

The United States, Japan, and Indo-Pacific Prosperity

By Yukari Sekiguchi

Recent energy supply and price shocks underscore the need to improve energy security and resilience. Moreover, the world cannot afford to delay efforts to achieve carbon neutrality and must carefully balance energy security, resilience, and transitions in response to increased extreme weather incidents. The US-Japan Climate Partnership on Ambition, Decarbonization, and Clean Energy is at the center of US-Japan cooperation. Both countries are continuing efforts to achieve carbon neutrality and are promoting efforts around the Indo-Pacific to build quality infrastructure that facilitates transitions to cleaner energy.

A Promising Indo-Pacific Future

The Indo-Pacific region accounts for 40% of global GDP. The region is projected to generate 60% of global growth over the next 30 years and is extremely attractive to international business. The Indo-Pacific Economic Framework (IPEF)—launched last May with participation from 14 countries in the region—is an ambitious framework for promoting innovation and development in the clean energy, digital, and information technology sectors, while also nurturing new cooperative approaches to securing critical supply chains. The Biden administration has promised that IPEF will go beyond previous trade agreements, generating new approaches in each of these areas.

As the United States has ruled out the inclusion of new market access commitments, it is critically important for Washington to outline the tangible benefits it can offer partners in exchange for the ambitious policy commitments that appear to be envisioned as part of a future IPEF agreement. In recent Senate testimony, US Trade Representative Katherine Tai seemed to downplay this challenge, noting, "We're actually living in a pretty tariff-liberalized world as it is." Without the prospect for lower tariffs, or reductions in other market access barriers, IPEF's greatest benefit lies in its ability to harmonize other policies and regulations, and cultivate various types of concrete cooperation among its large network of like-minded countries. For example, in response to pandemic-induced supply chain disruptions and global shortages, IPEF is trying to develop cooperative approaches to build more resilient production networks. Moreover, the IPEF is intended to help enhance the role of the private sector in accelerating progress in key sectors, including through greater use of public-private partnerships. In fact, Pillar 3 (Clean Economy) of IPEF will include initiatives to create infrastructure projects that will catalyze public and private sector efforts to develop and deploy critical technologies to address climate change. The Ministerial Statements clearly assert: "We recognize the critical role of both the public and private sectors in realizing clean economy goals."

The Energy Transition

Environmental considerations are essential for the social infrastructure projects that are fundamental to economic development. Social infrastructure is responsible not only for the supply and consumption of energy but also for transporting people, goods, and information. IPEF can help create the regulatory and policy infrastructure to promote the deployment of particular technologies across the region, helping to achieve commercial scale and potentially setting new regional standards through a network effect.

As the concept of critical infrastructure is expanding to encompass energy systems, including clean energy technologies, IPEF negotiators will likely address questions about how participants can develop policies and regulations to protect their economic security even as they pursue decarbonization goals. IPEF participants from developing countries have already expressed their expectations for financial assistance and technical

Yukari Sekiguchi, Senior Director in the East Asia and Pacific practice at the Albright Stonebridge Group, explains that "without the prospect for lower tariffs, or reductions in other market access barriers, IPEF's greatest benefit lies in its ability to harmonize other policies and regulations, and cultivate various types of concrete cooperation among its large network of like-minded countries."

cooperation from the United States, Japan, and other developed countries. In regard to the clean economy, such cooperation could be an important strength of IPEF, if resourced appropriately.

While many countries are actively engaged in the clean energy transition and the ambitious goal of carbon neutrality, recent surges in energy prices have prompted some nations to deviate from previous plans. In particular, Japan – which has the lowest energy self-sufficiency rate among the G7 countries – was struggling with energy supply challenges prior to the shocks associated with Russia’s invasion of Ukraine. Due to the severe disruption of its nuclear power systems following the Fukushima nuclear incident, Japan has been forced to take a pragmatic approach to securing its energy resources. While Japan has continued to pursue clean energy, the nation remains heavily dependent on imported fossil fuels.

One key area of interest for Japan is hydrogen. Japan is working with Australia and the United States to establish an international hydrogen supply chain. At the Asia Zero Emission Community (AZEC) meeting in March, Minister of Economy, Trade and Industry Yasutoshi Nishimura mentioned establishing an Asia-centered hydrogen supply chain, stressing that it is essential to determine the regulatory frameworks and international rules. As such, Japan has played a leading role in the International Organization for Standardization’s (ISO) approach to hydrogen stations and other equipment. IPEF members should collaborate on harmonization efforts to facilitate the growth of hydrogen as a green fuel. There should be adequate incentives to promote international standardization. To this end, subsidies and low-interest loans should be offered to countries and projects that use internationally standardized hydrogen technology.

The Critical Role of Finance and Aid

Finally, infrastructure and technology development require a tremendous amount of funding. Especially in the case of long-term projects, unforeseeable events may occur, such as changes in international conditions, political upheavals, price hikes, and deterioration of the country's financial situation. In the face of uncertainty, and in order for the private sector to boldly take up the challenge of deploying infrastructure systems overseas, it is necessary to provide financial support and mitigate and reduce various risks that the private sector alone cannot assume.

Towards this end, Japan plans to revise its Development Cooperation Program Guidelines, which form the basis of its Official Development Assistance (ODA) policy, this year. The course of Japan's 65-year ODA history is focused on advancing Japan's diplomatic power and benefiting its economy. In this revision, Japan intends to strategically use ODA by clearly stating its commitment to realizing a "Free and Open Indo-Pacific" and emphasizing economic security. Japan is the fourth largest donor in the world, currently providing \$4.2 billion – that is only 0.5% of its budget and half of its peak. IPEF should seek to pool its funds with other developed countries, including Australia and Japan. In this way, it is also important for each country to attract effective private investment through selection and concentration based on its strengths.

Towards more cooperation

IPEF's focus on a large network of like-minded countries and maximum leverage can be effective and beneficial in practice. IPEF should work on establishing standards related to decarbonization (clean energy technologies and green procurement). This would be a mechanism through which IPEF members could contribute to climate change solutions. While advanced technologies related to clean energy will influence global competition, if IPEF members create a framework for each technology, such as hydrogen, it should become an innovation and mainstay technology of IPEF. Financial support and technical cooperation from developed countries will play a significant role in introducing and developing these technologies in the Indo-Pacific region. It is also important to attract effective private investment through selection and concentration. Through these efforts in this large network, IPEF will create symbolic and efficient projects representing the Indo-Pacific and contributing to regional prosperity.

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