

Japan ASEAN Economic Relations – Past, Present & Future



Author Ziyue Li

By Ziyue Li

Preface

Though the concept of “ASEAN” might still sound foreign to most Japanese, Japan’s economic contribution to the Association of Southeast Asian Nations can hardly be understated. ASEAN is a regional block that comprises 10 countries in Southeast Asia – Indonesia, Thailand, Singapore, Malaysia, the Philippines, Vietnam, Myanmar, Brunei, Cambodia and Laos. Individually small as economies, they aim to create an aggregated impact when participating in global dialogues. Some simple economic figures speak for the interconnectedness between Japan and the Southeast Asian states: in 2018, Japan was ASEAN’s third-largest trading partner, with total trade in goods amounting to US\$231.7 billion (<https://data.aseanstats.org/trade>).

It is hard to ignore Japanese influence when residing in the island state of Singapore. When Kinokuniya became our go-to bookstore, and when Isetan goods became a symbol of quality, we often failed to recall that most Southeast Asian countries fell under Japanese colonial control before the acronym ASEAN was coined. ASEAN and Japan have come a long way since the colonial era to one of mutual benefits. Looking ahead, the need to create strong ties is ever more important against a background of emerging challenges, manifested specifically by the US-China trade war. This paper aims to provide a brief understanding of ASEAN-Japan history, which will hopefully shed some light on how they should navigate their economic relations in a complex new world order.

Postwar Japan in ASEAN: Taking “Forced” Responsibilities

A historical perspective is necessary in examining Japan-ASEAN relations, since much of it is a logical response to the broader environment. What makes it a particularly interesting topic to study is that the bilateral relations largely rest on the premise of the existence and internal evolution of ASEAN itself, and Japan’s arguably forced role in the Cold War.

The period after World War II saw Japan taking two major responsibilities in the region – economic atonement for the war and contribution as a rising economic power. When ASEAN was not formally established, Japan was undergoing a period of reparation

payments, compensating for its war misdeeds and setting the tone for a new era of peaceful expansion prioritized by the Yoshida Doctrine. With this, Japan paid direct reparations to Burma, the Philippines, Indonesia, the Republic of Vietnam, and quasi-reparations to Thailand, Malaysia, Singapore and Laos in other financing forms. While Japan definitely had some genuine interest in economic cooperation with the region, bilateral relations were complicated by the US interest in the region under Cold War dynamics, thereby putting Japan into a triangular relationship.

Pressured to assume economic responsibility as a “developed” country, with an underlying motive to curb the Communist Vietminh’s expansion in the region, Japan drastically increased its involvement in Southeast Asia. This was marked by a surge in infrastructure investment in the region and a vital role in creating inter-governmental institutions and formal dialogues, such as the Asian Development Bank and the Ministerial Conference for the Economic Development of Southeast Asia.

At the same time, Southeast Asian countries had their own priorities. With fresh colonial wounds and acutely sensitive to their vulnerability as newly independent nations, they united in the form of ASEAN and reinforced the principle of neutrality. This was problematic for Japan, as supporting organizations based on the principle of neutrality was contrary to Japan’s foreign policy (“Japan-ASEAN Relations: New Dimensions in Japanese Foreign Policy” by Sueo Sudo, *Asian Survey*, Vol. 28, No. 5, 1988). As the Vietnam War ended and the United States withdrew its forces from Okinawa, Japan also saw its interest in ASEAN reduced. By the end of the 1970s, Japan’s dominant position in the Southeast Asian economy also raised eyebrows from many local groups, causing another wave of anti-Japanese demonstrations.

Turning Point: the Fukuda Doctrine

The turning point that marked the start of formal and collegial economic cooperation was arguably the 1977 Fukuda Doctrine, though this cannot be singled out from the broader context.

The end of the Vietnam War propelled ASEAN states to view security in a new light. While still upholding neutrality and autonomy, they started to place economic growth at the top of their agenda. Japan, seeing the US reduce its presence in the Asia-Pacific region,

also saw its new role as promoting “peaceful coexistence between ASEAN and Indochina”, as the Japanese ambassador to Singapore put it in 1975. It was against this backdrop that Japan and ASEAN started to explore a tighter relationship. While at the official governmental level there was still difficulty in drafting policies, the business lobby led by the Japan Business Federation (Keidanren) moved quickly in response to potential economic opportunities. In 1976, they suggested to ASEAN ambassadors in Japan setting up a joint committee to foster economic relations, the reasons being: 1) *to maintain an effective dialogue to prevent a repetition of boycott moves against Japan goods*; 2) *to improve Japan’s position as the leading investor and trading partner of the ASEAN countries*; and 3) *to channel technical aid to the ASEAN countries through the proposed committee* (“The Fukuda Doctrine and ASEAN: New Dimensions in Japanese Foreign Policy,” by Suetō Sudo, *Institute of Southeast Asian Studies*, 1992). Evidently, these are the classic economic pillars to foster bilateral economic growth – through trade, financial capital and human capital flows.

The Fukuda Doctrine outlined Japan’s goals in the region – *Japan Rejects the Role of a Military Power; Japan Increases Mutual Confidence and Trust; Japan as an Equal Partner of ASEAN: Mutual Dependence* (<https://asja.gr.jp/en/asja/fukuda.html>) (Photo 1). Politically, this allowed Japan to be a middleman between the Communist states of Vietnam and Cambodia, and the rest of the ASEAN states. Japan was seen as a trusted alternative to the US and the Soviet Union in helping ASEAN balance the Cold War dynamics. More importantly, the Fukuda Doctrine legitimised Japan’s economic role and paved the way for Japan’s ensuing economic strategies in ASEAN. Just as Keidanren had ardently hoped, Japan-ASEAN economic cooperation began improving on all fronts. In 1980, Japan was the largest single trading partner for ASEAN, accounting for 25.9% of total ASEAN trade. Japan has also been increasing foreign direct investments (FDI) in Asia, with ASEAN being the top destination since 2005. The amount of Japan’s FDI in ASEAN quadrupled from 50,000 billion yen in 2005 to 200,000 billion yen in 2015.

Photo 1: ASJA (Asia Japan Alumni) International



Presentation of the ASCOJA (ASEAN Council of Japan Alumni) Award to former Prime Minister Yasuo Fukuda in March 2012

Current Challenges

A short historical narrative of Japan-ASEAN relations prompts two reflections: 1) despite all hopes for neutrality and autonomy, it is difficult for both parties to disconnect themselves from the global network; and 2) both are highly influenced by dominant international powers and need to be nimble enough to adjust their foreign policies based on changing contexts. Since the end of the Cold War, Japan and ASEAN have strengthened their economic ties as a natural move in an age of globalization. But by 2019 new challenges had emerged, and nothing seems to be as predictable as before.

We might straightaway dive into the US-China trade war, but it is essentially a manifestation of China’s rise and the US response to a possible “Thucydides trap” – the tensions resulting from an incumbent power feeling threatened by a rising power. Since “opening its door” in 1978, China has been accumulating political and economic influence. While the global scope of its influence is beyond our discussion, its invisible hand in the greater Asia region is manifested through the Belt-and-Road Initiative (BRI) and its involvement in the South China Sea.

Rising China

At the Second Belt and Road Forum for International Cooperation (BRF) in Beijing in April 2019, it was not surprising to see a full list of attendees from the Southeast Asian states and the weight of discussion on Southeast Asia. Southeast Asia has been a natural starting point for China to embark on the BRI journey, and has seen drastic Chinese investment inflows into the region. Even though investments dropped sharply amidst trade tensions in early 2018, they then recovered promptly as many Chinese companies sought to relocate their supply chains to Southeast Asia to circumvent rising tariffs. Chinese investment in Southeast Asia almost doubled from \$5.6 billion in the second half of 2018 to \$11 billion in the first half of 2019.

While China has made some efforts to recalibrate and address some key challenges, notably environmental sustainability and financing, the BRI raises mixed concerns from officials and citizens alike. In his speech at the BRF, Malaysian Prime Minister Mahathir Mohammad expressed concerns about “how the BRI continues to impact freedom and openness in the region” (“Southeast Asia and China’s Belt and Road Initiative” by Prashanth Parameswaran, *The Diplomat*, May 15, 2019). One frequently raised question concerns “debt trap diplomacy”, where the beneficiary worries that the creditors bargain for excessive economic and political demands over loans. An informal survey of my Southeast Asian peers also showed mixed feeling towards the BRI, with many respondents noting economic benefits in the short term but worrying about ulterior motives in the long term.

Meanwhile, Japan takes a much more ambivalent attitude towards the BRI. Never officially endorsing the initiative, Prime Minister Shinzo Abe still sent a Japanese delegation led by the secretary general of the ruling Liberal Democratic Party to participate in the BRF. Announcing a “Quality Infrastructure Program” in 2016, which

Photo: Ministry of Foreign Affairs of Japan, 2018



Seminar on Promoting Quality Infrastructure held in Tokyo on April 12, 2018

promised to increase Japanese investment in Asian infrastructure to \$116 billion between 2016 and 2020, Japan seems to be aiming at its own version of BRI (<https://www.mofa.go.jp/files/000117998.pdf>). While Abe showed slight interest in potential collaboration in 2018 during a trip to Beijing, agreeing to promote “business cooperation in third countries”, China has shown eagerness to welcome Japan to cooperate in the BRI. As a way to improve lending practices and address lending controversies, China recently named MUFG Bank Ltd. as the first yuan clearing bank in Japan, allowing it to clear and settle yuan-denominated transactions (<https://asia.nikkei.com/Economy/First-Japanese-lender-to-be-designated-as-yuan-clearing-bank>) (Photo 2).

The infrastructure landscape in Southeast Asia thus remains to be closely watched as China develops its BRI strategy. This is further complicated by the South China Sea disputes, which remain the elephant-in-the-room in any regional dialogue. Potential economic collaboration can only be ensured when underlying national sovereignty and security issues are not at stake.

US Isolation

A quick look at US President Donald Trump’s political slogans – “America First” and “Make America Great Again” – not only speak of his administration’s priority in protecting US citizens, but also suggest a self-perceived sacrifice the US has made in globalization, which has rendered it not as “great” as it should be. While a rising China primarily poses ambiguous challenges for infrastructure investment in ASEAN states, an isolated US poses more direct challenges to ASEAN and Japan by disrupting a once tightly connected trade system.

Trump has notably been shifting from a multilateral to a bilateral foreign policy strategy, starting with the US withdrawal from the Trans-Pacific Partnership (TPP) immediately after his presidency began. On his first day of office, he stated his intention to negotiate “fair bilateral trade deals that bring jobs and industry back onto American shores” (<https://www.ft.com/content/dd98598a-b044-11e6-a37c-f4a01f1b0fa1>). He subsequently renegotiated trade agreements with Mexico and Canada and replaced the North American Free Trade Agreement (NAFTA) with the Agreement between the United States, the Mexican States and Canada (USMCA),

which still needs congressional ratification. As an ex-businessman, Trump seems more eager to strike a “deal” rather than building a collaborative web and exudes a much more transactional attitude towards US trading partners.

The most widely talked about issue remains the US-China trade war. It has direct and indirect effects on ASEAN and Japan, both of which are influential parts of global value chains. Producers faced with tariffs will produce fewer goods, subsequently purchasing fewer intermediary goods from adjacent countries, including Japan and Southeast Asian nations. On the other hand, there is also a potential trade redirection to ASEAN countries, which are less affected by the trade tensions and thus attract suppliers hoping to relocate their supply chains to avoid tariff impacts. Among many, GoerTek is a prominent example of a swift mover. A major supplier to Apple, it shifted its production base to Vietnam to counteract the effects of trade barriers (<https://asia.nikkei.com/Economy/Trade-war/Apple-supplier-seeks-to-escape-trade-war-fallout-with-shift-out-of-China>). Most importantly, if the gulf between China and the US widens, there will be underlying pressure to choose a side, as it will be increasingly difficult for both ASEAN and Japan to remain neutral. A further probe would ring a more worrying alarm – ASEAN itself is a partnership. As each member state relies on the US and China to a different extent, there could be an existential challenge to ASEAN in a new world order.

Looking Ahead: Stronger Ties & Clearer Frameworks

On top of the external challenges, ASEAN and Japan have domestic priorities as well. ASEAN is still at the early stage of infrastructure development and needs resources and financing. Japan faces demographic problems and sluggish domestic growth, and thus seeks external opportunities. It is clear that there are three common objectives for both Japan and ASEAN: to create mutual benefits to suit the economic needs of each country; to minimize the negative impact of US-China trade tensions; and to avoid being overly dependent on either the US or China in the long term. In fact, collaborative plans have already been rolled out but need reinforcement and implementation from both sides.

Investment & infrastructure

Although Japanese investment in Southeast Asia can be traced back decades, the recent Partnership for Quality Infrastructure Investment (QII) and Japan-ASEAN Integration Fund have gained attention and are often seen as Japan’s version of the BRI to expand its own economic and political footprint. But Japan has an urgent reason to do so. As Professor Eimon Ueda from the Graduate School of Business and Commerce at Keio University pointed out in an email interview with me: “The biggest issue facing Japan is weak economic growth with its population ageing and declining. Japan will not be able to continue sustainable economic growth without integrating the economy more into other economies, especially the Asian economy, which is now a central engine of the world economy.” Primarily in

the forms of official development assistance loans, grant aid and technical cooperation, Japan has assisted in building infrastructure in the East-West Economic Corridor and Southern Economic Corridor, as well as soft infrastructure to develop vessel traffic service systems.

From a regional perspective, Japan should continue to collaborate with the World Bank Group to develop more transparent and robust frameworks for investment. The QII could act as a balance to China's BRI, hopefully allowing peaceful co-existence of the two investment programs. Not only could it be a feasible alternative for ASEAN states in seeking external financing solutions, it could also pressure China to refine the BRI to keep up with standards and transparency.

ASEAN countries, regardless of where investment comes from, need to be more cautious in outlining preconditions and develop a more stringent definition of co-investment. Indonesia is a good example. In setting the tone of investment inflows, Indonesia proposes that any investment within the scope of the BRI should also be under its Global Maritime Fulcrum, Indonesia's own blueprint for a global maritime hub. There is further pressure in clearly defining BRI projects. Yose Rizal Damuri, chief economist at a Jakarta-based think tank, said "There is a misperception on what constitutes the BRI, especially between Indonesia and China." He noted that "the high-speed railway project between Jakarta and Bandung [is] always represented as a BRI project, while it is not actually." These measures would not only ensure a transparent investment framework, but also psychologically reassure the public that investment should be on a bilateral basis.

Trade

Without the US at the table, Pacific Ocean economies still need to uphold fair and free trade, and the rest of the 11 countries initially negotiating the TPP were soon able to revive discussions and established the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Several ASEAN countries are already members, including Singapore, Malaysia and Vietnam, while others such as Indonesia, Thailand and the Philippines have shown interest in joining. As Trump walked away, there was an evident Japanese leadership in the TPP negotiations, with Japan hosting major senior official meetings in finalizing discussions. This was unsurprising given the lack of a US or Chinese presence, and Japan's gain from almost zero tariffs on its manufactured goods, an area in which Japan is particularly strong. In the near future, while welcoming other nations in the Pacific Rim, Japan is likely to maintain a leading role in reinforcing and spearheading regulations, especially with regard to new rules on technology transfer.

Another free trade agreement that directly impacts ASEAN states and encompasses some major economies is the Regional Comprehensive Economic Partnership (RCEP). As opposed to the previously US-led TPP, the RCEP is often seen as a Chinese-led equivalent scheme. Before India pulled out in early November 2019, the sheer reach spoke for its importance – it covers about one third of world GDP and half of the world's population. If successfully negotiated, all member states will benefit from gradual tariff

Photo 3: Ministry of Foreign Affairs of Japan, 2017, Cabinet Public Relations Office



Prime Minister Shinzo Abe attends the Japan-ASEAN Summit Meeting in Manila on the occasion of the 50th anniversary of ASEAN.

liberalization and improved market access. The Asian Development Bank estimated in 2016 that the RCEP would contribute \$260 billion of global income benefits to the member countries in a decade. However, it has been facing several rounds of delays and pressures from member states, with the latest withdrawal by India, which was worried about potential harm to its domestic agriculture due to the lack of import duties from Australia, and was reluctant to open its markets to Chinese products. India's withdrawal is not good news for Japan, as it might imply a Chinese-led trade agreement. With the involvement of all ASEAN states and dominant economic powers, negotiations are no doubt painful, but at least all the parties have the common objective of embracing free trade.

Conclusion

In a congratulatory message on the 50th anniversary of ASEAN in 2017, Abe stated that "Japan and ASEAN have now become indispensable 'Strategic Partners' for peace and prosperity," and called for both parties to "forge the future of Asia and the world together, hand-in-hand" (https://www.mofa.go.jp/a_o/rp/page3e_000791.html) (Photo 3). In such a hopeful tone, we should certainly not take the past decades of collegial friendship for granted, but we also need to recognise that arduous work awaits. While there is clearly convergence of economic interests between Japan and ASEAN, such convergence could only be supported by a favourable geopolitical context. Hence I believe both parties should uphold their roles – ASEAN as a unified emerging powerhouse, and Japan as a trusted regional stabilizer. In this light, perhaps some final points worth noting are that, in progressing with the aforementioned investment programs and trade negotiations, Japan needs to be careful not to dwell on unresolved historical issues and framing its policies in a blatant anti-China stance, and ASEAN needs to continue displaying regional solidarity and commitment to economic growth.

J.S

Ziyue Li is an undergraduate student in the ESSEC-Keio Double Degree program, and has a strong interest in international business and finance. She has lived and studied in China, Singapore, France and Japan.