. Although Japan’s pacifistic sentiment has gradually shifted to a more realistic direction due to the deterioration of Japan’s security environment, it proved to remain strong when a massive public protest occurred against the introduction of new security legislation in 2015. Indeed, it was such a public protest, as well as some political parties’ influence backed by such a protest, that forced the government to maintain strict conditions for the use of collective self-defence as identified above.

Compared to U.S.-Japan alliance cooperation, Japan’s security cooperation with Australia has far been less controversial and has barely emerged as a political issue. With the expansion of the scope of Japanese defence activities due to the introduction of the new security legislation, however, some opposition politicians have begun to ask why the government needs to conclude ACSA or expand military trainings with Australia²⁰⁷. Some left-wing media criticised Japan’s intensifying defence cooperation with Australia, such as the jet fighter training, to be conducted in 2019, as too provocative²⁰⁸.

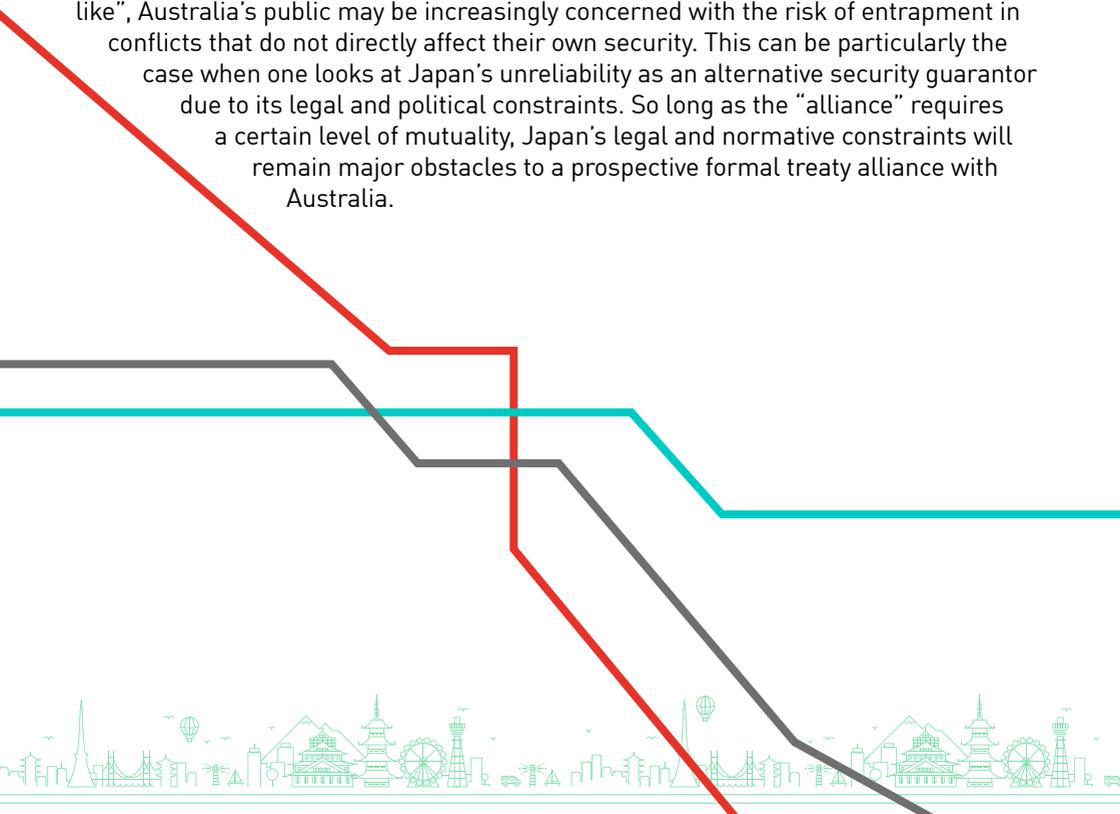




Japanese conservative faction, including its security community, has generally welcomed Japan's closer defence relations with Australia. Yet there remains a certain level of scepticism inside the Japanese security community regarding whether or not Australia can be a trustworthy security partner, especially given its huge economic dependence on China. Thus, after Japan's failure to secure a contract to build Australia's next generation of submarines, some Japanese journalists and commentators pointed out the "China factor" as a major reason why Australia did not purchase the Japanese *Soryu*-class submarine, even though there was no clear evidence that this influenced Australia's decision²⁰⁹.

Unlike Japan, Australia has no domestic legal constraints on the use of force overseas. Under Australian law, declaring war or deploying military forces overseas are the Government's prerogative. The Prime Minister of Australia also does not have to consult Parliament before those actions²¹⁰. Aside from some exceptions, the Australian public is generally supportive for the ADF's overseas operations, given its inherent sense of insecurity and Australia's long tradition of supporting allied missions overseas²¹¹. Australia's security cooperation with Japan has also enjoyed bipartisan support, except for some highly political issues such as the submarine bid.

Nevertheless, as Australia's security cooperation with Japan becomes more "alliance-like", Australia's public may be increasingly concerned with the risk of entrapment in conflicts that do not directly affect their own security. This can be particularly the case when one looks at Japan's unreliability as an alternative security guarantor due to its legal and political constraints. So long as the "alliance" requires a certain level of mutuality, Japan's legal and normative constraints will remain major obstacles to a prospective formal treaty alliance with Australia.



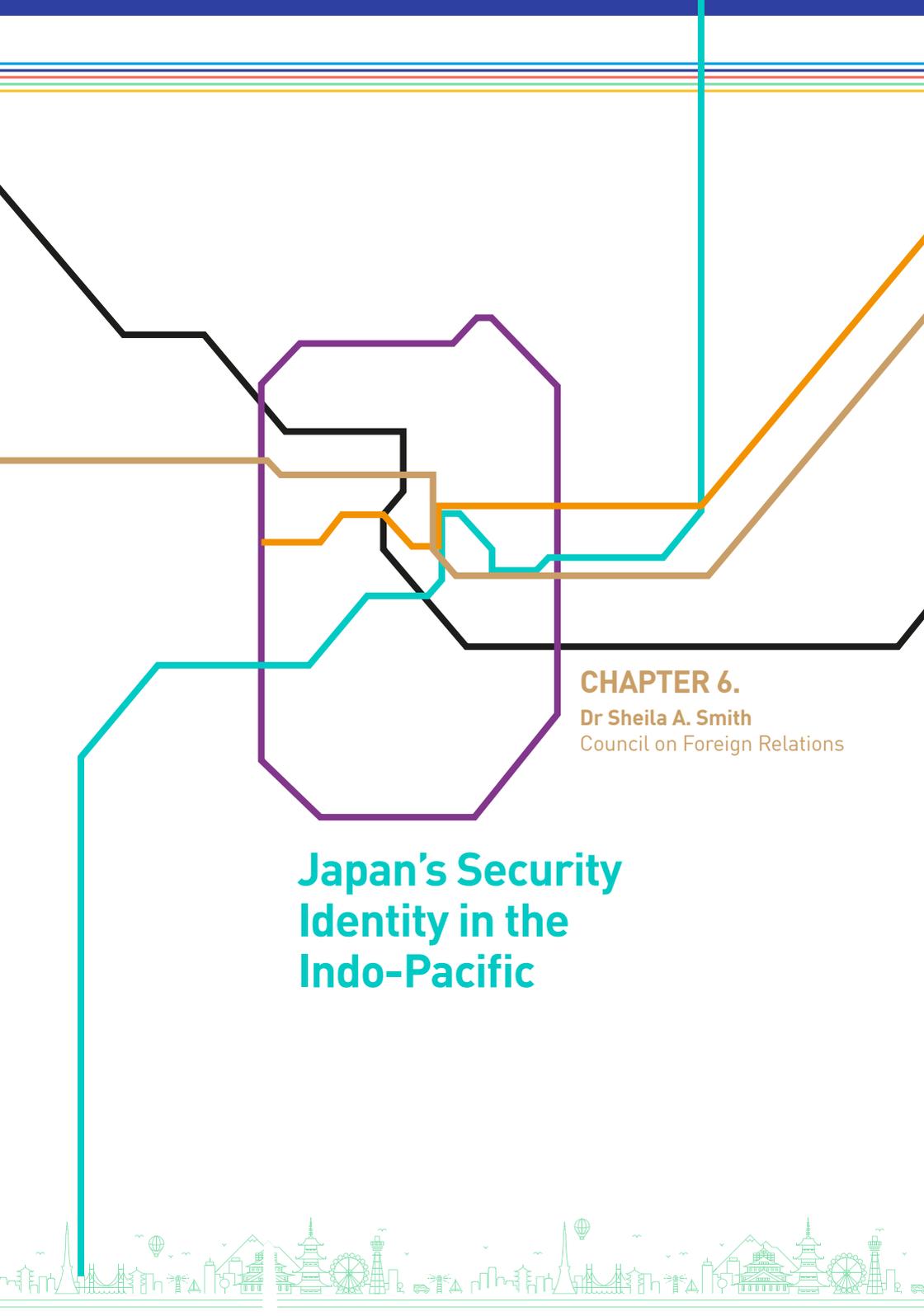
Conclusion

Despite a strengthening impetus for closer relations between Japan and Australia, there is a certain limitation for what this bilateral security cooperation can achieve due to their different geographical positions, relations with China, and domestic constraints. Because of these factors, it remains unlikely that Japan and Australia will form a formal alliance with a mutual defence treaty at least in the short-term. So long as two countries maintain close alliance relations with the United States, they would find it less attractive to conclude a formal alliance treaty than to maintain their current status of a “quasi-alliance”.

This by no means suggests that “Japan-Australia alliance” is forever unlikely. Indeed, the rapidly changing geo-strategic circumstances, including the growing threat of China and the decline of the U.S. power and influence, can quickly change these factors identified above. Japan and Australia may attain greater power-projection capabilities, while reducing their economic dependence on China and abolishing domestic legal constraints to become more independent powers. If this is the case, Japan and Australia may become more powerful and attractive as alliance partners with each other.

Another possibility is that the more Japan and Australia become independent powers that are attractive as alliance partners, the less likely they are engaged with joint military operation overseas, making a Japan-Australia alliance even more unlikely. As they are more self-reliant and less dependent on U.S. security guarantees, they may find it unnecessary to contribute to overseas missions beyond their immediate neighbourhoods, and put more resources towards the protection of their homeland or region. In other words, Japan-Australia security and defence cooperation might be weakened once the United States can no longer provide a sufficient security guarantee for these allies. If such is the case, one might realise the real meaning of “quasi alliance”, ostensibly similar, but essentially different, from a formal alliance relationship with a mutual defence treaty.





CHAPTER 6.

Dr Sheila A. Smith

Council on Foreign Relations

**Japan's Security
Identity in the
Indo-Pacific**

Japan has become the region's leading advocate for a "free and open Indo-Pacific." Seen through Prime Minister Abe Shinzo's eyes, the vast region bordering on the Pacific to the Indian Oceans would be governed by the rule of law, characterised by growing economic connectivity, and open to all who support an inclusive regionalism. Abe is not the first advocate of an Indo-Pacific framing for Japan's strategic interests, and he is not likely to be the last. Geographically, this is an expansive Japanese strategy, one that stretches from the Pacific to the Indian Oceans and includes three continents: Asia, Australia, and parts of Africa. All of Japan's resources are being brought to bear, and both public and private sectors share in the ambition to link the Indo-Pacific's maritime and land routes. Japan's Self-Defense Force (SDF) now plays an important role in Tokyo's regional outreach, partnering with Australian, Indian, as well as Southeast Asian forces to improve maritime security.

This Indo-Pacific framing emphasises values that Tokyo sees threatened across Asia. It is no accident that Japan views its democratic partners such as Australia, India, and many of the Southeast Asian nations as natural partners in maintaining a regional economic and strategic order. China's rising influence has worried many, and Japanese leaders have felt the pressure on their interests grow. Japan's approach to the Indo-Pacific marries its longstanding commitment to deepening economic ties across the region with a growing concern about the stability of maritime routes of commerce. In fits and starts, Japanese leaders have sought to play a constructive role in the region's efforts to grapple with China's growing assertion of its maritime power, and the Indo-Pacific vision brings the complexity of this task into focus.

Yet Japan's Indo-Pacific strategy is not only about its interests in this region. Prime Minister Abe has also deployed this regional vision to entice a new U.S. administration that has little interest in multilateralism to appreciate the benefits of Asian regionalism. Abe has had some success in persuading the Trump administration to see its interests in terms of a "free and open Indo-Pacific," but Washington remains far more interested in viewing U.S. interests through a bilateral lens with allies and competitors alike.



Japan's Indo-Pacific Vision

Prime Minister Abe Shinzo has been a forceful advocate for the Indo-Pacific, and yet he has shied away from describing Japan's approach to the region solely in strategic terms. The idea that Japan's regional interests extend from the Pacific to the Indian Oceans is at least a decade old. Tokyo's conservatives, in particular, have sought to align Japan's foreign policy with those of other democracies in the region, emphasizing their shared values.

During his first term as prime minister, Abe looked to India as a natural partner for Japan in developing this expansive regional vision. While visiting India in 2007, Abe referenced the "confluence of the two seas," and argued that Japan and India should come together to cooperate in a "broader Asia." The fact that both were democracies was important to Abe:

Now, as this new 'broader Asia' takes shape at the confluence of the two seas of the Indian and Pacific Oceans, I feel that it is imperative that the democratic nations located at opposite edges of these seas deepen the friendship among their citizens at every possible level²¹².

The first Abe government would develop and articulate this emphasis on democratic values in its "Arc of Freedom and Prosperity" concept, which was first expressed in a 2006 speech by then Minister of Foreign Affairs, Aso Taro²¹³.

In 2016, Prime Minister Abe presented a far more formalised Japanese policy on a free and open Indo-Pacific in a joint statement with Indian Prime Minister Narendra Modi. In underscoring "the rising importance of the Indo-Pacific region as the key driver for the prosperity of the world," Abe and Modi "stressed the core values of democracy peace, the rule of law, tolerance, and respect for the environment in realising pluralistic and inclusive growth of the region."²¹⁴

The prime minister's advocacy of this Indo-Pacific vision relies heavily on Japan's traditional instruments of statecraft. Driven by economic initiative and opportunity, Japan's longstanding economic ties in Southeast Asia form the basis for its diplomatic engagement. Whereas China has increased its spending in the region, Japan has sought to leverage its own experience in building quality infrastructure, and its network of private sector companies have helped connect developing and developed markets. Of Japan's total Official Development Assistance in 2017, 21.1 per cent went to East Asian countries (a large majority of this in Southeast Asia), 23.5 per cent went to South Asian countries, and 12.8 per cent went to India alone²¹⁵.



This has tremendous strategic consequences for Japan. Whereas China has sought to build roads to its south, Japan has an interest in land routes of transport from east to west. Both Japan and China see benefit in building routes across continental Asia, but now greater attention is being given to maritime routes of trade and commerce. Access to ports remains crucial to commerce, and Japan has been alarmed by recent Chinese efforts to increase access to ports and define terms for China's exclusive use of them. Today, Japan is planning to spend \$367 billion in infrastructure in Southeast Asia, far more than China²¹⁶.

Highlighting new economic needs across the region plays to Japan's economic strengths. Technological innovations have enhanced economic growth across East and South Asia, but not all nations have the resources to keep pace. Japan's Indo-Pacific policy includes support for both hard and soft forms of connectivity²¹⁷. Equally compelling for Tokyo is the construction of regional infrastructure needed to support a more diversified network for energy, including both the Middle East and North America.

The Abe Cabinet has stopped short of calling its Indo-Pacific approach a strategy, however, and instead puts it forward as a vision for the region's future. Earlier efforts to define an "Arc of Freedom and Prosperity" that overtly cast Japan's interest in terms of a concert of democracies was seen as an attempt to isolate China²¹⁸. Even Abe sees little benefit from an overt strategy of containing Beijing, and instead insists that Japan's aim is to create an inclusive framing of a "free and open Indo-Pacific." At the end of the day, Tokyo's aim is to ensure a regional order based on the rule of law—a refrain that all Japanese leaders now use to preface their discussion of regional relations. Recently, at the Shangri-La Dialogue in June 2019, Japan's defence minister, Iwaya Takeshi, opened his remarks by referencing the need for the "free and open Indo-Pacific" to "consolidate the rule of law in the Indo-Pacific to foster peace and stability as well as economic prosperity, among regional countries."²¹⁹

Abe's Strategic Diplomacy

Abe has emphasised his Indo-Pacific vision in meetings with other leaders in the Indo-Pacific in the hope that they too will embrace this expansive vision for the region's future. His frequent summits with like-minded democratic leaders, including President Trump, have always included reference to a "free and open Indo-Pacific." Australia and India too have become increasingly important partners for Japan, and are particularly important to the Abe Cabinet as Washington's enthusiasm for leading cooperation in the region seems to have waned.

Japan's strategic partnership with Australia has only deepened in recent years. Japan and Australia have worked closely for over a decade in the Western Pacific, but the



opportunity for greater cooperation across the Indian Ocean has emerged as Tokyo and Canberra worry more about China's reach. As an ally of the United States, Australia offers Japan the possibility for the deepest military ties. Prompted in 2006 by trilateral dialogue between the U.S., Japanese, and Australian foreign ministers on how to leverage the two U.S. alliances in the Western Pacific, Japan's security partnership with Australia has now become one of its most developed in the region (see Table 1 below). Trilateral consultations between foreign and defence ministers continue, a bilateral "2+2" security consultation between Canberra and Tokyo began in 2007, and the two countries elevated their relationship to a "Special Strategic Partnership" in 2014²²⁰. Japan and Australia are now pursuing a reciprocal access agreement, designed to allow their military forces to operate from each other's territory²²¹.

Table 1. Recent Defence Cooperation and Exchanges with Australia (Apr. 1, 2015 - Jun. 30, 2018)

Oct. 2015	Participation in Japan-Australia Trident exercise 2015
Mar. - May 2016	Participation in Japan-U.S.-Australia joint cruising exercise
Apr. 2016	Participation in Japan-Australia Trident exercise 2016
May 2016	Joint exercise with Australian Navy submarines
Sep. 2016	Participation in multinational joint exercise Kakadu 2016 hosted by the Australian Navy
Sep. 2016	Visit to U.S. Yokota Air Base by Australian Air Force aircraft (KC-30A) and implementation of exchanges between inflight refuelling and airlift troops
Dec. 2016	Visit to Chitose Air Base by Australian Air Force aircraft (government plane: B-737) and implementation of exchanges between special airlift troops
Dec. 2016	Participation in Exercise Southern Jackaroo, U.S.-Australia military training exercise hosted by Australia Army
Dec. 2016	Visit to Chitose Air Base by Australian Air Force aircraft (government plane: B-737) and implementation of exchanges between special airlift troops
Feb. 2017	Dispatch of ASDF KC-767 to Australia
Aug. 2017	Visit to Australia by Central Readiness Force
Oct. 2017	Japan-Australia Trident (Navy)
Nov. 2017	Japan-Australia joint exercise (Navy)
Nov. 2017	Dispatch of C-2 to Australia (overseas flight training) and implementation of exchanges between troops
Dec. 2017	Implementation of exchanges between Central Readiness Force and Australian Army 1st Division

Source: *Defense of Japan 2018*, Ministry of Defense, 501, https://www.mod.go.jp/e/publ/w_paper/pdf/2018/DOJ2018_reference_web.pdf



Domestic politics have occasionally tempered the pace of Japan-Australian security cooperation, however. In 2014, Prime Minister Tony Abbott and Prime Minister Abe agreed to expand strategic cooperation through defence equipment and technology transfer.²²² Japan was invited to compete for the replacement of Australia's submarine fleet, signalling a significant departure for Tokyo in offering its military hardware for sale to another country. There was surprisingly little outcry in Japan, but politics in Australia were less forgiving, and the bid went to France²²³.

In 2018, Prime Minister Abe and Australia's Prime Minister Scott Morrison met in Darwin for their annual summit, a well-known base for Australian and now American forces. Here the two prime ministers shared their commitment to a free and open Indo-Pacific. The joint press statement reads, "the prime ministers noted the significance of their meeting in Northern Australia, at the confluence of the Indian and Pacific Oceans. They reaffirmed their commitment to deepen cooperation to ensure a free, open, inclusive and prosperous Indo-Pacific region underpinned by the rule of law, as enunciated in Australia's 2017 Foreign Policy White Paper and Japan's vision for a free and open Indo-Pacific."²²⁴

A strategic partnership with India has long been an aspiration for conservatives in India and Japan, but Tokyo's recent acceleration of diplomatic cooperation with New Delhi has been seen as advantageous by the right and left alike in both countries. In 2008, Prime Minister Manmohan Singh and Prime Minister Aso Taro formalised an agreement on Japanese-Indian strategic cooperation, portending deeper economic and military ties²²⁵. More recently, Prime Minister Modi and Prime Minister Abe have taken this cooperation to a new level in their frequent summits. The two countries have launched a 2+2 joint foreign and defence minister meeting, commenced negotiations on an acquisition and cross-servicing agreement and expanded cooperation and energy and infrastructure development. Today's agenda of cooperation between Tokyo and New Delhi reflects a sense of shared interests in both East and South Asia, although Japan and India still stop short of describing their relationship as an alliance²²⁶.

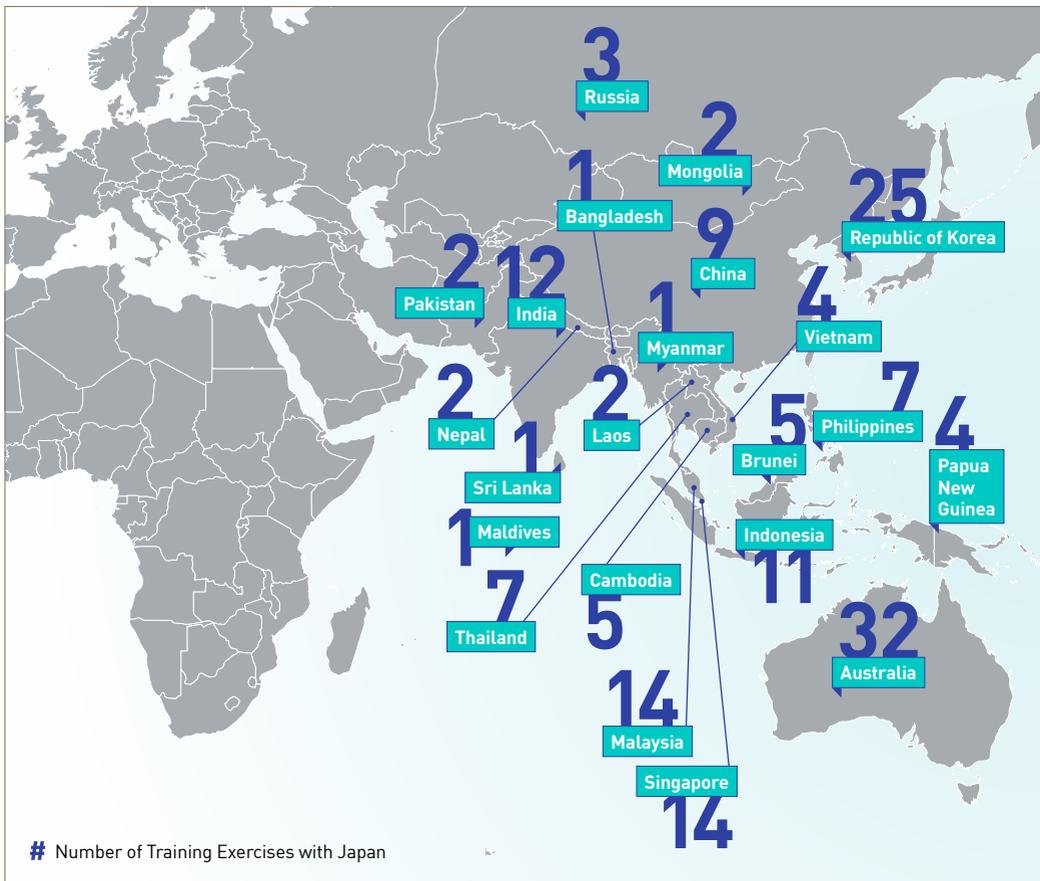
China's rise has occasioned considerable unease in both countries, and the Abe and Modi governments have countered some of Beijing's more obvious efforts to expand its reach from the Pacific to the Indian Oceans. For example, they have found common cause in supporting the maritime states of the Association of Southeast Asian Nations (ASEAN). Japan brings greater maritime resources to the task, but India has not hesitated in offering help to Vietnam as it seeks to build its capacity to cope with Chinese maritime pressures. Tokyo and New Delhi have also seen fit to expand their economic cooperation along the eastern coast of Africa, where Chinese influence has rapidly grown. Modi has sought to implement his "Act East Policy," while Abe has worked on realising his "Free and Open Indo-Pacific." In other words, Japan helps to



attract India further into East Asia, while India supports Japan's growing interest in the Indian Ocean and even further west to the coast of Africa²²⁷.

For some in Tokyo, formalizing the relationship among the four democracies of the region—Japan, the United States, Australia, and India—still seems to make the most sense. But past hesitation in Australia and later India have made this “Quad” arrangement difficult to realise. Initially, fears that Beijing would view it as military encirclement hindered the realisation of the Quad. Today, however, Japan's desire to ensure ASEAN participation keeps it from leaning too heavily on the Quad framework to pursue its interests across the Indo-Pacific.

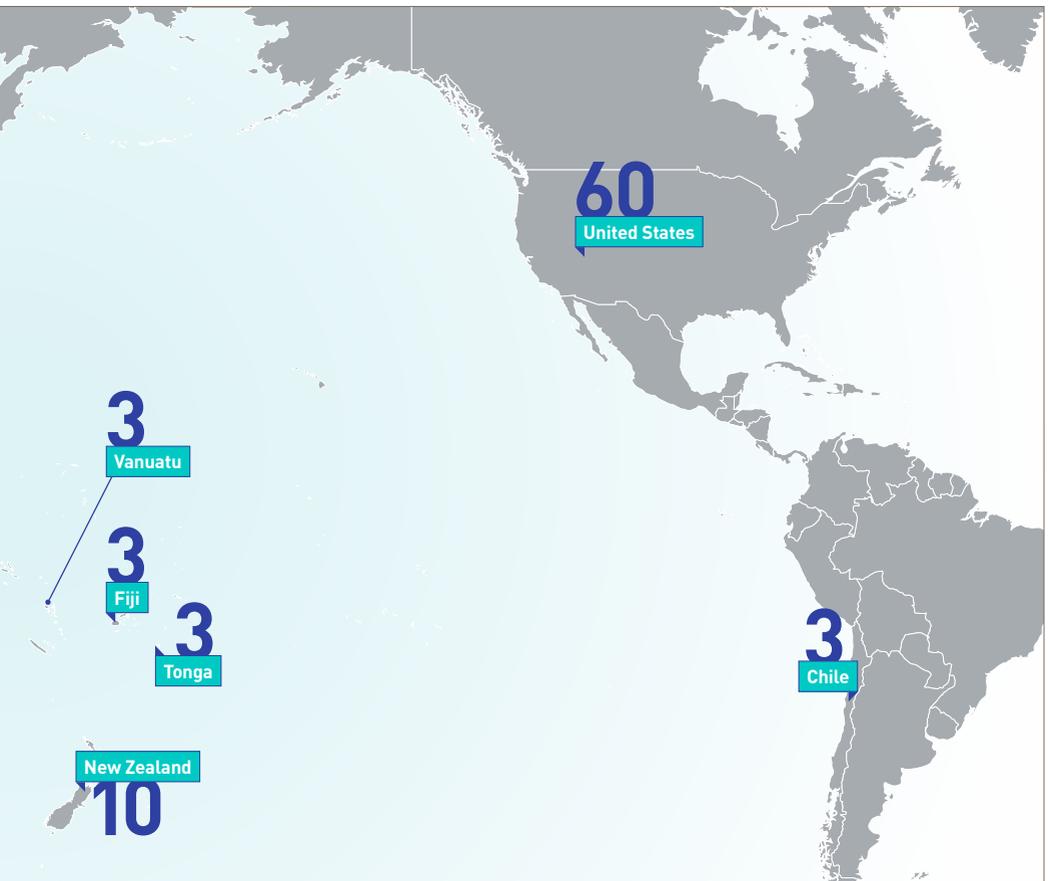
Map. Japan's Participation in Multilateral Training with Indo-Pacific Partners from April 1, 2015 to June 30, 2018.



The Self-Defense Force and Indo-Pacific Collective Action

The most striking aspect of Japan's Indo-Pacific vision is the increasing role being played by the Self-Defense Force (SDF) in its implementation. Whereas Japan's role in World War II continues to linger in the public memory throughout the region, the SDF today plays a critical part in building trust with Japan's Indo-Pacific partners²²⁸. Japan's military now participates regularly in multilateral military training exercises with a range of Indo-Pacific partners, and these exercises focus on operations as varied as disaster relief and humanitarian assistance to maritime security (see Map)²²⁹.

Source: *Defense of Japan 2018*, Ministry of Defense, 499-500, https://www.mod.go.jp/e/publ/w_paper/pdf/2018/DOJ2018_reference_web.pdf



Most notably, Japan's military has been invited to visit the Philippines and Vietnam, and the Ministry of Defense has expanded programs of assistance to these countries to help them shore up and expand their coastal defences. Alongside the United States Coast Guard, Japan's Coast Guard has also been involved in building regional capacity for law enforcement activities in territorial waters²³⁰.

But it is the growing strategic cooperation between the militaries of Japan, Australia, and India that defines Tokyo's current Indo-Pacific orientation. As noted above, the Australian and Japanese militaries work together almost as closely as they do with the United States. They exercise together and operate together, the leaders of their navies, armies, and air forces meet regularly for strategic dialogues, and they now are cooperating in the development of defence technology and equipment. The two militaries undertake an increasing array of bilateral and multilateral training, including disaster response, anti-submarine warfare, and mine countermeasures. In 2019, the two air forces announced plans to conduct fighter jet exercises together for the first time²³¹.

Both Canberra and Tokyo have an interest in expanding their maritime cooperation. Both navies participate in the annual RIMPAC exercise organised by the United States, but they also exercise bilaterally and have cooperated together in numerous multilateral exercises. The Japanese Ministry of Defense's 2018 white paper, *Defense of Japan*, depicts the increasing maturity of this military relationship, with unit-level exercises between their surface fleets and submarine forces, their air forces, and their armies²³².

Maritime security operations have also intensified as Chinese activities in the South China Sea have increased. Furthermore, Australia has participated with the Maritime Self-Defense Force (MSDF) and other navies in the waters between Japan and the Korean peninsula to monitor the compliance of UN sanctions in effect against North Korea²³³. Alongside the United States, Japan and Australia have emphasised capacity building in maritime law enforcement and humanitarian assistance and disaster relief in Southeast Asia and the Pacific Islands.

The SDF has also been an increasingly important partner for India's military. Just as with Australia, Japan has begun to participate in U.S.-Indian military exercises. In 2007, Japan's MSDF participated in its first goodwill exercise with U.S. Navy and the Indian Navy off of Japan's Boso peninsula²³⁴. In 2009, the MSDF participated in the U.S.-India Malabar exercises when they were held off of Japan, and then became a permanent partner in this maritime exercise alongside India and the United States in 2015. The Malabar exercises involve a range of operations, including combat simulations involving fighter jets deployed on carriers as well as interdiction operations, and the exercises are held in waters across the Indo-Pacific²³⁵. Bilateral



discussions are also held between the various military services, and India and Japan are discussing the possibility of sharing defence technologies.

Japan's navy plays a prominent role in demonstrating their country's Indo-Pacific interests. The MSDF now conducts annual Indo-Pacific deployments. The 2019 Indo-Pacific deployment, led by Rear Admiral Egawa Hiroshi, included the *JS Izumo* and the *JS Murasame* and four carrier-based aircraft. This deployment included visits to Brunei, Malaysia, the Philippines, Singapore, and Vietnam. In 2018, the deployment took place from August to October and included visits to India, Indonesia, Singapore, Sri Lanka, and the Philippines²³⁶.

Despite this expanding role for Japan's military in regional cooperation, Tokyo has not gone so far as to permit their military to change its basic defensive orientation²³⁷. Japan's SDF continues to operate in the region based on the premise that the use of force can only be justified in terms of Japan's security. However, deploying the SDF in peacetime with regional partners demonstrates Japan's willingness to deploy its military to contribute to the future peace and stability of the Indo-Pacific.

China, the United States, and Japan's Indo-Pacific Vision

Japan's articulation of an Indo-Pacific vision is tied also to two of its most demanding strategic relationships. Mounting concern about China's growing influence and worry about the future of the U.S. role in the Indo-Pacific inform how the Abe Cabinet has pursued its interests.

Recent summit meetings between Japanese and Chinese leaders, however, have resulted in some steps toward finding common cause in supporting regional development. Prime Minister Abe visited Beijing last year, and President Xi Jinping will visit Japan for the G-20 meeting this month, evidence of greater stability in the bilateral ties between Asia's two major powers. Bridging their differences over the future of the region could pose some challenges, however. While Abe's "free and open Indo-Pacific" emphasises inclusivity and collective action, Beijing's Belt and Road Initiative seems designed to produce a China-led economic order. While both leaders continue to advocate for their own initiatives, Abe and Xi have found some development projects where they can try to work together²³⁸. Nonetheless, Japan and China will likely continue to compete for influence across Indo-Pacific, and any convergence in their views of the future could take time to develop.

As a U.S. ally, Tokyo still wants to see the United States deeply embedded in managing strategic competition across the region. The United States has identified China and Russia as strategic competitors, and views of China have hardened considerably in Washington²³⁹. This has not been unwelcome in Tokyo, and Japan in its December 2018 National Defense Program Guidelines noted similar concerns about the growing



threat from China, North Korea, and Russia²⁴⁰. Prime Minister Abe has been persistent in his effort to persuade U.S. President Donald Trump of the merits of collective action with Japan and other partners across the Indo-Pacific. Indeed, several foreign policy and defence principals in the Trump administration have endorsed this Indo-Pacific regionalism. Two Secretaries of State have embraced an Indo-Pacific framing of U.S. interests and have sought to increase the economic resources available to contribute to the economic development of the region²⁴¹. But U.S. Indo-Pacific policy relies heavily on a hard power edge. The Department of Defense this year produced its formulation of an Indo-Pacific strategy, highlighting the need to meet China's growing military challenge²⁴².

Abe has made little progress in persuading Trump to embrace a regional trade approach, however. After withdrawing from the Trans-Pacific Partnership, the Trump administration has doubled down on its economic confrontation with Beijing, ratcheting up the imposition of tariffs on Chinese goods destined for the U.S. market. The spill-over effects on the global economy of sustained economic tensions between the two largest economies could be shattering for Japan, especially if President Trump decides to go through with threatened sanctions against the global automobile industry. A U.S.-China trade deal may yet be in the offing, but the demonstrated effect of the new U.S. bargaining strategy on trade has been significant²⁴³.

Abe's preference remains a diplomatic coalition of like-minded states who can bring their national resources to bear to sustain regional peace and stability. But Japan's Indo-Pacific vision could be impeded by unrestrained strategic competition between the U.S. and China. Economic interdependence remains at the heart of Japan's approach to ensuring peace across the region, and its emphasis on greater connectivity across the Indo-Pacific reflects this fundamental Japanese aim. Thus, Japan has also sought common cause in its call for a "free and open" regionalism.

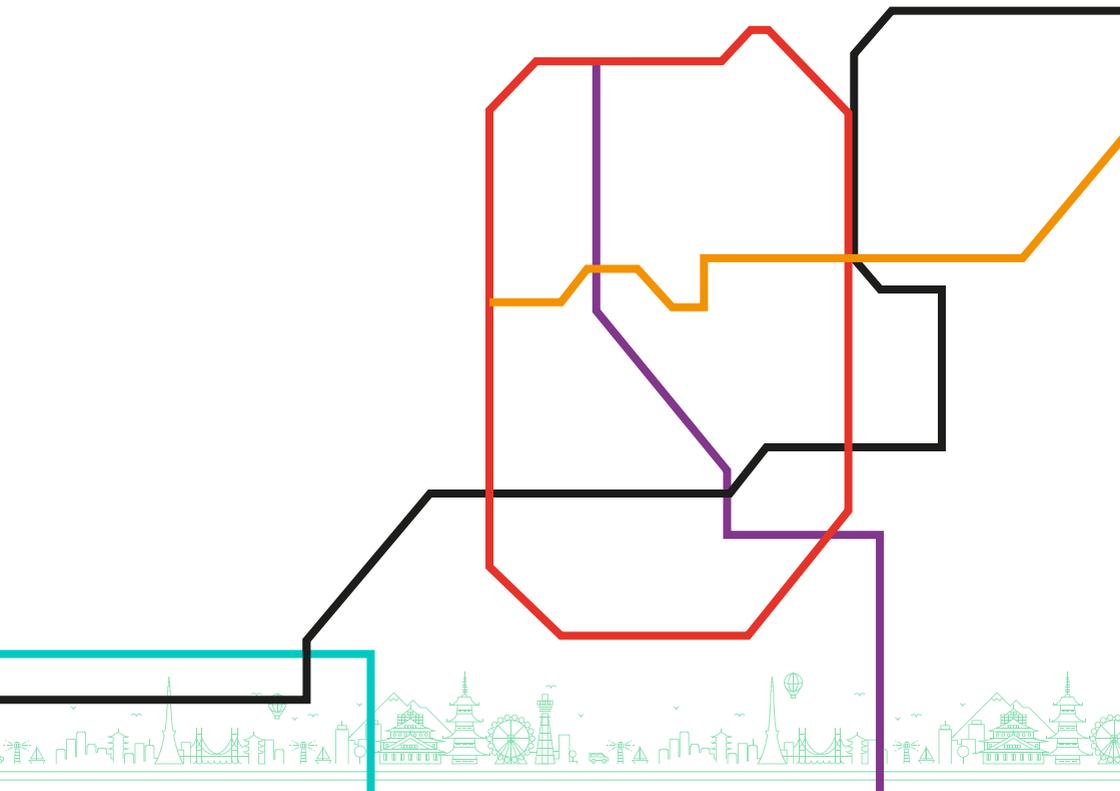


Conclusion

While hard power is not the primary tool of Japan's Indo-Pacific vision, the Abe Cabinet has embraced greater collaboration between the SDF and other regional militaries, creating opportunity for collective action should maritime security be threatened.

Maritime interests drive much of the strategic cooperation with other Indo-Pacific powers, especially Australia and India. China's growing military reach has raised Tokyo's concerns about the regional balance of military power. But new worries about future U.S. choices in the region are also influencing Japan's Indo-Pacific choices. Should the U.S. become too distracted or lose interest in playing a pivotal role in Asia, others will need to take up the slack.

Japan's willingness to increase its weight in the Indo-Pacific military balance thus reflects the increased pace of change in regional relations. Coupled with Japan's considerable economic ties across East and South Asia, this new hard power edge to Tokyo's presence in the Pacific and Indian Oceans ambition also introduces greater opportunity for a more hardy regionalism by the Indo-Pacific powers should strategic competition between China and the U.S. intensify.



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- ²⁰⁹ See an article of Sankei Shinbun (in Japanese), available from <https://www.sankei.com/world/news/160426/wor1604260042-n1.html>. Also Homare Endo (2016), “Nihon, Sensuikan Jyuchu Nogasu: Syu Kinpei to Osutoraria no Fukai Naka” [Japan lost a submarine bid: Deep relationship between Xi Jinping and Australia], 27 April, http://www.newsweekjapan.jp/stories/world/2016/04/post-5004_1.php.
- ²¹⁰ Renee Westra and Nathan Church (2016), “Iraq and Syria: far from simple”, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/IraqAndSyria
- ²¹¹ Nick Bisley (2016), “Australia’s Strategic Culture and Asia’s Changing Regional Order”, *NBR Special Report*, No. 60, 6 December, p. 5.
- ²¹² “Confluence of the Two Seas,” speech delivered by Prime Minister Abe Shinzo to the Indian parliament on August 22, 2007, <https://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>.
- ²¹³ “Arc of Freedom and Prosperity: Japan’s Expanding Diplomatic Horizons,” address delivered by Foreign Minister Aso Taro on November 30, 2006, <https://www.mofa.go.jp/announce/fm/aso/speech0611.html>.
- ²¹⁴ “Japan-India Joint Statement,” Ministry of Foreign Affairs, 2016, <https://www.mofa.go.jp/files/000202950.pdf>
- ²¹⁵ Japan’s total Official Development Assistance (ODA) in 2017 was \$18.46 billion (its total bilateral ODA was \$15.84 billion). Of this, \$3.89 billion went to East Asia, and \$4.33 billion went to South Asia. \$3.36 billion of the ODA to East Asia went to Southeast Asia. Japan’s ODA to India in 2017 was \$2.38 billion (12.8 per cent of Japan’s overall ODA and 15.8 per cent of its bilateral ODA). Japan’s ODA to India is spent largely on massive infrastructure development projects like the Mumbai Corridor. See *White Paper on Development Cooperation 2018*, Ministry of Foreign Affairs, https://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/hakusyo/18_hakusho/index.html [currently only available in Japanese].
- ²¹⁶ See *Bloomberg.com*, June 23, 2019 [available at: <https://www.bloomberg.com/news/articles/2019-06-23/china-no-match-for-japan-in-southeast-asia-infrastructure-race>].
- ²¹⁷ For the Ministry of Foreign Affairs’ explanation of the free and open Indo-Pacific vision and a description of projects and activities included in it, see *Towards Free and Open Indo-Pacific*, 2019, <https://www.mofa.go.jp/files/000407643.pdf>.
- ²¹⁸ The “Arc of Freedom and Prosperity” concept was largely an effort to assert Japan’s strategic aims in the context of broader geopolitics, namely the rise of China. See the Ministry of Foreign Affairs 2007 *Diplomatic Bluebook* for a description of the “Arc of Freedom and Prosperity”: <https://www.mofa.go.jp/policy/pillar/index.html>. Hosoya Yuichi pointed out that this concept, announced during Abe’s first term as prime minister, drew harsh criticism for its hawkish view of China, and this eventually prompted Abe to abandon it; see “The Rise and Fall of Japan’s Grand Strategy: The ‘Arc of Freedom and Prosperity’ and the Future Asian Order,” *Asia-Pacific Review* 18, no. 1 [2011]: 13–24, <https://www.tandfonline.com/doi/full/10.1080/13439006.2011.582677>. In contrast, Taniguchi Tomohiko argued instead that it was a “branding” exercise, designed to establish Japan’s democratic identity and help other democracies see Japan as a reliable partner. See “Beyond ‘The Arc of Freedom and Prosperity’: Debating Universal Values in Japanese Grand Strategy,” *German Marshall Fund*, 2010, www.gmfus.org/file/2298/download.
- ²¹⁹ See “Speech by Defense Minister Takeshi Iwaya,” as delivered at the IISS Shangri-La Dialogue in Singapore on June 1, 2019, available here: <https://www.iiss.org/events/shangri-la-dialogue/shangri-la-dialogue-2019>



Endnotes

- ²²⁰ The joint statement from the inaugural Trilateral Strategic Dialogue meeting in 2006 is available here: <https://2001-2009.state.gov/r/pa/prs/ps/2006/63411.htm>. Japan and Australia established their security partnership in 2007, in the “Japan-Australia Joint Declaration on Security Cooperation,” <https://www.mofa.go.jp/region/asia-paci/australia/joint0703.html>. This declaration also established the 2+2 joint ministerial consultations, and the first of these meetings was held later that year; see “Japan-Australia Joint Foreign and Defence Ministerial Consultations Joint Statement 2007,” <https://www.mod.go.jp/e/about/remarks/2007/press05.html>. The bilateral relationship was upgraded to a Special Strategic Partnership in 2014, in a joint statement from Prime Minister Abe and Prime Minister Abbott: <https://www.mofa.go.jp/files/000044543.pdf>.
- ²²¹ Prime Minister Abe and Prime Minister Scott Morrison announced plans to negotiate a reciprocal access agreement during their summit meeting on November 16, 2018: https://www.mofa.go.jp/a_o/ocn/au/page3e_000964.html.
- ²²² “Agreement between the Government of Japan and the Government of Australia concerning the Transfer of Defence Equipment and Technology,” Ministry of Foreign Affairs, 2014, <https://www.mofa.go.jp/files/000044447.pdf>.
- ²²³ Tim Kelly, Cyril Altmeyer, and Colin Packham, “How France sank Japan’s \$40 billion Australian submarine dream,” *Reuters*, April 29, 2016, <https://www.reuters.com/article/us-australia-submarines-japan-defence-in/how-france-sank-japans-40-billion-australian-submarine-dream-idUSKCN0XQ1FC>.
- ²²⁴ “Joint Press Statement, Visit to Darwin by Japanese Prime Minister Abe,” Ministry of Foreign Affairs, 2018, <https://www.mofa.go.jp/files/000420402.pdf>.
- ²²⁵ “Joint Declaration on Security Cooperation between Japan and India,” Ministry of Foreign Affairs, 2008, https://www.mofa.go.jp/region/asia-paci/india/pmv0810/joint_d.html.
- ²²⁶ At the October 2018 summit meeting between Abe and Modi, they released a “Japan-India Joint Vision Statement,” outlining plans for future cooperation: <https://www.mofa.go.jp/files/000413507.pdf>.
- ²²⁷ For the Indian government’s description of the Act East Policy, see “Act East Policy,” Ministry of Foreign Affairs, India, 2015, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=133837>.
- ²²⁸ To be sure, sensitivities remain where the memory of prewar Japan lingers. For example, despite their ever-closer security cooperation, the prime ministers of Japan and Australia continue to reference the “loss and sacrifices of World War II and their determination to work tirelessly to ensure a peaceful future for the region.” From “Joint Press Statement, Visit to Darwin by Japanese Prime Minister Abe,” Ministry of Foreign Affairs, 2018, <https://www.mofa.go.jp/files/000420402.pdf>.
- ²²⁹ See Table 2 at the end of the chapter.
- ²³⁰ The U.S. Coast Guard has increased its role from assisting Asian nations with building their maritime law enforcement capacity to demonstrating U.S. commitments to maintaining Freedom of Navigation (FON) in the Taiwan Straits and in the South China Sea. See *Washington Post*, April 20, 2019 [available at: https://www.washingtonpost.com/national-security/2019/04/20/help-counter-china-us-turns-coast-guard/?utm_term=.b42ec5c1bb5d].
- ²³¹ The “BUSHIDO GUARDIAN” joint exercise between Japan’s Air Self-Defense Force and the Royal Australian Air Force was initially scheduled for September 2018 but was postponed due to the earthquake in Hokkaido. In the joint statement released at the Eighth Japan-Australia 2+2 Foreign and Defence Ministerial Consultations in October 2018, the governments pledged to reschedule the exercise in 2019: <https://www.mofa.go.jp/files/000407228.pdf>.
- ²³² See Table 1 at end of chapter.
- ²³³ “Australia, New Zealand deploy aircraft to Japan to help enforce North Korea sanctions,” *Reuters*, September 6, 2018, <https://www.reuters.com/article/us-newzealand-northkorea/australia-new-zealand-deploy-aircraft-to-japan-to-help-enforce-north-korea-sanctions-idUSKCN1LM38L>. “RIMPAC 2018,” *Japan Defense Focus* 103, Ministry of Defense, 2018, <https://www.mod.go.jp/e/jdf/no103/activities.html#article04>.
- ²³⁴ This trilateral exercise took place on April 16 with four MSDF escort ships, two U.S. Navy destroyers, and two destroyers and a supply ship from the Indian Navy. The exercise was conducted based on the joint statement “Towards a Japan-India Strategic and Global Partnership,” signed by the Japanese and Indian prime ministers in December 2006. See <https://www.mod.go.jp/e/jdf/no06/news.html>.



- ²³⁵ For information on the most recent Malabar exercise, see https://www.public.navy.mil/surfor/Pages/Malabar_2018.aspx.
- ²³⁶ “Indo Southeast Asia Deployment 2018 (ISEAD18),” Ministry of Defense, 2018, <https://www.mod.go.jp/msdf/en/operation/operation2018.html>
- ²³⁷ For a broader look at how Japanese thinking on the utility of its military as an instrument of statecraft, see Sheila A. Smith, *Japan Rearmed: The Politics of Military Power* (Cambridge, MA: Harvard University Press, 2019).
- ²³⁸ “Prime Minister Abe Visits China,” Ministry of Foreign Affairs, 2018, https://www.mofa.go.jp/a_o/c_m1/cn/page3e_000958.html.
- ²³⁹ See *Summary of the 2018 National Defense Strategy*, U.S. Department of Defense, January 2018, <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>. The new harder view of China has been evident in the writings of both Republican and Democratic foreign policy experts. See for example Robert D. Blackwill and Ashley J. Tellis, *Revising U.S. Grand Strategy Toward China* (New York: Council on Foreign Relations Press, 2015); and Kurt M. Campbell and Ely Ratner, “The China Reckoning,” *Foreign Affairs* 97, no. 2 (2018): 60-70.
- ²⁴⁰ The Japanese government has largely supported this tougher U.S. approach to China, as exemplified in Vice President Mike Pence’s speech at the Hudson Institute in October 2018: “Remarks by Vice President Pence on the Administration’s Policy Toward China,” 2018, <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/>. National defense planning in the United States and Japan also seems to reflect similar concerns about the shifting military balance in the region. See the *National Defense Program Guidelines for FY19 and beyond*, Ministry of Defense, 2018, https://www.mod.go.jp/j/approach/agenda/guideline/2019/pdf/20181218_e.pdf.
- ²⁴¹ Speech by Secretary of State Rex Tillerson at the Center for Strategic and International Studies in October 2017, “Defining Our Relationship with India for the Next Century,” <https://www.csis.org/events/defining-our-relationship-india-next-century-address-us-secretary-state-rex-tillerson>; as well as the speech by his successor, Mike Pompeo, at the U.S. Chamber of Commerce in July 2018, “Remarks on ‘America’s Indo-Pacific Economic Vision,’” <https://www.state.gov/remarks-on-americas-indo-pacific-economic-vision/>.
- ²⁴² The primary U.S. military command in the region has been rebranded as the Indo-Pacific Command. See the Department of Defense report, *Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region*, 2019, https://media.defense.gov/2019/May/31/2002139210/-1/-1/1/DOD_INDOPACIFIC_STRATEGY_REPORT_JUNE_2019.PDF.
- ²⁴³ Japan too must contend this new U.S. emphasis on “bilateralising” trade agreements, and the jury is still out on how much strain this could create for the U.S.-Japan alliance.





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