

# Chinese and Japanese infrastructure investment in Southeast Asia: from rivalry to cooperation?

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**Chinese and Japanese infrastructure investment in Southeast Asia: from rivalry to cooperation?**

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**Abstract**

This article focuses on Sino-Japanese competition dynamics in Southeast Asian infrastructure investment. It attempts to use Sino-Japanese competition for infrastructure financing and high-speed railway contracts as a case in point to explore whether and in what way the Sino-Japanese rivalry extends to the infrastructure sectors in Southeast Asia, what impacts it will create on the region in terms of investment models and regional financial architecture. This article concludes by saying that Sino-Japanese competition in Southeast Asian infrastructure could be constructive, since this competition can contain the two countries' respective behavior and prompt them to improve their investment approaches. Thus, a multilateral cooperation framework among ASEAN, Japan and China would be needed so as to contain and soften Sino-Japanese overdue rivalry in Southeast Asia.

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**Key words:** China-Japan, infrastructure investment, competition, Southeast Asia, Belt and Road Initiative, AIIB

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## **Introduction**

Recent years have seen growing concern over the potential for great power rivalries in Asia. The most likely stage for competition is in the geo-economic domain as regional powers seek to leverage their growing economic clout to expand their regional and global influence. In this context, China and Japan have increasingly emerged as regional economic competitors, as evidenced by their rivalry for infrastructure contracts in Asia. To build on its growing confidence as a rising power, China has endeavored to export its infrastructure products and related technology throughout Asia, while Japan is determined to maintain its regional dominant position in infrastructure development in Asia, especially in Southeast Asia. The most visible sign of this has been in the high-speed railway (HSR) competition. In October 2015 Japan lost a \$5 billion contract to China to build Indonesia's first HSR connecting Jakarta and Bandung. The same year Japan leveraged its burgeoning relationship with India to secure a \$15 billion deal to construct a HSR between Mumbai and Ahmedabad. Japan is also due to begin construction of HSR line connecting Bangkok with Chiang Mai while Chinese companies have begun work on another railway line from Nong Khai on the Lao border to Map Ta Phu on the eastern seaboard of the Gulf of Thailand. China's new initiatives stimulated Japan's counter actions in commitments to infrastructure development in Southeast Asia. The Partnership for Quality Infrastructure (PQI) in May 2015 was perceived as Japan's strategic response to retain its influence in infrastructure financing in the region.

As the two biggest Asian powers, competition for infrastructure investment in Asia is inevitable. Japan is a long-established developer of regional infrastructure in Southeast Asia, and has competitive advantages in terms of safety, technology and social responsibility for local people. The export of infrastructure systems (including HSR systems) was positioned as a key government strategy to revitalize the Japanese economy under the current Japanese government. While China's interest in financing and building infrastructures there is relatively recent, but its HSR technology has grown

faster than Japan, Germany, France and other HSR big countries to become the biggest HSR country in the world. HSR projects exemplify the type of infrastructure projects China's OBOR (One Belt One Road) initiative seeks to promote. HSR is very high value-added in line with Beijing's long-term efforts to export more sophisticated technology and rebalance its economy. Therefore, export of HSR is a welcome opportunity for Chinese growing rail companies which see domestic market waning.

In view of that, this article attempts to use Sino-Japanese competition for HSR contracts as a case in point to explore whether and in what way the Sino-Japanese rivalry extends to the infrastructure sectors in Southeast Asia. Methodologically, this objective requires a distinction between the approaches and long-term aims related to China's and Japan's infrastructure investment in the region. In that regard, the article proceeds by comparing the two countries' evolving infrastructure diplomacies and investment approaches in Southeast Asia. Then, by analyzing how Japan established PQI and strengthened ADB's position to maintain its influence there, it explores possible trajectories of competition between them and the effects on Asian regional financial architecture. Asserting the HSR in Southeast Asia is related to their rivalry, it analyzes three cases of that area and explore how China and Japan refined their respective offerings in order to win the HSR contracts, showing how the Southeast Asia plays its role in their dynamic competitions.

That said, it is noteworthy that competition and rivalry are not necessarily the all-inclusive features of Sino-Japanese relations in their infrastructure investment in Southeast Asia. The two countries may in fact share many interests there, such as market access and regional prosperity, which under certain conditions can foster diverse forms of their collaboration. Hence, the article concludes by saying that Sino-Japanese competition in Southeast Asian infrastructure could be constructive, since this competition can contain the two countries' respective behavior and prompt them to improve their investment approaches. Thus, a multilateral cooperation framework among ASEAN, Japan and China would be needed so as to contain and soften Sino-

Japanese overdue rivalry in Southeast Asia.

### **Different views and debates on Sino-Japanese competition**

Since the normalization of diplomatic relations between the two countries, China-Japan relations have not yet escaped from the most difficult period. With the two Asian powers long divided by disputes over history and territory issues, as well as large different views on some regional security issues, competition between China and Japan is inevitable. Now this competitive relationship is expanding into infrastructure investment in Southeast Asia, how will this affect the future economic cooperation in the region?

Sino-Japanese competition may aggravate ASEAN strategic divisions

There are different views on Sino-Japanese rivalry for providing public goods in the region. Some scholars believe that Sino-Japanese rivalry for Southeast Asian infrastructure investment is beyond the projects, it is about geopolitics, and might therefore create great impacts on the region in terms of geopolitics.<sup>1</sup> As Li (etc.) stated “Apart from the needs to revitalize its own economy, the purpose of Japan to attach great importance to the competition for exporting HSRs is to tie in with America’s ‘Asia-Pacific rebalancing’ strategy and contain China”.<sup>2</sup> Big powers’ competition brought about a shift in various Southeast Asian countries since 2010. While some mainland ASEAN countries like Laos and Cambodia view the Sino-Japanese competition as beneficial to their countries in terms of economic capacity-building, some maritime ASEAN countries like the Philippines and Indonesia are more concerned about major-power dynamics as a whole, especially Sino-US relations.

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<sup>1</sup> Huang fengzhi, Liulei, “riben dui ‘yidai yilu’ de renzhi yu yingdui”(Japan’s cognition of ‘One Belt One Road’ and its response), *Xiandai guoji guanxi*, (Contemporary international relations), No. 11, 2015.

<sup>2</sup> Li Yi, Li Mengsheng, “Riben zai zhongguo gaotie haiwai shuchu jincheng zhong de yingxiang” (Japan’s impacts on China’s HSR exports), *Dongbeiyu Luntan* (Northeast Asian Forum), 2016, No.5.

ASEAN's ability to remain united in its neutrality could face challenges should the Sino-Japanese or other forms of major-power competition worsen.<sup>3</sup> As ASEAN is perceived to lack the ability to manage the negative consequences of the Sino-Japanese competition due to its small size and differences among member countries, there is a concern that their competition may lead to a split in ASEAN integration or erode ASEAN unity.<sup>4</sup>

Chinese scholars believe that it is not the geographical locations that lead to the strategic division among ASEAN countries, rather it is the divergence in their China policies.<sup>5</sup> Southeast Asia's perceptions of China since 2010 varied across the countries, and Sino-Japanese investment competition has deepened the existing policy differentiation in Southeast Asian countries.<sup>6</sup> For example, on the South China Sea issue, although Japan is not a claimant country, it fears that China's attempts to assert sovereignty over the South China Sea will embolden Beijing in its dispute with Japan over the Senkakus (Diaoyu Islands). So Tokyo hopes to strengthen ASEAN unity on its policy with China over the South China Sea. After the judgment of the Permanent Court of Arbitration (PCA) regarding the South China Sea dispute in July 2016, Cambodia became a major supporter for Beijing by blocking mention of the international tribunal ruling within the consensus-based ASEAN. Japan tried to change Cambodia's position through infrastructure support commitments. During the 11<sup>th</sup> Asia-Europe Meeting summit in Mongolia in July 2016, Prime Minister Abe held a summit meeting with Hun Sen. Abe stated that "Cambodia is an important country that holds the key to the integration of ASEAN", and promised that Japan will continue to support Cambodia through

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<sup>3</sup> Bhubhinder Singh, Sarah Teo & Benjamin Ho (2017), "Rising Sino-Japanese competition: perspectives from South-East Asian elites", *Australian Journal of International Affairs*, 71:1, 105-120.

<sup>4</sup> Ibid.

<sup>5</sup> Shi Tianyi, "Diqu fengxian yu dongmeng guojia duichong zhanlue" (Regional Risk and ASEAN States' Hedging Strategy), *Shijie jingji yu zhengzhi* (World economy and politics), No.5, 2016.

<sup>6</sup> Liu luonan, "daguo anquan jingzheng yu dongnanya guojia de diwei zhanlue zhuanbian" (Big powers' security rivalry and the strategic adjustments of Southeast Asian countries), *Shijie jingji yu zhengzhi* (World economy and politics), No.4, 2017.

initiatives such as exporting quality infrastructure, strengthening Mekong connectivity and developing industrial human resources.<sup>7</sup> Abe then said that the PCA's award was final for both the parties concerned and was legally binding, regarding this issue a matter of the principle of the rule of law.<sup>8</sup> Abe certainly recognized Cambodia's crucial position in maintaining ASEAN's cohesion regarding the South China Sea issue, and attempted to change its posture to offer support for China's diplomatic stance by referring to Japan's continuous commitments to infrastructure development in the country.<sup>9</sup>

Another example is Myanmar. China has a geographical advantage over Japan and is the biggest trade partner and investor of Myanmar. Although China continues to build pipelines with Myanmar, relations between these two countries are not as close as they once were. This is largely due to the ethnic conflict in northern Myanmar and the Myanmar government's foreign policy. After Thein Sein became President (from 2011-2016), he adopted sweeping political and economic reforms, and drew various great powers into the country to avoid overdependence on China. Obviously, Japan supports this strategy and could well eclipse Beijing over the long-term with its participation in infrastructure building. Abe government provided Myanmar with yen loan for various fields including the construction of roads, power plants, ports, train stations, and so on. Among these, particularly important are the Thilawa Special Industrial Zone and the Dawei Special Economic Zone which are the flagships of Tokyo's commitment to promote industrialization, connectivity and economic development in Myanmar. According to Lam, Japan's enthusiastic engagement in Myanmar's infrastructure building is to show that "Tokyo is still a major power in Southeast Asia and can be counted on by the US and ASEAN states to be an important and useful counterweight

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<sup>7</sup> Ministry of Foreign Affairs of Japan, "Japan-Cambodia Summit Meeting", 16 July 2016 <[http://www.mofa.go.jp/s\\_sa/sea1/kh/page3e\\_000513.html](http://www.mofa.go.jp/s_sa/sea1/kh/page3e_000513.html)> [accessed on 21 September 2017]

<sup>8</sup> Ibid.

<sup>9</sup> Hidetaka Yoshimatsu, "Japan's export of infrastructure systems: pursuing twin goals through developmental means", *The Pacific Review*, Vol.30, No.4, 494-512.



to Beijing's rising assertiveness in that region."<sup>10</sup>

### China-Japan competition has positive impacts

From a positive perspective, however, the two countries' contest for Southeast Asia's infrastructure building could mean a greater choice for Southeast Asia, as "in the process of striving for support from small countries, great powers will compete to provide various forms of benefits and opportunities for the latter."<sup>11</sup> The opportunity is reflected in two aspects: one is that rival big powers will compete to provide strategic dividends (especially public goods) for small countries in the region; the other one is due to the fact that the relationship between the two competing big countries is more alienated, the small and medium-sized countries may have more room to develop relations with each of the two great powers simultaneously.<sup>12</sup> Thus such competition is generally a welcome dynamic for the smaller developing countries of Southeast Asia, as well as for regional governance.

Tomotaka Shoji's research shows the same judgment. He pointed out that out of worries about China's growing influence in Southeast Asia, Japan follows the pace of China to develop its relations with ASEAN.<sup>13</sup> While John Ciorciari argued that although the purpose of the US and Japan to expand economic ties with Southeast Asia was not solely a response to China's growing influence, "China's burgeoning market share in the region has helped light a fire under rival external powers eager to do business in

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<sup>10</sup> Lam Peng Er, "Myanmar: Japan's 'Last Frontier' in Asia?", *Asian Survey*, Vol.56, No.3, 2016, pp.512-531.

<sup>11</sup> Shi tianyi, "Diqu fengxian yu dongmeng guojia duichong zhanlue" (Regional Risk and ASEAN States' Hedging Strategy), *Shijie jingji yu zhengzhi* (World economy and politics), No.5, 2016.

<sup>12</sup> Ibid.

<sup>13</sup> Tomotaka Shoji, "China's Rise and Japan's Change Approach to Southeast Asia", in Lam Peng Er and Victor Teo, eds., *Southeast Asia between China and Japan*, Newcastle upon Tyne: Cambridge Scholars Publishing, 2012, pp.69-70.

Southeast Asia.”<sup>14</sup>Indeed, Japan’s investment in Southeast Asian infrastructure sectors was largely stimulated by China’s growing strategic influence in the region. This is manifested in the fact that some months later after China created the China-led AIIB, Japan created a new the Partnership for Quality Infrastructure (PQI) in May 2015, emphasizing explicitly on enhancing the quality of infrastructure in Asia. Many Southeast Asian elites hope that, since “the fundamental problem with Japan’s foreign policy was its failure to ‘think big’”,<sup>15</sup> and “... Japan has never been able to follow through on its independent initiatives in Asian regional institution-building projects”,<sup>16</sup> while China has a big vision and focused strategy (OBOR, AIIB, and community of human destiny), the China-Japan competition in Southeast Asia may prompt Japan to think big on Asian development program and play a larger role in regional and global governance.

### **Japan’s infrastructure diplomacy in Southeast Asia**

Japan began its large-scale investment in Southeast Asia since the later 1970s with its multinational companies continuously transferring their manufacturing capacity to Southeast Asian countries, forming cross-regional production networks around Bangkok, Jakarta and other large cities as centers. Japanese government had formulated and began to invest its vision for infrastructure connectivity across Southeast Asia in the 1990s. In 2010, commissioned by Japanese government, the Japan’s Economic Research Institute for ASEAN and East Asia conducted and published a research report entitled “The Comprehensive Asia Development Plan”. According to this report, Japan’s vision for infrastructure connectivity, which is to help Japanese manufacturing companies to construct production networks on the basis of division of labor among

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<sup>14</sup> John David Ciorciari, “The balance of great-power influence in contemporary Southeast Asia”, *International Relations of the Asia-Pacific*, Volume 9 (2009) 157-196.

<sup>15</sup> Yoichi Funabashi and Andrea Ninomiya, “Japan needs to think big on Asian strategy”, *East Asia Forum*, 21 June 2015.

<sup>16</sup> Alex Yu-ting Lin and Saori N. Katada, “Regional order reconfigured: China, Japan, and the United States in the evolving Asia Pacific”, *Asia Pacific Bulletin*, Number 390, 2 August 2017.

different countries, is composed of three initiatives: the well-known East-West Economic Corridor that would run from the port of Danang in central Vietnam through Laos and Thailand to the port of Mawlamyine in Southeast Myanmar; the Mekong-India Economic Corridor that would connect Ho Chi Minh City, Phnom Penh, Bangkok, and could potentially extend to the port of Dawei in southern Myanmar and beyond; the third initiative is the Maritime ASEAN Economic Corridor that would consolidate port development, marine economic development, and information, communications, and technological networks connecting Brunei, Indonesia, Malaysia, the Philippines, and Singapore.<sup>17</sup> The biggest feature of Japan's interconnectivity plan there is to link ASEAN's industrialization with infrastructure development, focusing on promoting ASEAN's economic integration and narrowing the development gap. Therefore, the basic idea of Japan's development of interconnectivity in Southeast Asia is to establish cross-regional and inter-regional interconnectivity and, especially with large urban agglomerations as nodes, to build economic corridors across different developing countries in the region, so as to promote ASEAN countries' industrialization and regional integration.<sup>18</sup>

Japan's railroad diplomacy in Southeast Asia takes three forms from donations, aid to joint HSR projects. Donations refer to Japanese rail operators, such as JR East Japan, sending their retired rolling stocks to developing countries. Many Southeast Asian countries, particularly Myanmar, have received a number of used Japanese trains in the past years. ODA though continues to play a central role in Japan's infrastructure diplomacy, private finance far exceeds official finance into developing countries and the activities of the private sectors are increasingly serving as a powerful engine for economic growth in host countries. From 2013-2014, in the total amount of Japanese capital flows to developing countries, private capital accounted for 87 per cent, while

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<sup>17</sup> "The Comprehensive Asia Development Plan", Economic Research Institute for ASEAN and East Asia, Japan, October 2010 < [http://www.eria.org/publications/research\\_project\\_reports/the-comprehensive-asia-development-plan.html](http://www.eria.org/publications/research_project_reports/the-comprehensive-asia-development-plan.html) > [accessed on 15 September 2017]

<sup>18</sup> Ibid.

ODA accounted for only 15.5 per cent.<sup>19</sup> The provision of ODA was a soft form of government intervention designed to provide private actors with incentives to invest in new businesses. The offer of financial support is expected to lower entry barriers to overseas infrastructure projects that require huge initial investment and accompany economic and political risks.

In October 2013 Japanese government announced economic cooperation reforms for yen loan which aimed at improving the yen loan system in order to promote Japanese companies' participation in the Public Private Partnership (PPP) projects. Since the PPP projects for infrastructure often take the Build, Operate and Transfer method, they tend to be a risky business with a 20-30 project period.<sup>20</sup> Accordingly, the government's loan support is very effective in urging private actors' positive participation in the PPP projects.

Japan regarded the ASEAN as 'a market where Japan will never lose and be behind'. After Japan was outbid for the HSR project between Jakarta and Bandung in September 2015, Japanese government drew lessons quickly and promised to contribute "high quality" infrastructure development in the future. Japan revised the ODA systems regarding infrastructure development in several ways. First, the government revised yen loan procedures to reduce the period necessary for government-related procedures to one and a half years at most for important projects. Second, the government decided to exempt the government guarantee in providing yen loans directly to sub-sovereign entities of developing countries when several conditions including the economic stability of recipient countries and sufficient commitments by recipient governments are met.

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<sup>19</sup> White paper on Development Cooperation 2015, "Japan's International Cooperation", Ministry of Foreign Affairs, March 2016.

<sup>20</sup> Hidetaka Yoshimatsu, "Japan's export of infrastructure systems: pursuing twin goals through developmental means", *The Pacific Review*, Vol.30, No.4, 494-512.

Japan certainly has the competitive edge on China in infrastructure development in Southeast Asia in some aspects. Compared to China's state-backed projects, Japanese projects are more resilient because they have a large number of financial backers. Many Japanese projects have private backing by companies such as Mitsubishi, Toyota, Nintendo, and Sumitomo Mitsui Financial Group expecting to make a profit. These companies are advancing economic integration in Southeast Asia as they have long cultivated there, they know the importance of people-to-people ties and the needs in the region. These backers also include government entities and multilaterals like the Japan International Cooperation Agency, the Japan Bank for International Cooperation, and the ADB.

### **China's infrastructure diplomacy in Southeast Asia**

China began to cultivate its economic ties much later than Japan. Its commitments to infrastructure development in Southeast Asia were seen in the early 2000s when Yunnan Province and Guangxi Autonomous Region prioritized inter-regional physical transport connectivity with ASEAN countries and initiated the Gateway Strategy and Pan-Beibu Gulf Economic Zone respectively. They aimed to strengthen their land connectivity with ASEAN through expressway and railway, and to build bilateral maritime and air connectivity through port, harbor-related and airport infrastructure cooperation. China's initiatives for building infrastructure connectivity exhibited a significant development in 2013 when Chinese President Xi Jinping proposed the Belt and Road Initiative (BRI) which comprises of the Maritime Silk Road and the Silk Road Economic Belt. This initiative has a strategic objective of advancing practical economic cooperation on infrastructure development and strengthening linkages with neighboring states by relying on the distinctive values and ideas of the ancient Silk Road.

Beijing's long-term goals for infrastructure development in Southeast Asia within the framework of the broader the BRI include the ambitious plan to build a Pan-Asia Railway Network that will see three 4,500-5,500 kilometre railway lines linking China

and Southeast Asia.<sup>21</sup> Central, eastern and western routes of this planned railway network will run from Kunming through Laos, Thailand, Myanmar, Malaysia and Singapore. The China-ASEAN transport cooperation plan paved the way for the International Transport Corridor between China and ASEAN countries. More importantly, the Sino-Laos and Sino-Thailand railways will form a vast railway network connecting local areas, and that is a feat which neither Japan nor other countries can match. For example, in the case of Thailand, Japan won the railway contract linking Chiang Mai to Bangkok, but it will be difficult for that stretch of railway to be compatible with the Sino-Laos railway and China's domestic railway network in the future. In other words, China's investment in transportation facilities in neighboring countries is an extension of its domestic railway network and technology.

The "Action plan for implementing China-ASEAN strategic partnership towards peace and prosperity (2016-2020)" which was announced by Chinese government in March 2016 proposed that China's BRI be synergized with the Master Plan on ASEAN Connectivity; China has held three meetings with the ASEAN Connectivity Coordinating Committee (the body tasked to coordinate and oversee the effective implementation of the Master Plan on ASEAN Connectivity), and on the third one which was held in Jakarta in July 2017, the two sides agreed "that the BRI and the Master Plan on ASEAN Connectivity 2025 fit each other strategically and have great potential for cooperation, and the two sides will hold further discussions on those priority projects and promote the synergy of the BRI and the Master Plan on ASEAN Connectivity 2025".<sup>22</sup>

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<sup>21</sup> The Pan-Asian Railway network was first proposed by the United Nations Economic Council for Asia and the Far East (renamed as the Asia-Pacific Economic Council in 1974). In November 2006, 18 Asian countries signed an intergovernmental Agreement on Asian Railway Network in Busan, and the Pan-Asian Railway Network which has been planned for nearly 50 years began to be implemented. According to the agreement, a railway network which is composed of the northern channel, southern channel, north-south channel and ASEAN channel will connect the two continents of Europe and Asia into a Eurasian continent.

<sup>22</sup> Ministry of Commerce of China, "The third meeting between China and the ASEAN Connectivity Coordinating Committee was held in Jakarta", <

Currently, Chinese investment in the ten ASEAN countries is still much lower than that of Japan, but Chinese investment will only increase further as the implementation of China's OBOR initiative goes on and various public funds have been set up to support this venture. Chinese projects are managed by state-owned enterprises (SOEs), and are funded with government-provided loans. China is seen as more flexible and can complete infrastructure projects relatively quickly. With its more rapidly growing economy, China has the ability to supply a variety of HSR products and expertise, with specific operational models of different capacity and technology types to accommodate the preferences, budget situations, and bank loan options of the host countries.

But China's state-backed pattern of investment also has its own malpractice and limitations which are manifested as poor understanding of local politics and inadequate assessment of potential risks. For example, in Malaysia, China is building a number of port projects on the east, west and north coasts of peninsular Malaysia; and China Nuclear Industry Group paid unhesitatingly over \$2.3 billion for the power assets owned by 1 MDB (1 Malaysia Development Berhad), the troubled state-owned investment fund linked to Prime Minister Najib; China was attempting to purchase a majority stake of the Bandar Malaysia which is the proposed site of the Malaysian-Singapore HSR terminus in Kuala Lumpur.

But it seems that China is not aware that its growing presence in Malaysia is stoking domestic unease and worries. Critics like former premier Mahathir Mohamad worry that "the country will have to pay a hefty price in exchange for Chinese money".<sup>23</sup> While Malaysian Chinese who have played an important role in China-Malaysia economic relations since the 1980s worry that they might be marginalized in the new round of Sino-Malaysian economic relation, as Chan Xin Ying has pointed out that

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<http://www.mofcom.gov.cn/article/bldxx/zhongyaohd/201707/20170702615396.shtml> > [accessed on 10 August 2017]

<sup>23</sup> "Chinese deals in Malaysia under scrutiny", *The Strait Times*, 7 May 2017.

“these years have found that as more and more government-linked companies (GLCs) go for key and strategic industries since 2010, the new economic relations between China and Malaysia have shifted to more collaboration between Malay-led GLCs instead of the Chinese business community.”<sup>24</sup> Examples include the Kuantan Port expansion which is a cooperation between IJM Corp and Guangxi Beibu; the Melaka Gateway project which is getting investments from Power China and operated by the Melaka state government’s KAJ Holdings. As a result, local Chinese businesses face fierce competition from China as GLCs opt to work with mainland China firms rather than local Chinese enterprises.<sup>25</sup>

### **Sino-Japanese competition for infrastructure investment**

Southeast Asian countries still face major challenges in regional market integration and connectivity development. In order to overcome the regional gap and strengthen internal cohesion, ASEAN has taken several initiatives, including the Master Plan on ASEAN Connectivity which was adopted by ASEAN Leaders in October 2010. According to the latest ADB report, during 2016-2030, Southeast Asian countries will need to invest \$2.8 trillion in national infrastructure (with Indonesia alone needing \$1.1 trillion), or \$184 billion per year.<sup>26</sup> This gives a chance for China and Japan to play their roles as well as prompts a competition between them which is more reflected in infrastructure financing and HSRs building.

### Sino-Japanese rivalry for infrastructure financing

#### *The AIIB and China’s financing ability*

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<sup>24</sup> Chan Xin Ying, “China-Malaysia relations: the three dilemmas of Malaysian Chinese”, RSIS Commentary, No.152, 21 August 2017.

<sup>25</sup> Ibid.

<sup>26</sup> ADB special report, “Meeting Asia’s Infrastructure Needs”, <<https://www.adb.org/publications/asia-infrastructure-needs>> [accessed on 11 October 2017]



China’s initiatives in building regional financial institutions for infrastructure development exhibited a significant development in 2013. Chinese President Xi Jinping announced the establishment of the AIIB during his visit to Southeast Asia in October 2013. This proposal collected international attention, and in December 2015 the AIIB was formally launched with \$100 billion in capital with 57 founding members. China has explicitly positioned the AIIB as a multilateral development financing bank, and its aim is “to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors”.<sup>27</sup> In addition, China initiated a series of other financing institutions, such as the Silk Road Fund, and the New (BRICS) Development Bank to support its BRI which has a strategic objective of advancing practical economic cooperation on infrastructure development and strengthening linkages with neighboring countries.

Since 2013 when China unveiled its BRI, Chinese government has committed \$200 billion in financing infrastructure projects through its state banks, mobilized \$100 billion through the AIIB and \$50 billion through the Silk Road Fund (Table 1). The China Development Bank and Export-Import Bank of China have extended \$110 in loans for the BRI projects by the end 2016. In an address at the BRI Forum’s opening ceremony in Beijing in May 2017, Chinese President Xi unveiled a plan to extend 1.64 trillion yen in additional contributions to the Silk Road Fund.

Table 1. China-led international financial institutions

	New (BRICS) Development Bank	AIIB	Silk Road Fund
<b>No. of members</b>	5 (Brazil, Russia, India, China, South Africa)	57 (founding members)	1 (China)
<b>Capital</b>	US\$50 billion (\$10 billion from each member; US\$100 billion long-term)	US\$100 billion (China accounting for around 50%)	US\$50 billion (all from China)

<sup>27</sup> Zheng Yangpen, “AIIB chief vows to run clean, lean, green institution”, China Daily, 1 January 2016.

<b>Targets</b>	Infrastructure projects in BRICS as priority	Infrastructure projects of developing countries in Asia	Infrastructure projects of countries along the OBOR
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Source: from China’s various sources.

*PQI and Japan’s comparative advantages*

Japan’s concerns about China’s increasing assertiveness in the realm of Asian financing have been obvious since the creation of AIIB in April 2015. While acknowledging the necessity of infrastructure investment in Asia, Japan and the US were significantly concerned about the China-led AIIB because of “its lack of transparency, low lending standards, and China’s increasing influence in Southeast Asia”, and the Abe administration perceived that AIIB may serve to create a Sino-centric economic and political sphere of influence in Southeast Asian states, and Japan should have new program to counter the AIIB’s influence.<sup>28</sup>

The PQI in May 2015 was Japan’s strategic response to retain its influence in infrastructure development in Asia, and the amount of \$110 billion announced in the partnership could be interpreted to rival the AIIB. At the Japan-ASEAN Summit held in November 2015, Abe announced the follow-up measures to the PQI, which upgraded and expanded systems by the improvement of Japan’s ODA loans and Private-Sector Investment Finance including the acceleration of procedures of Japan’s ODA loans and the establishment of new types of Japan’s ODA loans, greater collaboration with ADB, and structural reforms and management improvements to Japan Bank for International Cooperation and Nippon Export and Investment Insurance. Given China’s massive financial power to sustain growing demands for infrastructure development in Asia, Abe intended to contrast high-quality infrastructure investment against Chinese one that is seem as “less transparent in the bidding process and weak in governance standards

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<sup>28</sup> Kei Koga, “Japan’s ‘Strategic Coordination’ in 2015 ASEAN, Southeast Asia, and Abe’s diplomatic Agenda”, Southeast Asian Affairs 2016.

for protecting environments and local communities”.<sup>29</sup>

Compared with China’s financing ability for infrastructure building, Japan has its competitive advantages. Japan underscores the importance of “quality infrastructure investment” based on its technology and experience with assistance to Southeast Asia. Japan sought to diffuse ‘quality infrastructure investment’ as common standards broadly considered in infrastructure building. For example, Prime Minister Abe stated in the speech to announce the PQI that “we no longer want a ‘cheap, but shoddy’ approach”, stressing an importance to choose the long-lasting or high-quality item even if the price is a bit higher by looking at the entire life-cycle.<sup>30</sup> The Japanese government has undertaken joint activities with multilateral development banks such as the ADB, the World Bank and the Inter-American Development Bank in order to promote high-quality infrastructure projects in specific policy fields and deepen common understanding about major characteristics of the investment.<sup>31</sup> Moreover, at its hosted G-7 summit in May 2016, the Japanese government successfully made world leaders adopt “Principles for Promoting Quality Infrastructure Investment” that comprised five pillars such as “ensuring effective governance, reliable operation and economic efficiency in view of life-cycle cost”, “ensuring job creation, capacity building and transfer of expertise and know-how for local communities”, and “social and environmental impacts of infrastructure projects”.<sup>32</sup>

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<sup>29</sup> Kei Koga, “Japan’s ‘Strategic Coordination’ in 2015 ASEAN, Southeast Asia, and Abe’s diplomatic Agenda”, *Southeast Asian Affairs* 2016.

<sup>30</sup> “The Future of Asia: Be Innovative – speech by Prime Minister Shinzo Abe at the Banquet of the 21<sup>st</sup> International Conference on the Future of Asia”, 21 May 2015  
<[http://japan.kantei.go.jp/97\\_abe/statement/201505/0521foaspeech.html](http://japan.kantei.go.jp/97_abe/statement/201505/0521foaspeech.html)> [accessed on 21 October 2017]

<sup>31</sup> Ministry of Finance, “Commitments by the Ministry of Finance to the promotion of high-quality infrastructure investment”, 5 September 2016,  
<[http://www.mof.go.jp/international\\_policy/economic\\_assistance/pqi/index.html](http://www.mof.go.jp/international_policy/economic_assistance/pqi/index.html)> [accessed on 21 October 2017]

<sup>32</sup> “G7 Ise-Principles for Promoting Quality Infrastructure Investment”, <<http://www.mofa.go.jp/files/000160272.pdf>> [accessed on 21 October 2017]

Another essential feature of PQI is its collaboration with private sectors to participate in infrastructure development in Asian countries. There is a limit to what public finance alone can achieve in meeting Asia's immense infrastructure demand. Hence it is vital to develop mechanisms that attract both public and private finance to infrastructure investment in Asia. For this reason, the basic idea of PQI is to establish a mechanism to use public finance, including ODA as a "catalyst" to mobilize private finance, in collaboration with ADB.<sup>33</sup> PQI in cooperation with ADB, will establish a new trust fund and it will invest in and finance private quality infrastructure projects through measures such as PPP (Public Private Partnership).

But PQI also has its limits. It seems Japan's establishment of PQI was a direct response to China's initiatives and is a single state behavior. PQI's money comes mainly from ODA, ADB and private capital. But as Japan's overall economy declines relatively, its strength for foreign aid has become weak. According to Japanese official figures, its ODA general budget of 2015 has been declined for 16 years consecutively. Although the amount of 2016 and 2017 has increased slightly, it was still less than half that of 1997.<sup>34</sup> Related data shows that in 2017 the ODA budget of the Ministry of Foreign Affairs is 434.3 billion yen (the government's overall ODA budget is 552.7 billion yen), of which the aid for high quality infrastructure is only 71.4 billion yen.<sup>35</sup>

ADB itself also faces a shortage of funds. Although its operations (including approved loan and grants, technical assistance and joint loan) in 2015 hit a new record of \$27.2 billion, an increase of nearly 19% that of 2014 (\$22.9 billion), given the fact that infrastructure investment is only one of ADB's core businesses, the funds it provides

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<sup>33</sup> White Paper on Development Cooperation 2015, "Japan's International Cooperation", Ministry of Foreign Affairs.

<sup>34</sup> Ministry of Foreign Affairs of Japan, <<http://www.mofa.go.jp/mofaj/gaoko/oda/shiryoyosan.html#section3> > [accessed on 21 October 2017]

<sup>35</sup> Ministry of Foreign Affairs of Japan, <<http://www.mofa.go.jp/mofaj/gaiko/oda/files/000218568.pdf> > [accessed on 21 October 2017]

can definitely not meet the demand for infrastructure investment in Asia. ADB's latest report shows the estimated infrastructure investment needs for 2016-2030 in Asia and the Pacific is \$22.5 trillion, or \$1.5 trillion per year.<sup>36</sup>

Although it is uncertain whether those China-led institutions can supplement the existing multilateral financial institutions effectively and prove resistant to future possible crisis, in any case, it is more likely that these alternative institutions would work in collaboration with ADB and World Bank instead of replacing them. The establishment of the Brics development bank and the AIIB of which China being the main financier also means that it is unlikely the Japan-led ADB, the US-led World Bank or the EU-led IMF will remain the primary players in Asian financial architecture.

#### Sino-Japanese HSR competition in Thailand, Indonesia, and Malaysia

Railway projects are high on the wish-list of infrastructure development of many Southeast Asian countries, because they are cost efficient and can typically capture the gains from rising land values. Reflecting colonial legacies, many Southeast Asian countries' railroad systems are narrow gauge (less than 1.435 meters), such as 1 or 1.067 meters, with a top speed no higher than 160 km/h. Therefore, when these countries plan to build HSRs, unlike their European counterparts, they need to establish a new and distinct system rather than upgrading their existing asset.<sup>37</sup> This means greater budgets and thus more potential for profits, and great attractiveness to China and Japan. The competition is more reflected in the HSR projects in Thailand, Indonesia, and Kuala Lumpur-Singapore project.

#### *Thailand*

China is keen to improve its access to Southeast Asia via fast, high-capacity transport

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<sup>36</sup> ADB special report, "Meeting Asia's Infrastructure Needs", <<https://www.adb.org/publications/asia-infrastructure-needs>> [accessed on 21 October 2017]

<sup>37</sup> Shangsu Wu, "Japan's train diplomacy", *The Diplomacy*, 9 November 2015.

links. Due to the complex geopolitics in Vietnam and Myanmar, Thailand became the first choice for China to expand its economic circle and form the Pan-Asia railway network. Although, China's immediate commercial interests in Thailand are limited as the wages there have been rising and the local market is too small for Chinese firms to make large manufacturing investments there, the geopolitical and economic incentives to build the link are compelling. Thailand is the centre point of ASEAN, bordering three of the world's fastest-growing economies – Myanmar, Laos and Cambodia – all of which are already in China's sphere of influence. Given Thailand's prominent position on the geographical location of land and sea in Southeast Asia, China hopes it can become the fulcrum of Maritime Silk Road.<sup>38</sup>

For Thailand, it stands to gain economically from the Trans-Asia Railway. Thailand will be able to achieve very high connectivity if domestic railways are to be linked to neighboring countries. Thailand can also tap into China's vast railroad system, reaching into China's vast mid-western and eastern regions, and even entering Europe through China's railway system. The Trans-Asia Railway may also reduce logistical costs for Thailand and help Thailand realize its ambition to become a hub for aviation and shipping in Southeast Asia.

China had shown strong interest in the development of HSR line connecting Bangkok with Chiang Mai as early in 2013, and completed the field geological surveys along this proposed HSR routes, making China Railway Corporation the front-runner for bidding the Bangkok-Chiang Mai HSR project, and proposed an estimated construction cost of US\$12.8 billion.<sup>39</sup> Although the project was later given to Japan, in December 2015, Thai government and Chinese government signed a memorandum of understanding covering the construction of 874 km of Thailand-China railway project. The \$11.7

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<sup>38</sup> Zhou Fangye, "zhong tai guanxi – dongmeng hezuo zhong de zhanlue zhidian zuoyong", *Nanyang wenti yanjiu*, (Zhou Fangye, "China-Thailand: a role as a strategic fulcrum in China-ASEAN cooperation", *Southeast Asian Affairs*), No.3, 2014.

<sup>39</sup> "China shares up on Thai fast-rail," *Bangkok Post*, 14 October 2013.

billion mega project includes the construction of a 734-km railway line from Nong Khai on the Lao border to Map Ta Phu, Thailand's biggest industrial cluster, on the eastern seaboard of the Gulf of Thailand. The Thailand-China HSR project has become a part of Thai government's plans to upgrade its national aging railway system and develop Thailand as an infrastructure hub for ASEAN.

Thailand is not entirely dependent on China. It at the same time seeks to find other partners, including Japan. Japan is also supporting the expansion rail, but its vision is quite different from that of China. Japan is by far the biggest investor in Thailand. Japan's industrial interests are concentrated around Greater Bangkok and on the eastern seaboard and the port of Laem Chabang. Different from China which wants to improve its connections to ASEAN, Japan seeks to expand transport infrastructure to support its industrial investments in the region. In May 2015, Thailand and Japan signed a memorandum of understanding (MOU) on a joint investment in the 635km HSR line between Bangkok and Chiang Mai, the construction could begin in 2019, and a metre-gauge double-track line linking Bangkok and Canchanaburi to Laem Chabang, where Thailand's main container port is located.

In addition, the Thai government is keen to get Japan to invest in two east-west corridors. The first would run 574 km from the Thai province of Kanchanaburi on the border with Myanmar to the eastern province of Aranyaprathet on the Cambodia border. This "lower east-west corridor" is supposed to connect with the coast city of Dawei in Myanmar, where the Thai and Myanmar governments plan to build Asia's biggest industrial area. The second rail line, "the upper east-west corridor", is to run from Mae Sot in Tak province, bordering Myanmar, to Mukdahan province, bordering Laos.<sup>40</sup> It would eventually connect with a planned railway running through Laos to the Vietnamese coast.

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<sup>40</sup> "The Comprehensive Asia Development Plan", Economic Research Institute for ASEAN and East Asia, Japan, October 2010 < [http://www.eria.org/publications/research\\_project\\_reports/the-comprehensive-asia-development-plan.html](http://www.eria.org/publications/research_project_reports/the-comprehensive-asia-development-plan.html) > [accessed on 15 September 2017]

## *Indonesia*

The railway system in Indonesia was established in the second half of the 19<sup>th</sup> century under the Dutch colonial administration, and rail was very important mode of cargo and passengers transportation, and when at its peak in 1939, the total railway length was 6,324 km on Java and 1,833 km on Sumatera.<sup>41</sup> However, due to the competition from road transportation, rail has been declining and the figures today had fallen to 3,464 km on Java and 1,350 km on Sumatera Island. Nevertheless, rail is still considered more superior than other transportation means for its loading capacity and energy and space efficiency. Thus Indonesian government formulated the Master Plan of National Railway in 2011 to guide the development of the national railway system in 2011. The strategy of the Master Plan is to develop network and services on the major island. One of the targets to achieve by 2030 is the extension of the network up to 12,100 km in all major islands, including 3,800 km of urban railway network. On Java, the network development plans include high-speed rail network which will connect Merak on the western tip of Java to Jakarta, Cirebon, Semarang, Surabaya, and then Banyuwangi on the eastern tip of the island. It was assumed that the Jakarta-Bandung section would be the first phase of the Jakarta-Surabaya HSR proposed in the Master Plan of National Railway.

Japan and China have been competing to win the Jakarta-Surabaya HSR project since April 2015. The project is touted as the first HSR for the Southeast Asia. Japan started the project's feasibility study in 2011, and the initial study showed that the project would cost \$6.4 billion.<sup>42</sup> However, Japan's proposal relied on government investments and loans, to which President Joko Widodo was strongly opposed. China came up with a comprehensive feasibility study and offered Indonesia a better deal. According to the China's proposal, China would build 150-kilometre (later changed to

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<sup>41</sup> Director General of Railway, Ministry of Transportation, "Master Plan of National Railway", April 2011.

<sup>42</sup> JETRO, "Study on the High Speed Railway Project (Jakarta-Bandung Section)", November 2012.



140-kilometre) HSR capable of taking train speed of 350-380 kilometres per hour.<sup>43</sup> The total investment would be \$5.5 billion. China's state companies would bear 40 per cent of this while Indonesian state companies would bear the remaining 60 per cent. The capital would be given by China Development Bank at 2 per cent interest annually to be paid over a forty-year period. The Indonesian government would not have to provide capital or make any financial guarantee. China eventually won the project by offering to finance it without any recourse to Indonesia's government.

Obviously, Japan has a comparative advantage in terms of technology, operational experience and safety standards. However, China managed to surpass these with its advantages in terms of financing and deployment of funds. This proved critical for Indonesia who has decided to lure China to invest more in the country. China agreed to carry out the HSR project under a business-to-business scheme. China will together with Indonesia jointly produce train vehicles not only for the high-speed trains but also for electric and light trains, which will be developed in Indonesia. The HSR project can be seen as a precondition for attracting more Chinese investment into the country. Indonesia does have a lot of infrastructure to be built, and China is able to offer required technology, expertise and money. Given this mutual interests, China is likely to become one of the top investors in Indonesia, alongside Singapore, Japan and South Korea.

After the failure to bid the Jakarta-Bandung line, Japanese government was prompted to revise its ODA systems regarding infrastructure investment in several ways, the most prominent of which is the government decided to exempt the government guarantee in providing yen loans directly to sub-sovereign entities of developing countries when several conditions including the economic stability of the recipient countries and sufficient commitments by the recipient governments are met.

Connected to the HSR project are plenty of other opportunities for investment in

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<sup>43</sup> "Patah Hati Saudara Tua", *Tempo*, 18 October 2015.

Indonesia. The urban railway networks which include links to airports or seaports would be the most needed in some cities in Java which are struggling with traffic jams on a daily basis. Currently only Jakarta has started the construction of a mass rapid transit (MRT) system with Japanese funding. Bandung and Surabaya have done studies for building light rail transit systems, but no construction has started yet. Other large and metropolitan cities will soon need similar transit systems. The investment mode of Jakarta-Bandung HSR which is initiated by the two governments and uses a business-to-business scheme offers a new option to build these projects there.

### *Malaysia*

In 2010, Malaysian government cited the HSR as a key project for revitalizing Greater Kuala Lumpur. Singapore and Malaysia formally announced plans to build a 350km HSR between Kuala Lumpur and Singapore in February 2013, and the two governments established a Joint Ministerial Committee to look into the project's technical issues. In 2014, Malaysia announced that the terminus would be located in Bandar Malaysia. The rail is planned to be completed by 2026 and several countries with HSR systems, including Japan and China have been lobbying hard to get the contract.

Stung by their failure to bid the Jakarta-Bandung line in Indonesia, the Japanese government has been lobbying Malaysia hard since 2014. At an ASEAN meeting in Kuala Lumpur in 2015, Japanese Prime Minister Shinzo Abe expressed his hopes to the leaders of Singapore and Malaysia that the Shinkansen's technology would be used for the HSR.<sup>44</sup> A consortium of Japanese firms, which includes Sumitomo, Hitachi, Mitsubishi Heavy Industries, and JR-East (East Japan Railway Company), which operates the Shinkansen have expressed interest in the HSR. Japan insists while the Japanese bid may be among the more expensive, its rail technology enjoys a very good safety record, longer life spans for equipment and rolling stock, and lower maintenance

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<sup>44</sup> "Abe pushes Shinkansen for Malaysia-Singapore High-Speed Rail link", Jiji Press English News Service, 22 November 2015.

costs.<sup>45</sup>

However, it appears that China has been the more active of the two. For China, the Singapore-Kuala Lumpur HSR will bring China's plans for the pan-Asian network closer to reality, as it will push for Thailand to consider a separate line that will connect Bangkok with Kuala Lumpur. China's approach is to tie its railway bid to a clutch of key investments in Malaysia, which include bonds and property developments in Kuala Lumpur, highlighting the spillover effects of the project on the surrounding areas. In November 2015, Chinese Premier Li Keqiang met with Malaysian Prime Minister Najib on his first visit to Malaysia as Chinese Premier. During that visit, the Chinese government agreed to purchase Malaysian government bonds and invest in infrastructure. In November 2015, state-owned China General Nuclear Corp paid over \$2.3 billion for the power assets owned by 1MDB (1MalaysiaDevelopmentBerhad), the troubled stat-owned investment fund linked to Prime Minister Najib.<sup>46</sup> This purchase has been helpful for Prime Minister Najib, as it has enabled 1MDB to substantially reduce its debt.

Chinese state-owned enterprises have been busy elsewhere in Malaysia. The Chinese have already signed a RM55 billion contract to build the East Coast Rail Line, which is a 620km electrified network that runs all the way from Tumpat, located near the north-eastern border with Thailand, down the coast to Kuantan Port, before cutting through the mountainous central region of Peninsular Malaysia to Port Klang. At present, Chinese firms have a dominant market share in the rail sector in Malaysia, supplying some 80 per cent of the rolling stock in the use. In addition, the China Railway Rolling Stock Corp. set up a \$131 million manufacturing facility in Perak in

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<sup>45</sup> "Japan promotes Shinkansen high-speed rail link for Malaysia-Singapore", *The Japan Times*, 7 November 2015.

<sup>46</sup> Prime Minister Najib was the chairman of 1MDB's advisory board when the state fund borrowed billions of dollars to buy local and foreign power plants, landing the state fund with as much as US\$11 billion in debts. Reme Ahmad, "1MDB-linked Bandar Malaysia property deal falls through", *The Strait Times*, 4 May 2017.

2015. Targeting at the Southeast Asian markets. The plant has a planned capacity of 100 electric trains and 20 light rail vehicles per year.<sup>47</sup> In the past year, it has won projects to supply engines for a new track between Kuala Lumpur and Ipoh, as well as between Johor Bahru and Padang Besar, near Thailand.<sup>48</sup>

## **Conclusion and discussion**

This article believes that although some Sino-Japanese competition is inevitable, competition is not absolute. Both sides are aware that economic globalization has made the two countries more closely related and, as Japanese news media has suggested, Japan and China may inch toward a possible reconciliation as they recognize the altered dynamics around the Pacific Rim.<sup>49</sup> In his speech in Tokyo on 5 June 2017, Japanese Prime Minister Shinzo Abe declared that “Japan is ready to extend cooperation” with China’s BRI. Although it is unclear to what extent Japan will engage with BRI, as its engagement “will depend on whether the infrastructure funded through BRI is ‘open to use by all’, is procured through transparent and fair processes, is economically viable, and causes no harm to debtor nation’s finances”,<sup>50</sup> Abe’s decision to contemplate engagement with the BRI signals a turning point in the China-Japan relations, suggesting a potential room for Sino-Japanese cooperation in Southeast Asia and beyond.

If we look at Chinese and Japanese respective plans to develop railway networks in Southeast Asia, we can find the two countries have different ideas and strategic

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<sup>47</sup> Francis E. Hutchinson, “The Kuala Lumpur-Singapore High Speed Rail: costs, contracts, and complications”, *ISEAS Perspective*, 17 February 2016.

<sup>48</sup> “Rail Firm on fast track to success”, *China Daily-US Education*, 16 November 2015.

<sup>49</sup> Motoko Rich and Jane Perlez, “Wary of U.S., Japan and China move to mend ties”, *The Japan Times*, 21 Nov. 2017.

<sup>50</sup> “Asia’s dream: linking the Pacific and Eurasia”, speech by Prime Minister Shinzo Abe at the banquet of the 23<sup>rd</sup> international conference on the future of Asia, 5 June 2017  
<[http://japan.kanfsj.go.jp/97\\_abe/statement/201706/1222768\\_11579.html](http://japan.kanfsj.go.jp/97_abe/statement/201706/1222768_11579.html)> [accessed on 10 August 2017]

considerations. Japan mainly focuses on building East-West lines, intending to synergize with several Japan-involved East-West Economic Corridors that would connect Myanmar, Thailand, Laos and Vietnam, and aiming to help Japanese companies expand business and optimize the production networks within and outside the ASEAN region through infrastructure connectivity. While Beijing's long-term goals for infrastructure development in Southeast Asia within the framework of the broader BRI is to build a North-South Pan-Asia Railway Network, intending to synergize with Kuala Lumpur-Singapore HSR and improve its access to Southeast Asia and beyond. That said, Sino-Japanese infrastructure investment activities in Southeast Asia are not largely influenced by their geo-political rivalry. Their respective investment activities rest on solid market expansion considerations.

It can be said that Chinese and Japanese infrastructure investment interests in the region have been largely motivated by economic considerations and regional cooperation. For Japan, the Japanese government explicitly located the export of infrastructure systems (including HSRs) as a key to revitalize its long-stagnated economy and foster new sources of economic growth. In June 2013, the Abe government formulated the 'Japan revitalization strategy: Japan is back'. This policy regarded the strategy of global outreach as one of three action plans (industrial revitalization plan, market creation plan, and the strategy of global outreach) for growth strategy to encourage private investment.<sup>51</sup> The infrastructure business was regarded as a business that extended from manufacturing to services and was a main item for obtaining the global market. The government thus was determined to strengthen sales of Japanese infrastructure products through private investment.

That logic also holds water for China. China's infrastructure projects in the region carry some political considerations (mostly through the BRI and the AIIB), but they rest on

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<sup>51</sup> Prime Minister's Office, "Japan revitalization strategy: Japan is back", 14 June 2013 <[http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en\\_saikou\\_jpn\\_hon.pdf](http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en_saikou_jpn_hon.pdf)> [accessed on 21 Nov. 2017]

strong economic interests. One of the major objectives of China's BRI is to reduce disparities in China by stimulating growth in the country's underdeveloped hinterland. It seeks to accelerate the development of the western region through accommodating and synergizing with the development strategies of neighboring countries, with approaches including creating new corridors for international economic cooperation, putting into place a smooth and efficient regional thoroughfare.

In this regard, Japan and China have common goals and interests in Southeast Asia, and indeed as Japanese scholar Suzuki said that "even if the establishment of AIIB was aimed at counterbalancing the influence of a certain power, that was the US and not Japan".<sup>52</sup> ADB President Takehiko Nakao has also stated at the 50<sup>th</sup> annual ADB meeting held in Yokohama May 2017 that "We don't need to regard the AIIB as a kind of rival, because there is a very large need to finance, so we can cooperate".<sup>53</sup> The fact that in 2016 AIIB and ADB co-financed new road projects in Pakistan (each extending \$100 million), and they closed a \$227 million lending package to finance natural gas production in Bangladesh (with ADB contributing \$167 billion)<sup>54</sup> shows that AIIB and ADB are complementary and have great potential for cooperation.

For ASEAN countries, both China and Japan are important sources of investment, important markets and key trade partners. In 2015 Japanese and Chinese FDI inflows to ASEAN reached \$17.3 billion and \$8.1 billion respectively, accounting for 21.3 per cent of the total FDI inflows (\$119.9).<sup>55</sup> Both China and Japan have been able to mobilize their financial and construction capability to finance infrastructure projects in

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<sup>52</sup> Suzuki, S, "Will the AIIB trigger off a new round of rivalry in economic diplomacy between China and Japan?", a paper presented at the conference Globalizing Rivalry? Sino-Japanese Interaction in World Politics, Berlin, 12 November 2015.

<sup>53</sup> Adopted from Mina Pollmann, "The ADB adjusts to the age of AIIB and Trump", The Strait Times, 11 May 2017.

<sup>54</sup> ADB special report, "Meeting Asia's Infrastructure Needs", <  
<https://www.adb.org/publications/asia-infrastructure-needs>>

<sup>55</sup> ASEAN foreign direct investment statics database, 2016.

Southeast Asia.

So in order to avoid overdue competition between the two big powers, both China and Japan need to consider possible harmonization with each other's policies and find a proper approach. As Pavlicevic and Kratz has suggested, one of the approaches may be to form Sino-Japanese joint ventures, or loose forms of Sino-Japanese cooperation like separating the project and allocating the production process to appropriate countries.<sup>56</sup> While more efforts would be needed in order to find the right modes for such a joint approach, some successful case examples do exist in the region, such as ADB-AIIB joint finance for projects in Pakistan and Bangladesh, Sino-Japanese jointly run industrial parks in Southeast Asia.

Regional connectivity is the long-term goal of ASEAN Community, and ASEAN has its own agenda, including ASEAN Integration Work Plan and the Master Plan on ASEAN Connectivity 2025. It is possible that other powers' investment may not be in consistency with ASEAN's agenda and initial intentions. For example, as China's investment in some individual countries increases, there are growing concerns that "the new infrastructural connections – which would tie Southeast Asia nations individually to China, rather than connecting China with ASEAN as a whole – would pose a threat to ASEAN connectivity, a key principle in the strength of the organization".<sup>57</sup> Furthermore, as the Japanese and Chinese HSR systems use different types of construction, it is possible that railway networks could be incompatible if various countries across the region choose to adopt different systems and technologies.

Therefore, an effective mechanism for coordination and dialogues on the regional connectivity among ASEAN, China and Japan would be needed. More importantly, such multilateral collaboration would foster trust between China and Japan and enhance

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<sup>56</sup> Dragan Pavlicevic and Agatha Kratz, "Implications of Sino-Japanese Rivalry in High-Speed Railways for Southeast Asia", *East Asian Policy*, Vol.09, Issue 02, April & June 2017.

<sup>57</sup> Interview in Singapore in November 2016.

the effectiveness of their infrastructure development efforts from a broader regional perspective than through the narrow lens of national interests.