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The Objectives, Challenges and Japan's Role**

by Shujiro Urata
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POLICY PERSPECTIVE

THE ECONOMICS OF THE FREE AND OPEN INDO-PACIFIC VISION: THE OBJECTIVES, CHALLENGES AND JAPAN'S ROLE

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The COVID-19 pandemic has created a global economic and social crisis. Except for a few places such as China, many countries' economies have recorded sizeable negative growth rates, widening the income disparities among them. The pandemic has also widened the income gap between the rich and poor in many countries. Both these types of income gaps are likely to cause social and political instability. The prospect of a prolonged pandemic and the potential emergence of new infectious diseases have magnified the pre-pandemic political and economic uncertainties fostered by the heated rivalry between the United States and China, leading to pessimistic economic prospects. However, successful development of the Free and Open Indo-Pacific Vision (FOIP) would directly address these issues and promote economic growth in the Indo-Pacific region, which is comprised of rapidly growing countries in Asia and Africa. This would contribute to global economic growth and stability.

FOIP's Emergence

Former Japanese prime minister Shinzo Abe introduced FOIP in his speech at the sixth Tokyo International Conference on African Development (TICAD VI) in Kenya in August 2016; however, the idea dates back to Abe's first term in 2006-2007. Abe spoke about the Pacific and Indian oceans dynamically coupled as seas of freedom and prosperity in his speech, "Confluence of Two Seas", delivered before India's parliament in 2007.

The Japanese government considers FOIP a very important foreign economic policy and a key to achieving international stability and prosperity with two oceans and the collaboration of two continents. Asia is rapidly growing and Africa has an enormous potential for growth. The Japanese government believes that maintaining and strengthening the Indo-Pacific region's free and open maritime order provides "international public goods" that will bring stability and prosperity to every country, as FOIP does not discriminate. FOIP aims to achieve this goal through international co-operation, specifically with the U.S., Australia, India and the members of the Association of Southeast Asian Nations (ASEAN), whom Japan has pursued.

Three forces drive FOIP: the rise of China, the relative decline of the U.S. and Japan's gloomy economic prospects. With its successful economic development and rapid economic growth, China has been expanding its global influence, especially in Asia, by using various approaches such as providing loans in the Belt and Road Initiative (BRI) framework. The relative decline of the U.S. in the global economy and its international presence mainly stems from a slowdown in its economic growth, due to the impacts of the 2007-2008 global financial crisis on the domestic economy. The U.S.'s preoccupation with internal problems, such as the increasing income gap and unemployment, diminished its influence in the international arena, including in the Indo-Pacific. Coupled with these changes, the Japanese economy's pessimistic prospects are mainly due to a rapidly declining and aging population. Japan realizes the importance of maintaining and promoting a free and open Indo-Pacific region to expand and further integrate its economy into



the region as well as contribute to regional sustainable economic growth, which would lead to peace and political stability.

The Three Pillars of FOIP

The FOIP initiative consists of three pillars: (1) the promotion and solidifying of fundamental principles such as the rule of law, freedom of navigation and free trade; (2) the pursuit of economic prosperity through enhancing connectivity, including through quality infrastructure development in accordance with international standards and (3) a commitment to peace and stability that includes assistance for capacity building in maritime law enforcement, anti-piracy measures, disaster reduction and non-proliferation.

FOIP was initially formulated mainly to deal with national security issues. Aspects such as economic development and co-operation were added later, but the coverage of economic aspects is rather limited. Among these three pillars, the first two address economic issues. The first pillar is important for achieving economic prosperity. The second pillar emphasizes three kinds of connectivity: 1) physical connectivity, including quality infrastructure development such as ports, railways and roads, energy and information and communication technology (ICT); 2) people-to-people connectivity through human resources development and 3) institutional connectivity through facilitating customs, among others. Strengthening economic partnerships through free trade and other agreements, as well as investment treaties, which have grown more important in recent decades, may be included in institutional connectivity. With the establishment of rules-based trade and an investment environment, and the enhancement of connectivity, the Indo-Pacific region can achieve economic growth based on global value chains.

International Co-operation

The Japanese government has been communicating with like-minded countries to share a common view on FOIP's importance and has implemented a number of policies. These countries include not only the U.S., Australia and India, or the members of the Quadrilateral Security Dialogue (Quad), but also Canada, ASEAN and several European countries including the United Kingdom, Germany and France. Some specific economic policies implemented in FOIP's framework include the enactment of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) Agreement and the Japan-U.S. Trade Agreement to promote free trade. In the interests of enhancing connectivity, a number of infrastructure projects have been implemented, including construction of roads and bridges along the Southern Economic Corridor and the East-West Economic Corridor, in the Mekong region. At the 2019 G20 summit in Osaka, Japan obtained an endorsement for the G20 principles for quality infrastructure investment, which include Japanese priorities for infrastructure projects such as openness, transparency, economic efficiency and debt sustainability.



Counterbalancing China's BRI

FOIP's importance may be best explained by discussing the problems associated with China's Belt and Road Initiative (BRI). FOIP's objective is to prevent the Indo-Pacific region from being dominated and contaminated by problems associated with the BRI.

The BRI began in 2013 to promote the connectivity of the Asian, European and African continents by building infrastructure, and to achieve diversified, independent, balanced and sustainable development in these regions. Despite the favourable intentions outlined in the official documents and statements, observers have pointed out various real and potential problems. Most of these problems stem from the fact that China uses the BRI to benefit itself and its economy while the countries and regions involved in the BRI do not benefit. Here are some specific examples:

First, building infrastructure in participating countries is a major BRI component. For many of these projects, Chinese businesses, notably state-owned enterprises (SOE), win contracts and they procure machinery, equipment and materials from China. Many Chinese workers are also brought in to work on the projects. This way, the BRI contributes to ameliorating the over-supply of materials and products and unemployment in China. Meanwhile, the host countries gain little in the way of increased business opportunities, employment generation or technology transfer.

Second, Chinese businesses participating in the infrastructure projects have been criticized for violating the rules and policies of the host countries in areas such as the environment, safety, labour, competition and others. The unjustifiable behaviour of Chinese businesses prevents the healthy development of market economies in the host countries.

Third, the Chinese government has been accused of being involved with debt-trap diplomacy through the BRI. The Chinese government lends money to the host government to finance infrastructure projects. However, the loans carry stringent conditions such as high interest rates. One notorious example is the financing of the construction of Hambantota port in Sri Lanka. Some observers think the Chinese obtained a 99-year lease for the use of the port in exchange for the debt incurred by the Sri Lankan government, which has difficulty repaying it. There are similar cases of extending loans without properly considering debt sustainability in other countries, including Lao PDR and Kyrgyzstan.

Fourth, these problems create a concern that China is using the BRI to export and transplant an authoritarian political system into developing countries with poor financial situations and to expand its influence and change the existing international order for its own benefit.

Challenges for FOIP's Successful Development

FOIP was introduced to counterbalance the growing influence of a rising China, whose strategy contains elements that would affect regional peace and stability. Ideally, China should expand its economic co-operation by correcting problems such as the lack of transparency and preferential treatment of Chinese businesses. Many countries in the Indo-Pacific region are eager to benefit



from both FOIP and the BRI. FOIP provides an open, free, transparent, fair trade and investment environment as well as quality infrastructure, while the BRI offers financial assistance and an attractive Chinese market. One challenge for FOIP is to establish a constructive relationship with the BRI.

One important area of possible co-operation is infrastructure building. China's infrastructure projects have been criticized for a lack of transparency and due consideration of debt sustainability. China seems willing to deal with these problems and eager to improve the quality of its infrastructure projects, in order to win international support. China has endorsed Japan's initiative for quality infrastructure. Japan and China are engaged in economic co-operation in infrastructure building in third-party countries under conditions that satisfy Japan's requirements, such as transparency and debt sustainability.

Another challenge for FOIP is the expansion of programs and projects.

More than 120 countries have signed BRI agreements and a large number of projects, including six mega-economic corridors, are underway. However, a comprehensive blueprint of infrastructure projects under FOIP has not been drawn up. Eleven Asia-Pacific countries are signatories to the CPTPP, which establishes a rules-based trade system, and the Regional Comprehensive Economic Partnership (RCEP), involving 15 East Asian countries, has been signed and is in the ratification process. However, neither of them covers all potential countries under FOIP.

Countries that share FOIP's vision need to get together and exchange their views to formulate a blueprint and decide on concrete programs. While drawing up a framework, FOIP participants need to expand the ongoing projects by integrating and extending the existing programs.

Japan, the U.S. and Australia have set up the Blue Dot Network, which aims to bring together governments, the private sector and civil society under shared standards for quality infrastructure. The Blue Dot Network should expand by accepting countries that share its vision.

The CPTPP and RCEP need to increase their membership. The U.S. is expected to return to the CPTPP and the U.K., South Korea, Thailand and others should join if they satisfy the requirements. India is expected to return to the RCEP, and South Asian countries such as Sri Lanka and Bangladesh should also join. It is important for RCEP members to upgrade its rules to make them equivalent to those of the CPTPP. Accomplishing these steps would lead to the establishment of a desirable trade system under FOIP.

For formulating and implementing FOIP programs, ASEAN should be given a central position, not only because of its importance in FOIP, but also its extensive collaboration on projects with many FOIP countries. Indeed, ASEAN has played important and effective roles in establishing and managing many regional frameworks such as the East Asia Summit and ASEAN Regional Forum. Other members of FOIP including Japan, Australia, the U.S. and India need to work closely with ASEAN.



Japan's Role in FOIP's Successful Development

Getting through the COVID-19 pandemic is a top policy priority for many countries. With the increasing availability of vaccines, economic and social activities could soon recover. It is an opportune time to accelerate the implementation of various policies and initiatives, which would help achieve economic prosperity and political and social stability in the post-COVID-19 era. FOIP is an important policy that would contribute to realizing that goal.

As a responsible founder, Japan needs to play an active role in promoting and implementing FOIP. Japan has begun communicating with like-minded countries, mainly the U.S., Australia, India and ASEAN countries, to deepen understanding of FOIP's importance in the face of China's rapid rise. Japan should expand the network to include other important countries such as Canada, South Korea, the U.K., Germany and France, which in turn could reach out and communicate with other potential FOIP members. China would not be excluded, for it can contribute to the region's economic development and political stability with appropriate policies and behaviour, which may be learned and adopted through communication and co-operation with Japan and other members.

Recognizing the difficulty in conducting constructive communication between the U.S. and China regarding regional policy in the Indo-Pacific, Japan can mediate between them as a U.S. ally; Japan also has relatively good relations with China. However, Japan cannot condone China's aggressive and assertive behaviour because it would undermine the existing international order and threaten important common values such as human rights, freedom of speech and democracy.

To move FOIP forward, a core group should be formed to prepare a blueprint and lead discussions – a group of middle-power countries and ASEAN dialogue partners – Australia, Canada, India, Indonesia and Japan – as core members, which may be expanded if appropriate. For FOIP to function effectively, a forum for communication and dialogue should be set up. APEC's experiences may be useful in drawing up a roadmap for the realization of FOIP. Specifically, a meeting of foreign and economic ministers should be organized with a view to upgrading this to a leaders' meeting in the future. These meetings should be held on the sidelines of G20 meetings, as the proposed core members are also G20 members.

► About the Author

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