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US, Japan, and South Korea Coordination Key to Competing in Southeast Asia

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INTRODUCTION

Despite its size, economic dynamism, and geographic position, Southeast Asia has received comparatively little attention in US foreign policy. Even as American policy becomes more focused on China, the United States lacks a coordinated strategy to respond to and compete with China's vast trade and investment in Southeast Asia.

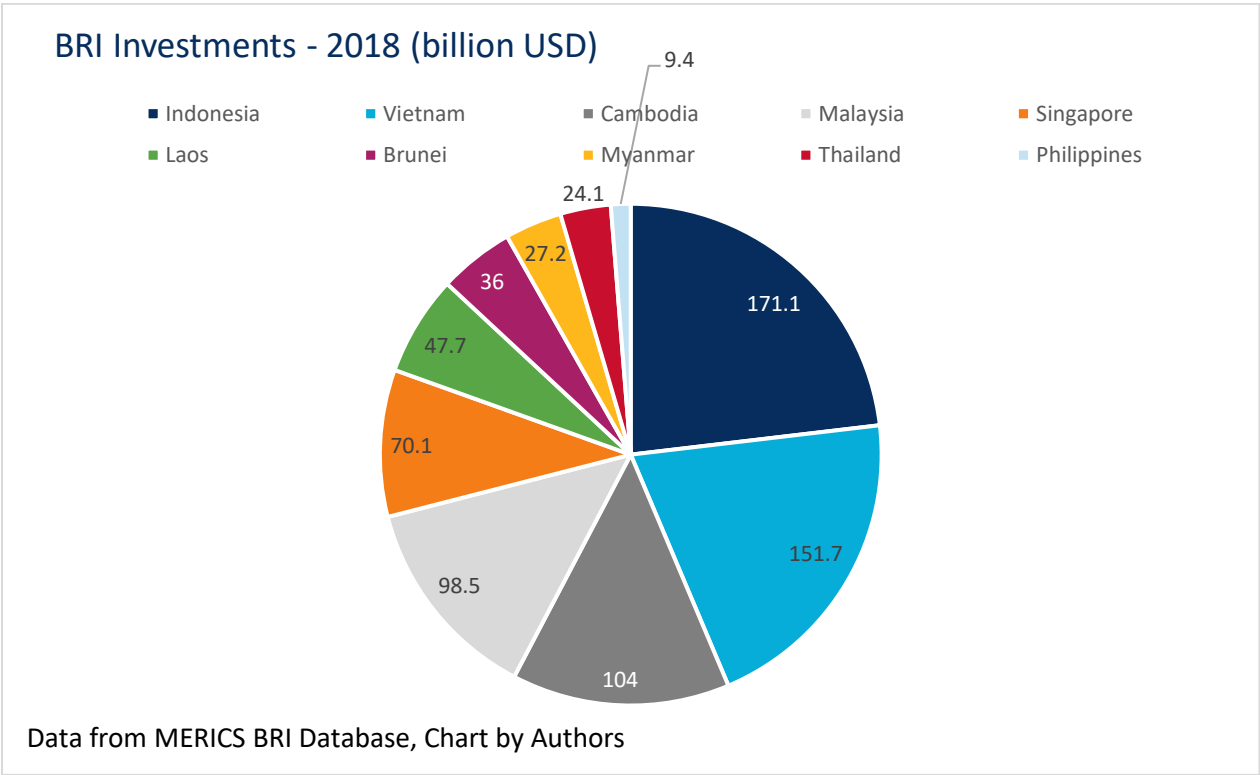
But most ASEAN countries are wary of China's growing influence and would be open to US involvement as they look to diversify. To take advantage of this opportunity, the United States must supplement its focus on the South China Sea with diplomatic and financial efforts on land. These efforts should offer an alternative to China's largesse but should not seek a direct competition in hard infrastructure or in terms of dollar amounts invested. Nor should the United States go it alone. Instead, it should seek to cooperate with its allies—Japan and South Korea in particular—to pursue their respective competitive advantages. These include identifying and investing in small- and medium-sized enterprises in ASEAN, developing human capital in the region, and conducting joint maritime cleanup activities in coordination with ASEAN countries.

Creating coordinated activities with Japan and South Korea in Southeast Asia should be the first step for the United States to roll back China's influence in the region. But these efforts will need to be calibrated to ensure that they focus on the needs of countries in the region and not just engulf the region in the US-China competition.

China Isn't Winning Friends in ASEAN

Southeast Asia is more than just a trade partner and investment destination for China. It is also an area of strategic importance. China’s Belt and Road Initiative (BRI) investments in rail lines and roads are aimed at connecting Yunnan province to the Bay of Bengal—and ultimately the Indian Ocean—keeping raw materials and energy supplies flowing into China should a conflict endanger access to the Malacca Strait and South China Sea.

As of 2018, BRI projects totaled nearly \$750 billion in ASEAN countries, with more than half of that going to Indonesia, Vietnam, and Cambodia. The MERICCS BRI Database estimates that about two thirds of BRI spending has been in the energy sector, with the rest going toward transportation projects and the “digital silk road.”



But China’s investments have not won the region over.

According to the ISEAS-Yusof Ishak Institute’s 2021 State of Southeast Asia survey, a majority of regional policy makers and thought leaders (62%, up from 54% in 2020) would choose to align with the United States if forced to align with one side in the ongoing US-China rivalry. Only 39 percent would choose China—down from 46 percent in 2020. While more of these influential respondents are confident in the United States as a reliable strategic partner now (55%) than in 2020 (35%), a quarter say they lack confidence. Furthermore, if the United States “is perceived

as unreliable,” more prefer Japan (37%) as a strategic partner for Southeast Asia than China (19%) or the European Union (19%). Crucially, Japan is also the most-trusted major power in the region, with 67 percent of respondents expressing confidence that Japan will “do the right thing to contribute to global peace, security, prosperity and governance.”

In [Pew polling](#) in the region, favorable views of China in Indonesia and the Philippines have taken negative turns since the early 2000s. In 2005, 73 percent of respondents in Indonesia reported favorable views of China, but by 2019, that number had nearly halved to just 36 percent. There was also a significant decline in the Philippines, where 63 percent reported favorable views of China in 2002 compared to 42 percent in 2019.

OPPORTUNITIES FOR TRILATERAL COOPERATION IN ASEAN

Leveraging the Development Finance Corporation

The establishment of the Development Finance Corporation (DFC) provides a new tool for the United States to compete in Southeast Asia. Although its \$60 billion budget will not be enough to outspend China when China is investing more than \$150 billion in Vietnam alone, a focus on absolute dollar amount alone misses the point. The United States and its partners should not be seeking to invest in the same types of infrastructure in a head-to-head competition with China. Instead, using the DFC as an organizing pillar, the United States, Japan, and South Korea should look to invest in services and smaller infrastructure projects critical to those services. In combining their funding, all three countries can seek impact well beyond their own investments in the region. To do that, they will need to cooperate to identify opportunities that make the best use of their expertise, help to fulfill their own goals in the region, and ultimately empower countries and people in the region. As they undertake this project, it will be critical to not only work with individual countries but to engage ASEAN as well. In a [recent study](#) of elite opinion in ASEAN conducted by CSIS, ASEAN is seen as the region’s most important institution and best able to deal with the challenges facing the region.

A Focus on Small- and Medium-Sized Enterprises

One of the key areas to leverage the distinct advantages of the trilateral partners is in investing in and promoting small- and medium-sized enterprises (SMEs). As noted in a CSIS [report](#), this is an area broadly overlooked by China. It does not provide significant support for SMEs or entrepreneurship abroad, a sharp departure from the stated goals of the United States and Japan in ASEAN countries. This should make SME development a vital piece for investment and influence building when compared to China’s focus on energy and transportation infrastructure.

The policies of Japan and the United States in SME support are complementary, as both seek to increase the competitiveness of ASEAN SMEs as well as improve their access to finance. But

there is one important distinction. The United States focuses on disadvantaged communities, like women entrepreneurs, within SME development. So far, Japan does not, but it should add this focus. Such a move could potentially improve its global image when it comes to women's empowerment. Despite an initiative to create a "society in which women shine"—launched under former Prime Minister Abe Shinzo in 2013—Japan has consistently [ranked at the bottom](#) of the pack for gender equality. Although supporting women entrepreneurs abroad is no substitute for achieving gender parity at home, it could help Japan emphasize that women's empowerment is a real goal.

In contrast, South Korea has shown little interest in developing Southeast Asian SMEs. Its New Southern Policy (NSP) is largely a vehicle to [enhance South Korea's economic diversification](#), seeking to expand markets for South Korean exports and reducing dependence on China at the same time. Indeed, in 2019, the number of Korean businesses registered in ASEAN countries [increased by 22 percent](#). Accordingly, its plan [explicitly states](#) support for Korean SMEs in NSP target countries, instead of seeking to invest in and grow ASEAN SMEs in the region. While it may very well be beneficial for the region's markets to gain access to Korean products, facilitating the growth and financial access of ASEAN SMEs is a much more direct way to increase the region's revenue streams and stimulate its economies. South Korea should consider adding support for ASEAN SMEs to its NSP initiatives, especially in sectors where it does not have businesses ready to compete. Doing so would allow it to work more closely with the DFC in identifying and investing in businesses throughout the region.

To support ASEAN SMEs, South Korea should expand its commitment to establishing an ecosystem that will facilitate exchanges and cooperation between startups. Expanding this to support ASEAN SME development and encouraging their entry into South Korea's markets would work within the broader goals of the NSP and fit within the context of US and Japanese policies in ASEAN. To supplement its partnership with the United States and Japan on these goals, South Korea might also consider joining the Blue Dot Network (BDN), which evaluates and certifies infrastructure projects based on adherence to agreed-upon standards. The BDN is composed of the United States, Japan, and Australia.

Vientiane, Laos, and the BRI

As of 2018, BRI projects in ASEAN countries totaled nearly \$750 billion, including \$48 billion in Laos. These investments and associated projects are often discussed in the language of trade, development, and connectivity, all under the umbrella of regional and global strategy.

But the strategic language through which the BRI is often approached masks an important feature: in an increasingly urban world, finance, infrastructure, and digital connectivity have decidedly urban features and effects. As they did in the 19th and 20th centuries, industry and infrastructure reshape urban spaces. Major infrastructure projects, aiming to connect regions and regional hubs, make use of, and change, cities in the process. Indeed, cities are where much of the BRI becomes material.

Vientiane is Laos's capital and largest city. Located near the border with Thailand and on the Mekong River, Vientiane is receiving BRI investment to finance rail connectivity with the city of Boten—a former agriculture economy that now features a special economic zone with a majority of Mandarin speakers—from where the rail line will then connect on to Kunming. In 2018, the Laotian portion of the larger project was estimated at \$5.8 billion. The connection will be one of many rail lines linking the major urban centers of Southeast Asia as part of the Kunming-Singapore rail network.

This developing regional connectivity has urban manifestations. Take, for example, Vientiane Station, the main passenger station for the corridor, on which construction began in 2016 by the China Railway Construction Group. The concession for the railway to the government of China granted the operators a wide array of privileges, including exclusive influence of design, construction, and telecommunications and data systems.

While the design of the station has been couched in the language of diplomacy and soft power, mediation between officials and the local population has been needed to arrange land-use changes. In sections of the railway, local residents have yet to agree to compensation for use of land, and in some cases, practicing a form of tactical urbanism seen in locations from Cairo to Caracas, they have constructed informal bridges to traverse the formal infrastructure. In another area of Vientiane province, the planned relocation of an urban center will likely include the demolition of 400 homes to make room for railway construction. While discussions of relocation remain in progress, these changes are framed in terms of urban benefits: reduced congestion and traffic and improved local development opportunities.

The refashioning of the centuries-old Laotian capital is one of many urban shifts occurring along BRI corridors. While there are only three cities—all in China—of greater than 100,000 residents along the rail corridor that connects Vientiane to Kunming, planned BRI extensions emanating from Vientiane include many large cities—Bangkok, Ho Chi Minh City, and Phnom Penh among them. These infrastructure and transportation linkages will connect major Southeast Asian cities directly to China, and yet they represent only a fraction of the 68 regional cities of over 100,000 residents that lie along investments within the China-Indochina Peninsula Economic Corridor. Within these cities and countries, the urban manifestations of the BRI are already taking myriad forms, creating new geographies and patterns of urban space.¹

Invest in People

Investing in and promoting ASEAN SMEs is only the initial part of the equation of competing in Southeast Asia. A second component will require investing in training programs and education for working professionals in areas such as health, education, banking, and technology, as well as nonservice sectors such as fisheries and agriculture. This broader investment in human capital is often overlooked, as quantifying the impact and successes of such programs can be difficult.

This type of investment is also largely ignored in China's BRI investments. Even China's large infrastructure projects in the region often import Chinese labor instead of creating employment opportunities for local populations. And when locals are tapped for BRI projects, they rarely receive adequate training programs or safeguards for workers' rights.

¹ In collaboration with this report, this box is drawn from ongoing work by the Chicago Council on Global Affairs on BRI cities. Contributors: Ian Klaus, Simon Curtis, Alexander Hitch, and Andrea Jury.

In contrast, the United States, Japan, and South Korea are well positioned to undertake this deep investment in human capital throughout the region via their development assistance programs. The three countries should develop coordinated plans for target countries that work to supplement their investments in SMEs, once again using the DFC and respective international aid agencies such as the Asian Development Bank.

Some of this coordination has already begun. In 2019, USAID and KOICA—South Korea’s International Cooperation Agency—made that overlap official and [signed an MOU](#) to explore potential cooperation between the NSP and the Free and Open Indo-Pacific strategy. That agreement’s focus on education initiatives should be further developed, and the United States and South Korea should seek to expand that coordination and cooperation to include Japan—and any other interested country.

Japan has the best-documented track record of human capital development in the region through the Japan International Cooperation Agency, its main governmental agency for delivering official development assistance. The agency operates 10 human-resource-development centers abroad, five of which are in ASEAN: two in Vietnam and one each in Cambodia, Myanmar, and Laos. These centers offer business courses and Japanese-language classes with the aim of developing local human resources and contributing to their respective host countries’ economic goals. They [also conduct](#) international networking opportunities, connecting development center students with Japanese local governments, economic organizations, and other educational groups.

The United States has drafted a Plan of Action to implement the ASEAN-United States Strategic Partnership, in which it identifies women and young people as key groups for human capital development, emphasizing skills development and economic empowerment for women, as well as learning opportunities for young public- and private-sector leaders in the region. To date, the United States has implemented the Young Southeast Asian Leaders Initiatives, the Thai Women Empowerment Fund, and other programs aimed at the development of women and young people in Southeast Asia.

And in South Korea, a core pillar of activity in Southeast Asia is [a focus on](#) education, two-way exchanges, and improving public administration competencies. These activities should be expanded and coordinated with the United States and Japan to ensure they support the investments in SMEs and other sectors.

[Marine Cleanup in the South China Sea](#)

In 2019, ASEAN countries agreed to the Bangkok Declaration on Combating Marine Debris, marking maritime cleanup as a priority for the 10 countries. While China is the number one contributor to plastic in the oceans, the [rest of the top five](#) are all ASEAN countries—Indonesia, the Philippines, Vietnam, and Thailand. The trilateral partners, combined with countries in ASEAN, should seek to cooperate and collaborate on efforts to speed the cleanup in the waters around ASEAN countries.

The rationale for trilateral cooperation in marine cleanup already exists in official policy or statements from all three countries. In its Free and Open Indo-Pacific strategy, the United States lists marine cleanup as a priority. South Korea's NSP does the same. And in a 2019 speech, then-Prime Minister Abe also committed Japan to marine cleanup in cooperation with ASEAN countries. The three countries should now seek ways to align their activities, using it as an opportunity to stress that their activities are environmentally focused and are nonthreatening to China.

Undertaking marine cleanup activities in the South China Sea will be particularly important for South Korea. Thus far, Seoul has opted not to send vessels to operate in the South China Sea for fear of economic retaliation should those activities be viewed as part of an anti-China coalition. However, marine cleanup activities—especially those in coordination with ASEAN countries—would begin the process of normalizing the presence of South Korean naval vessels operating in the region. This would help to reinforce the regional multinational presence as well as signal that South Korea has a vested interest in keeping the South China Sea peaceful and open, as much of its trade and energy passes through the area.

CONCLUSION

Despite heightened awareness of China's growing economic and military influence in Southeast Asia, the United States is only now outlining its policy response. As that response takes shape, Southeast Asia should be at its center. The region sits in the geographic middle of the Indo-Pacific, is economically dynamic, and is at the core of China's attempt to expand its influence. The United States—working with Japan and South Korea—should seek to offset China's growing influence in the region. But instead of competing with China on energy and transportation infrastructure, the coalition should direct its collective resources toward financing activities in which it has strengths and which China ignores: SMEs and human resources. The United States, Japan, and South Korea also have an unconventional tool at their disposal to balance against China in the South China Sea—marine cleanup activities. In picking fronts that offer the paths of least resistance, trilateral cooperation will maximize the presence of all three countries in ASEAN, maintaining balance in the region and making progress toward the economic and development goals of all three countries.

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