

## Strengthening US-Japan-Southeast Asia Cooperation on Connectivity in the Indo-Pacific

By Kensuke Yanagida

Connectivity is a bold economic pillar of the Indo-Pacific visions of both the United States and Japan. It presents a great opportunity and also a challenge for U.S.-Japan-Southeast Asia cooperation to shape the future of Indo-Pacific connectivity and economic governance.

Japan's Free and Open Indo-Pacific (FOIP) initially focused more on security cooperation, and has now become a comprehensive cooperation framework including regional connectivity with Quality Infrastructure Investments (QII). The U.S. FOIP is also a comprehensive framework, and its economic component appears to be a viable opportunity focusing on infrastructure connectivity, energy and the digital economy backed by the U.S. International Development Finance Corporation (DFC) under the bipartisan BUILD Act of 2018. Notably, the DFC's budget increase is a rare exception under the current U.S. administration given the fact that other U.S. aid budgets, including budgets for multilateral financial institutions, have been generally reduced.

Until the COVID-19 pandemic, emerging Indo-Pacific economies were among the fastest growing in the world, and remain a hub of global manufacturing supply chains. They have huge investment demands. The Asian Development Bank (ADB) estimates that Asia (45 ADB member countries) needs \$1.7 trillion for infrastructure investment per year. As infrastructure financing sources diversify, Asia will see a decreased dependence on foreign official development aid (ODA) for their infrastructure investment. However, the share of ODA of gross capital formation still remains high within Indo-Pacific emerging countries such as Cambodia, Laos, Myanmar, Vietnam, Bangladesh, Bhutan, and Nepal.

Infrastructure investment brings huge economic benefits for the emerging Indo-Pacific countries as well as partner regions. According to the Global Trade Analysis Project (GTAP) database, if infrastructure improvements were realized in the Indo-Pacific, the real GDP of ASEAN would grow by \$473 billion, and of South Asia by \$305 billion above the baseline scenario. More importantly, the economic effects spread widely through trade and investment to partner regions. The real GDP of the United States and Japan increased by \$91 billion thanks to the income increase in ASEAN and South Asia and the improved access to their markets by infrastructure improvements. The United States exports and imports with the Indo-Pacific increased by 40% and 24%, respectively, and those of Japan increase by 41% and 22%. Hence, infrastructure improvements abroad help the U.S. and Japanese economies directly.

Securing economic development in the emerging Indo-Pacific countries is imperative to achieve peace and stability in the region. U.S.-Japan-Southeast Asia cooperation on connectivity presents a great opportunity but requires a lot of work. It has three important aspects.

First, the U.S.-Japan-Southeast Asia should together promote Quality Infrastructure Investment (QII) standards in the region to ensure commonly accepted norms and standards based on the principles of openness, transparency, economic efficiency given life-cycle costs, and fiscal soundness. QII standards

**Kensuke Yanagida**, former Visiting Fellow with the East-West Center in Washington, explains that:

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can support a level playing field and a sound investment climate to attract more private funds. Japan has been active in promoting QII through G7, G20 and OECD. QII is also being expanded through bilateral and multilateral partnerships, for example, with the EU and Africa. In APEC, Japan is also taking the initiative to produce the APEC guidebook on QII and conduct a peer review of relevant laws, public and private partnership (PPP), and needs of capacity development in emerging economies. The Blue Dot Network led by the U.S. DFC is part of the QII initiative and will be useful by visualizing certified high quality and sustainable infrastructure projects. It can add to the QII database undertaken by the G20, OECD, and World Bank dubbed the Global Infrastructure Hub.

Beijing has begun to emphasize high quality and sustainable connectivity too. China faces increased scrutiny over the BRI projects and accusations of the international community against unfavorable financing practices which have clearly led to a change of course on its part. Thus, it is ultimately important to incorporate China's BRI into the QII standards.

Second, the U.S. and Japanese development agencies should step up their cooperation for a joint connectivity project. There are stark differences in their approaches to the Indo-Pacific. The total amount of Japanese ODA in the Indo-Pacific over the last decade is six times larger than that of the United States. While Japan focuses on economic infrastructure and allocates more funds to economic frontiers such as India, Vietnam, Myanmar, and Bangladesh, the United States focuses on social infrastructure such as education, health, and water, and allocates more funds to Indonesia, Bangladesh, the Philippines, Malaysia, and Mongolia. In addition, the DFC focuses on private partnerships. Among the DFC's \$5.4 billion active commitments in the Indo-Pacific, most of the projects are SME financing, energy, and information. The DFC by nature may limit collaboration on long-term financing on connectivity projects with Japanese agencies. Thus, it is recommended that the United States and Japan together engage in dialogue with sub-regional groups such as ASEAN, the Greater Mekong Subregion (GMS), the South Asia Subregional Economic Cooperation (SASEC), and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) to discuss their connectivity planning and priority, and to find bankable long-term projects. In this process, the United States and Japan's development agencies can synergize each other by expanding financing schemes and joint projects.

Third, the United States and Japan should design a strategy of public and private investment in the service and digital economy in the Indo-Pacific. In addition to conventional infrastructure, digital connectivity is key to accelerating economic growth, to enabling access to markets and services, and promoting Sustainable Development Goals (SDGs). The digital economy also spurs service trade through e-commerce, and other means of online delivery and data flows. In fact, the U.S. FOIP emphasizes the digital space to realize an open, interoperable, secure, and reliable internet through the Digital Connectivity and Cybersecurity Partnership. Japan's strategy for infrastructure exports also includes digital infrastructure promotion which utilizes ODA to mitigate risks and catalyze private investment. Both the United States and Japan have bilateral partnerships with ASEAN to support the ASEAN Smart Cities Network. To secure data flows, the two countries signed the US-Japan Digital Trade Agreements. Some ASEAN countries joined the digital agreements through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and APEC Cross Border Privacy Rules (CBPR). The United States and Japan should together strengthen digital partnerships with the Indo-Pacific countries to share their needs for digital infrastructure and to promote rule-making relating to data governance. A comprehensive approach in tandem with physical infrastructure development can open new opportunities for U.S.-Japan-Southeast Asia cooperation.

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