China–Japan Competition in Infrastructure Investment in Southeast Asia: A Two-Level Analysis

Liqin Wang

Received: 15 December 2021 / Accepted: 2 October 2022 / Published online: 11 October 2022 © Fudan University 2022

Abstract
The article examines to what extent China and Japan compete in infrastructure investment in Southeast Asia. At the state level, China pursues more geo-economic goals whereas Japan seeks more mercantilist objectives, which mitigates their competition to a substantial extent. At the institutional level, the China-led Asian Infrastructure Investment Bank (AIIB) and the Japan-led Asian Development Bank (ADB) compete for potentially valuable infrastructure projects in Southeast Asia from the supply-side perspective. It is necessary and sensible for the AIIB to cooperate with other multilateral development banks (MDBs), including the ADB. That the AIIB keeps a low profile, other MDBs accommodate the AIIB’s preference, and the non-condition principle catalyses the cooperation between the AIIB and other MDBs. Therefore, there is no need to be alarmed by the competition in infrastructure investment in Southeast Asia between China and Japan because there are still possibilities for China-led AIIB and Japan-led ADB to cooperate at the institutional level.

Keywords China · Japan · Competition · Infrastructure investment · Southeast Asia · AIIB · ADB

1 Introduction
The 2010s witnessed the tremendous engagement China and Japan undertook in infrastructure investment in Asia in general and in Southeast Asia in particular. In 2012, Japan’s Liberal Democratic Party (LDP) came into power, and Shinzo Abe got the second chance to be prime minister. In August, the LDP made the decision, with Abe’s full support, to export Japan’s infrastructure system. In May 2013, the Japanese government launched the Infrastructure Export Strategy, by committing much more funds than before to help export Japan’s infrastructure system. Almost

---

* Liqin Wang
wangliqin@tongji.edu.cn

1 School of Political Science and International Relations, Tongji University, Shanghai, China
at the same time, China made similar decisions. After President Xi Jinping took power in late 2012, he put forward with ambitiousness (Blanchard 2021, p. 239) the grand Belt and Road Initiative (BRI), composed of the land-based New Silk Road Economic Belt (NSREB), initiated in September 2013, and the ocean-going 21st Century Maritime Silk Road (MSR), initiated in October 2013, of which promotion of China’s infrastructure investment was one of the key pillars. To finance China’s infrastructure exports, he also proposed setting up the AIIB in October 2013. From then on, China and Japan have been engaged in a fierce fight over infrastructure investment in Asia for years. In response to China’s aggressive maneuver, Japan launched the Partnership for Quality Infrastructure (PQI) in May 2015 and the Expanded PQI a year later to show its determination to compete with China and the BRI by exerting more funds and efforts to promote Japanese infrastructural exports. As such, Sino-Japanese competition for infrastructure investment in Asia intensifies and presumably will go on in the next few decades.

The article analyses in depth one research question: to what extent do China and Japan compete in infrastructure investment in Southeast Asia? The analysis is divided into two levels: state-level competition between China and Japan and institution-level competition between the China-led AIIB and Japan-led ADB. At the state level, admittedly, China and Japan are in the middle of intensive competition for infrastructure investment, particularly in high-speed railway projects that hold substantial geopolitical significance and economic profits simultaneously. Yet, they keep different goals in mind, have various market priorities, show distinct subsector preferences, and apply dissimilar approaches when investing in infrastructure projects in Southeast Asia, which might affect the competition extent between them and undermine their potential cooperation opportunity in the meantime. Furthermore, as financing institutions of MDBs, the AIIB and ADB compete while cooperating in financing infrastructure projects in Southeast Asia. It is necessary for AIIB to cooperate with other MDBs, including ADB, owing to the lean group of staff, lack of expertise in project assessment, lack of a series of lending procedures and high standards, and so on. The AIIB’s low profile and the other MDB’s accommodation of the AIIB’s preference and non-condition principle set a sound basis for the cooperation between the AIIB and ADB. Besides, the personnel who work for both institutions will further the bilateral cooperation between these two institutions.

The extant academic literature tends to explore the issue with the two levels intertwined. Originally, ‘AIIB was established as a financial institution to sustain the construction of the OBOR’ (Yoshimatsu 2018, p. 724) exclusively. Later on, AIIB struggled to distance itself from China and the China-proposed BRI by saying that AIIB ‘was not created exclusively for this initiative’ (Zhong and Cai 2016) and that it ‘would finance infrastructure projects in all emerging market economies even though they don’t belong to the Belt and Road Initiative’ (Xinhua 2016a, b). In addition, the scale of BRI is much larger and its scope is also much wider than the AIIB’s. Therefore, the article takes care of that deviation and divides the analysis into two levels: state-level and institution-level. Besides, the existing academic literature probes to take high-speed railway (HSR) projects as an example when analyzing Sino-Japan competition in infrastructure investment in Southeast Asia regardless of the scope of infrastructure, including not only the transportation subsector where
the HSR projects belong, but also other subsectors such as energy, telecommunication, water supply and sanitation, and so forth. The article acknowledges and agrees that ‘China’s global high-speed rail development is part and parcel of the country’s infrastructure diplomacy, which, in turn, is a core part of its initiative to develop the New Silk Road on land and at sea’ (Chan 2016, p. 1), that Japan uses ‘railroad projects to counter Beijing’s geopolitical expansion’ (Wu 2015) in Southeast Asia, and that ‘high-speed rail is the main arena of direct competition between Japan and China’ (Mardell 2017). It nevertheless applies a wider sector analysis by expanding the railroad case studies into the analysis of the whole subsector of transportation and including other subsectors like energy in the analysis when addressing the Sino-Japan competition in infrastructure investment in Southeast Asia.

The article has four sections. The first section presents a context where China and Japan compete in infrastructure investment in Southeast Asia. The second attempts to analyze China–Japan competition at the state level by checking their objectives, market priorities, subsector preferences, and their own approaches applied when investing in infrastructure projects in Southeast Asia. The third section delves into the competition between the AIIB and ADB from both the supply-side and demand-side perspectives. It also explores the necessity of AIIB-ADB cooperation. The final section offers concluding remarks.

2 Context

Japan and China made the policy decision to invest in overseas infrastructure, based on similar reasons: dropping domestic needs and increasing infrastructure needs in Asia. As far as Japan is concerned, due to continuous demographic decline in the past decade, Japan’s domestic demand for infrastructure, particularly in the transportation sector, has decreased. As a result, a few train lines were declared to go out of service indefinitely. It seems the tendency won’t pause in a foreseeable future. Japanese infrastructure manufacturers, therefore, have to explore overseas markets. As to China, as stated in the 13th 5-year plan in 2016–2020, ‘infrastructure improved markedly in all respects’ (Central Committee of the Communist Party of China 2016), thanks to aggregated development in the previous years. Take railway construction as an example. As of the end of 2019, the total mileage of China’s high-speed rail (HSR) exceeded 35,000 km, which means China has achieved a year in advance the ambitious goal of the Mid-to-Long Term Railway Network Plan, initially launched in 2004, upgraded in 2008 and originally planned to accomplish till 2020. As estimated by the ADB report ‘Meeting Asia’s Infrastructure Needs’ in 2017, China’s infrastructure needs account for just 0.5% of GDP during 2016–2030, far below the average level of 4.7% in Southeast Asia and 1.7% in Asia. In contrast with the decreasing needs in Japan and China, Asia is in urgent and colossal need of infrastructure investment. As oft-cited in the ADB report in 2017, the whole of Asia needs to invest approximately US$ 22.6 trillion from 2016 to 2030 and US$ 1.5 trillion annually, excluding the climate adjustment cost. Both Japan and China saw Asia as a promising market for their infrastructure industries to export.
Infrastructure investment is not the first field where China and Japan compete. Sino-Japan competition, which commenced as early as in the immediate wake of the 1997–8 Asian Financial Crisis (AFC), has been going on in various fields in Asia for decades. It was in the monetary sector that China and Japan embarked on their first race. After the 1997 AFC broke out, Japan tried to save those crisis-affected economies by proposing to found the Asian Monetary Foundation (AMF), an Asian version of the IMF. China opposed it, being wary of the Japanese yen’s forthcoming dominance in Asian currencies in the future. Japan did not bring the proposal to fruition because of objections from America, who was worried the AMF would dilute the implications of the IMF in Asia. In the late 1990s, Japan played an offensive role in monetary competition while China defended successfully.

When it came to the 2000s, China took proactive measures in the trade and investment sectors by proposing to set up a China-ASEAN Free Trade Area (CAFTA) with ASEAN in 2001. This led to a domino effect; Japan and South Korea made similar initiatives with ASEAN shortly after China’s proposal. In the end, three free trade areas, respectively between ASEAN and China, ASEAN and Japan, and ASEAN and South Korea, were established one by one in the late 2000s. As a result, China rose to be one of ASEAN’s key trading partners and one of its main FDI sources. Then the 2010s approached, when both China and Japan made policy decisions to promote infrastructure investment in Asia and saw Southeast Asia as one of their focus areas. Japan has maintained a long-standing presence in infrastructure investment in Southeast Asia since the late 1980s, when it started to export large-scale infrastructure there. As a result, China decided to export infrastructure largely based on its domestic needs, which resulted in intensified competition with Japan as a side-effect.

As a matter of fact, Japan and China have already invested heavily in infrastructure in Asia, including the sub-regions of Central Asia, South Asia, the Pacific and Southeast Asia. When Japan and China compete in infrastructure in Central Asia, they have to take into consideration Russia’s intention given the fact that Central Asia ostensibly is not a vacuum for their competition. Japan has a more competitive advantage in investing in infrastructure in South Asia due to India’s being among the largest recipients of Japan’s Official Development Assistance (ODA) program for years, Japan’s comparative advantage in private sector investment in infrastructure, on which South Asia relies more than other sub-regions do; and the territorial dispute between India and China. The Pacific area has never ever been China’s priority area, as embodied in AIIB’s membership, which did not include the Pacific island countries that ADB did. Then Southeast Asia became an area where Japan and China forged fierce competition in infrastructure investment, particularly when America waned its influence there by withdrawing from the Trans-Pacific Partnership (TPP) Accord at the very outset of the Trump administration. Furthermore, Southeast Asia is a critical region for both Japan and China. Japan has maintained a long-term presence in infrastructure investment in Southeast Asia within the framework of the ODA program and with financial help from ADB since the late 1960s. It perceives Southeast Asia as its ‘key economic and strategic hinterland’ (Cook, Japan and China Rivalry Reborn 2018). China, although a latecomer, shows an offensive gesture in infrastructure investment in Southeast Asia with the AIIB, which holds
a vast sum of capital to invest in infrastructure development in Asia. It sees Southeast Asia as the southern backyard and an ‘important hub’ (Xi, Building the China-ASEAN Community of Shared Future 2013) of MSRI. The last thing China would like to see is Japan continuing its overwhelmingly dominant presence in infrastructure investment in Southeast Asia. Then, it’s no surprise that China and Japan will compete for infrastructure investment in Southeast Asia.

3 State-Level Analysis

A plethora of academic literature has joined the debate regarding China–Japan competition in infrastructure in Southeast Asia. Approximately half of them believe that by investing in infrastructure, China and Japan have gotten involved in a full rivalry for strategic influence in Southeast Asia by investing in infrastructure projects (Mazza 2015). ‘China-Japanese competition has allowed Southeast Asian countries to play off the two rivals against each other’ (Gong 2019, p. 647) and it will benefit ASEAN members such as Indonesia, Cambodia, Laos, and Myanmar, etc. (Singh et al. 2017, p. 112). Presumably, that kind of competition will ‘escalate to become part of a major-power rivalry in the context of Japan–US treaty allies, the Trump administration’s Indo-Pacific strategy’ (Zhao 2019a, p. 573) and Sino-US rivalry and competition in the whole world (Hu 2021, p. 485; Yilmaz and Sun 2022). Despite this, ‘it’s too early to declare a winner’ (Holtz 2016) for the time being.

The other half of the academic literature asserts that notwithstanding the bilateral competition, there is ‘a potential room for Sino-Japanese cooperation in Southeast Asia and beyond’ (Zhao 2018a, p. 27) in infrastructure investment as Japan changed its stance on the BRI (Brinza 2018) and extended its willingness to cooperate with China in June 2017. In other words, China and Japan must sometimes work together, as in the case of Thailand, where China and Japan were tasked with building two separate train lines and they had to ‘harmonize their standards so that the two lines might eventually join up smoothly’ (Chan 2016, p. 19). So, ‘Japan doesn’t need to compete with China’s Belt and Road’ (Wijaya and Osaki 2018). Furthermore, ‘China and Japan have established a competitive partnership in development financing’ (Jiang 2019, p. 780) because they shared much in common when investing in infrastructure projects in Southeast Asia, such as tied commercial financing, heavy government involvement, and so on. More boldly, it is perceived that ‘China can-and should-also be seen as a collaborative partner (of Japan)’ (Chotani 2018), in consideration of the huge need in Asia that both AIIB and ADB cannot meet.

The preceding arguments entwined the state- and institution-level analyses, yielding no common sense. The section conducts a comparative analysis in terms of objectives, various market priorities, distinct sub-sector preferences, and different approaches of China and Japan in investing in infrastructure projects in Southeast Asia, in the hope of sorting out the extent of competition between the two sides.
3.1 Objectives

Actually, China’s official sources did not hint in terms of the objectives it pursued by investing in infrastructure in Southeast Asia. This, on the one hand, covers China’s real goals and, on the other hand, avoids misleading interpretations of those goals to the maximum extent. It is entirely possible that China was not sure how far the BRI could be internationally supported, and, thus, it maintained ambiguity first and created reasoning later on. The paper takes into consideration Southeast Asia’s much needed infrastructure projects and the projects invested in by China later, and argues that China follows a geo-economic logic in infrastructure investment in Southeast Asia, based on the projects it invested in later and has three goals.

Above all, securing energy safety by building the Pan-Asia railway (PAR) network is the first goal that China chases. At the inception of the Hu Jintao administration, China had been aware of the ‘Malacca Dilemma’. ‘Currently, China has 29 of its 39 maritime routes, with approximately 60% of exported and imported goods and 80% of imported oil passing through this strait’ (Vu 2017). Should the Strait dispute escalate, China’s domestic energy security is bound to be threatened. As a result, the Chinese government prioritizes assisting those importing energy and trading goods to avoid the Malacca Strait. In light of the fact that PAR offers an ideal land transportation route replacement for the maritime Malacca channel, it is thought instrumental and usable to secure China’s energy transportation and help mitigate the Malacca Dilemma ultimately.

‘The PAR network has three railway lines, beginning from Kunming, transferring in Bangkok, stretching southward through Kuala Lumpur and ending in Singapore. It is a land transportation route, compared to the Malacca channel. From the economic perspective, we are not certain that the distance of the land transportation route is shorter; as a matter of fact, we doubt that, and argue that the land transport cost is much higher than the maritime one. However, if the issue is analyzed from the geo-economic perspective, we dare to say that the PAR offers a securer channel for China’s importing energy from and trading goods with its partners in Africa and Europe, no matter whether it’s shorter or longer, cheaper or dearer.’

Given that, China makes significant efforts to connect the missing railway links within the PAR network in order to have a more secure route in the event of a Strait dispute. Likewise, China also tries to enhance physical and operational connectivity corridors (especially in West Asia, Pakistan, and Europe). These connectivity enhancement measures in other corridors can help address the Malacca Dilemma to some extent.

Furthermore, connecting Kunming with Southeast Asian countries is helpful to fix the east–west development gap inside China. Domestically, China was pre-occupied with two great challenges after it implemented the ‘reform and opening-up’ policy in the late 1970s: the east–west gap and the urban–rural disparity. For

1 Online Interview with a senior official of the China-ASEAN Business Council on 11 September, 2021.
decades, West China has been lagging far behind the east for decades. Both the central government in Beijing and the local governments in West China took a variety of actions to catch up. The Pan-Asian Railway Network is going to connect Southwest China, particularly Yunnan Province and Guangxi Autonomous Region, which are located adjacent to Southeast Asian countries with Indo-China peninsular countries. Kunming and Guangxi will be turned into transportation nodes, which is expected to sustain economic development in West China and narrow the east–west gap.

Finally, China seeks to transfer domestic industrial overcapacity by investing in infrastructure projects in Southeast Asia. As an immediate result of the huge stimulus package of the 2008 Global Financial Crisis (GFC), China faced excess industrial capacity domestically, ‘not only in labor-intensive traditional industries, such as steel and cement sectors, but also in so-called high value-added emerging industries, including new energy sectors’ (Wang 2016, p. 456). China has to look for overseas markets so as to transfer excess industrial capacity.

Undeniably, there is a considerable amount of literature both in English language and in Chinese language arguing that China follows a geopolitical logic in promoting its infrastructure investment in the Southeast Asian region (Wu 2015; Blanchard and Flint 2017; Zhao 2018b, 2019a), quite contrary to the geo-economic argument in this paper. To discern the geopolitical logic from the geo-economic one, it is helpful to introduce Julien Mercille and Alun Jones’ studies on this. Based on their arguments, ‘the former logic arises out of capitalism’s tendency to expand geographically and the latter out of officials of statecraft’s need to maintain their states’ credibility internationally’ (Mercille and Jones 2009, p. 856). In this sense, China does follow geo-economic logic in promoting infrastructure investment in Southeast Asia, which in turn serves geo-economic goals for China.

In contrast with China’s big thinking (Zhao 2018b, p. 40), Japan’s export of infrastructure systems in Southeast Asia highlights mercantilism by chasing commercial gains in the narrow sense and economic interests in the broad sense. Japan’s mercantilism is seen ‘as a primary driver of infrastructural exports’ and the Japanese government, together with its private partners, shows a ‘preference for commercially viable projects’ (Murashkin 2018, p. 468) to achieve the mercantilist goals. This is vividly revealed by the KPI index set out by Japan’s ‘Infrastructure System Export Strategy’, approved by the Japanese cabinet at the Ministerial Meeting on Strategy Relating to Infrastructure Export and Economic Cooperation on 13 March, 2013. The one and only KPI of Japan’s Strategy was set out as the annual overseas infrastructure project order and the Ministerial Meeting in 2013 decided to ‘raise overseas infrastructure project orders received from the current (JP¥) 10 trillion to 30 trillion by 2020’ (Prime Minister’s Office of Japan 2014, p. 166).

Keeping that KPI in mind, the Japanese government and the affiliated ministerial agencies such as the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), the Ministry of Foreign Affairs (MOFA), and the Ministry of Economy, Trade, and Industry (METI), etc., worked in tandem with some overseas infrastructure investment agencies like the Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) as well as Japanese companies in order to achieve that goal of JP¥30 trillion of project orders by 2020. In immediate response to the KPI of the Infrastructure System Export Strategy, MLIT opened
the ‘Overseas Construction Hot Line’ consultation office and established the Japan Overseas Infrastructure Investment Corporations for Transport & Urban Development (JOIN) (Ministry of Land, Infrastructure, Transport and Tourism, Japan 2015, p. 292) in 2014 to mitigate the financial burdens and reduce business risks for Japanese companies engaged in infrastructure investments overseas. In a timely manner, MOFA also contributed a lot of efforts to achieve that KPI in 2014, when it set up the Headquarters for the Promotion of Japanese Business Support and the Business Support Division, and in 2015, when it established the ‘Division for Promotion of Public and Private Partnership’ and appointed ‘Officers in charge of Infrastructure Project’. All these newly established agencies subordinate to the Japanese government helped Japanese companies to gain more orders at the working mechanism level when they exported the infrastructure system. As a result, Japanese overseas infrastructure project orders rose substantially from JP¥ 3.2 trillion in 2012 to JP¥ 9.3 trillion in 2013 and peaked at JP¥ 25 trillion in 2018. There is no data available yet showing whether Japan achieved the ultimate goal of ¥30 trillion in infrastructure projects in 2020 or not, and there is a high likelihood that it could not be met fully due to the severe negative implications of the pandemic coronavirus all over the world. Nonetheless, Japan’s pursuit of the KPI revealed its preference for economic interests and particularly mercantilism.

It is convincingly presumed that Japan’s pursuit of the KPI would last after 2020 since Japan renewed the ‘Infrastructure System Export Strategy’ and maintained such a kind of KPI within the framework of the new strategy. Due to dissatisfaction with the annual infrastructure project order growth during the past years, Japan called on the Ministerial Meeting on Strategy Relating to Infrastructure Export and Economic Cooperation again in 2020 and formulated the ‘Infrastructure System Overseas Promotion Strategy 2025’, which deployed new five-year goals starting from 2021. The new strategy diversified the previous unitary KPI by maintaining the annual infrastructure order growth and expanding it in more dimensions. On the one hand, the new strategy set out that Japan was supposed to take measures ‘toward garnering 34 trillion yen in infrastructure system orders in 2025’ (Ministry of Foreign Affairs, Japan 2021, p. 196). On the other hand, the new strategy agreed that the new KPI should take into account the ‘value conversion, combined effects, and changes in quality of the infrastructure projects’ (Ministry of Economy, Trade and Industry, Japan 2020, p. 25). Therefore, apart from the annual infrastructure project order, Japan will take care of solving the local social issues, realizing the Sustainable Development Goals, benefiting the local area, and so on. Japan does not intend to weaken its commitment to mercantilist pursuit by adding more indicators to the annual project order. On the contrary, Japan still gave first priority to the goal of 34 annual project orders by 2025, which revealed its mercantilist pursuit in the coming five years.

Moreover, Japan’s mercantilist pursuit is demonstrated by the PQI and EPQI initiatives. To gain as much economic interest as possible, Japan promoted quality infrastructure investment in pursuit of ‘quality as well as quantity instead of quality over quantity’ (Japan MOFA, MOF, METI & MLIT 2015), when it launched the PQI program in 2015 and EPQI in 2016. Within the framework of PQI and EPQI, Japan managed to take multiple steps, including expansion and
acceleration of assistance through JICA, expanding collaboration with ADB, increasing funding supply for high-risk projects, and promoting the importance of quality infrastructure investment. Of these four pillars of Japanese PQI, the first three are believed to aim much more at expanding the quantity than promoting the quality of infrastructure project investment. Besides, Japan and the World Bank established a Quality Infrastructure Investment (QII) partnership in 2017. They joined in setting up five quality dimensions of infrastructure projects. Among others, the economic efficiency of infrastructure projects ranked the first, which demanded achieving value for money over the full project lifecycle; supporting adoption of value-for-money and/or full life-cycle cost considerations in procurement; etc. (Quality Infrastructure Investment (QII) Partnership 2016)

Finally, Japan’s mercantilist pursuit is demonstrated when it initiated cooperation with China in the third market. When Japan delved into the possibility of cooperation with China, Abe put forward three conditions regarding the potential infrastructure project they chose to invest in, the first of which is that the project must be economically viable (Chotani 2018). Admittedly, economic viability is supposed to be among the considerations of infrastructure projects, and projects without reasonable benefit seem not to be sustained even after they are finished. However, in China’s case, it is fully aware that economic benefit is absolutely not the first, albeit significant, indicator of the infrastructure projects. For example, known as the busiest high-speed railway line in China, the Beijing-Shanghai High-Speed Railway was officially opened to traffic in 2011, and it did not make any profit at all until three years later (in 2014) (Xu 2015). In this sense, China’s case stands as a striking contrast to Japan’s.

Japan’s goals demonstrate more elements of mercantilism by highlighting commercial/economic profits. This does not mean Japan has no geopolitical thinking with regard to its goals of infrastructure export in Southeast Asia. Japan does. It is writ large that Japan aspires to counterbalance China’s increasing influence in Southeast Asia by investing in infrastructure projects there. However, when compared with China’s essentially geopolitical thinking, it is safely argued that Japan’s goal underscores more elements of mercantilism and economic gain.

With different goals in mind when investing in Southeast Asia infrastructure exports, China and Japan appear to have fewer chances than they appear to compete directly for infrastructure projects. Japan, for example, is unlikely to invest in the Kuala Lumpur-Bangkok High-Speed Rail Project, which passes through underdeveloped and rural areas with low population density and generates little commercial profit for the railway’s operator. On the contrary, China is likely to take it seriously because it is a critical component of the Pan-Asian Railway Network. Given this, it’s no surprise that China and Japan competed fiercely for the Jakarta-Bandung HSR project, which, as the BRI’s first and flagship project, has special geopolitical significance for China and economic value for Japan due to Japan’s massive preliminary survey on it as early as 2013.
3.1.1 Market Priorities

Keeping different objectives in mind, China and Japan chose various ASEAN members as investment destinations. In order to realize the Pan-Asia Railway Network dream, China, in the first place, took into consideration land-based ASEAN members including Cambodia, Laos, Myanmar, Vietnam, Thailand, Malaysia, and so forth. Japan prefers to cooperate with those maritime members such as Vietnam and the Philippines, assuming that they share Japan’s stance regarding the territorial dispute with China in the East and South China seas. In response to Japan’s enthusiasm, ‘the progress of these bilateral ties was notable in 2015, in particular the developments with Malaysia, the Philippines, and Vietnam’ (Koga 2016, p. 70), which stands in sharp contrast with the modest bilateral relationship between Japan and other ASEAN members. At this point, it is admitted that Japan at least shows some geopolitical consideration when choosing project partners in infrastructure investments. This, however, could not achieve its profit-seeking purpose on a fundamental basis.

Luckily, China also got a warm response from most of those countries, which it preferred. Cambodia is said to have expressed its ‘full support for the Maritime Silk Road Initiative’ (Zhao 2019b, p. 134) when Prime Minister Hun Sen met President Xi Jinping in 2014. Laos got actively involved in China’s BRI and agreed with China to build the railway line connecting Kunming and Vientiane, the capital of Laos. ‘The rail line is the largest infrastructure ever undertaken by Laos, and its total cost is equivalent to over one-third of the country’s GDP’ (Geopolitical Monitor 2017). Malaysia positively responded to China’s BRI by ‘not only playing a role in the initiative but also promoting it through a series of meetings and conferences’ (Parameswaran 2016). The largest BRI infrastructure project under construction-East Coast Rail Line, whose ground breaking ceremony was launched during the Najib Razak administration in 2017, encountered temporary suspension at the very outset of the Mahathir Mohamad administration in early 2018 and resumed a year later, is settled in Malaysia. Those three countries, ‘including Cambodia, Laos, and Malaysia, are most supportive of China’s MSRI’ (Chen 2018, p. 348). Moreover, China placed great expectations on Thailand, considering it as a strategic fulcrum of the MSRI (Zhou 2014, p. 21), and Thailand flexibly accommodated both China and Japan by offering them two individual railway contracts. In addition, China beat Japan and won the bid to build the railway line from Jakarta to Bandung in West Java, Indonesia. Meanwhile, Japan eventually got the chance to construct another railway line from Jakarta to Surabaya. Finally, within the framework of PQI, Japan strengthened infrastructure cooperation, including many ASEAN members but not limited to Singapore, the Philippines, Vietnam, Laos, and Cambodia.

In fact, China and Japan have infrastructure projects under negotiation, construction, and operation in almost every single ASEAN member country. The fact that they chose various ASEAN members as market priority partners in infrastructure exports is likely to allay the potential for direct competition between them. Additionally, it is worth pointing out that having different member priorities does not mean they are seeking influence in a sphere in Southeast Asia, for their policy decisions are generally based on the actual infrastructure needs of ASEAN members.
Likewise, that they chose various ASEAN members as priority partners in infrastructure export does not mean they intend to undermine ‘ASEAN’s ability to remain united’ (Zhao 2018a, p. 6) either. In retrospect, prior to initiating a free trade zone with ASEAN as a whole in the 2000s, Japan had bilateral trade agreements with seven of the ten ASEAN members, leaving out the three least developed economies of Cambodia, Lao, and Myanmar. In the end, Japan managed to achieve a free trade area with ASEAN as a whole after renegotiating with ten ASEAN members. Accordingly, although China and Japan variously chose ASEAN members as infrastructure project partners, this would not jeopardize ASEAN’s centrality and unity.

3.1.2 Subsector Preference

When investing in infrastructure in Southeast Asia, China concentrates dominantly on hard infrastructure, with a special focus on the transportation sector, while Japan pays much more attention to soft infrastructure. The National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce of China issued the ‘Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road’ in March 2015, highlighting five major areas, including policy coordination, facility connectivity, unimpeded trade, financial integration, and people-to-people bonds. Among them, ‘facilities connectivity is a priority area for implementing the Initiative’ (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of China 2015) and transport infrastructure, energy infrastructure, and communications connectivity are given special attention to. In infrastructure cooperation with ASEAN, China made this clearer by focusing on ‘encouraging and promoting connectivity in areas such as railways, highways, ports and harbors, airports, power and communication’ (Joint Statement between ASEAN and China on Further Deepening the Cooperation on Infrastructure Connectivity 2017).

The American Enterprise Institute (AEI) China Global Investment Tracker traces China’s investment in ASEAN before and after BRI was launched in 2013. According to AEI (Fig. 1), two tendencies concerning China’s investment in energy and transportation sectors in Southeast Asia are worth noting. On the one hand, China’s investment in ASEAN’s member countries was mainly in the energy and transport sectors before and after the BRI commenced. Shares of energy and transport sectors add up and account for over half of total China’s investment in most of ASEAN’s members (except Malaysia, Thailand, and Singapore) before and after 2013. Before 2013, the energy sector received over half of China’s total investment in most countries in Southeast Asia, with the highest share of 88% in the Philippines and the lowest of 38% in Myanmar. After 2013, energy, together with transport, took a considerable share of China’s investment, with the highest proportion of 88% in Laos and the lowest of 67% in Indonesia. In the Malaysian and Thai cases, China’s investment in energy and transport subsectors did occupy more than half of its total infrastructure investment after 2013, although it did not before 2013. They offer more powerful justification that China’s infrastructure investment in Southeast Asia after 2013 prefers subsectors like energy and transportation than in other cases.
On the other hand, China’s investment in the transport sector in most of ASEAN’s members (except Brunei, Singapore, and Vietnam) showed an irreversible increase in momentum. Its share increased during the seven years after BRI was launched in 2013, to as high as 64% from 3% in Cambodia, 24% from 7% in Myanmar, 18% from 5% in Indonesia, 33% from 8% in Malaysia and 44% from 26% in Thailand. There used to be no investment in the transportation sector in Laos and the Philippines before 2013, which then showed up and accounted for 29% and 9% of China’s total investment in Laos and the Philippines individually. In the Vietnamese case, its transportation subsector’s percentage went down slightly from 14% before 2013 to 8% after, although transportation and energy add up and still account for over 80% of all China’s investment in Vietnam. In Brunei, China’s investment in the transportation subsector used to cover nearly 100% of its infrastructure investment before 2013, which dropped to 13% after 2013, and meanwhile energy accounted for 87%. As to Singapore, it is absolutely an exceptional case, where China’s transport investment decreased and real estate investment increased substantially after 2013. This reveals that Singapore, as a high-income economy in Southeast Asia, is less in need of transportation investment from China. In turn, this also suggests that Singapore boosted its own investment capability and China just respected that and shifted its investment focus to other subsectors like real estate, etc. According to statistics from EAI, China’s investment in Singapore’s real estate after 2013 increased three times as much as before, which accounted for over 80% of China’s total infrastructure investment in Singapore. By and large, these two tendencies reveal that

Notes: Before refers to seven years from 2006-2012 before the BRI was launched; After refers to seven years from 2013 to 2019 after the BRI.
Source: AEI, China Global Investment Tracker (compiled and computed by the author).

Fig. 1 Share of Subsectors in China’s Investment in Southeast Asia before and after the BRI
China’s focus has been shifting from energy into other sectors (LSE IDEAS 2018, p. 12), like transportation in most ASEAN member countries. This occurred in close proximity to the implementation of China’s BRI, which placed a strong emphasis on transportation infrastructure construction.

In comparison, Japan attempts to ‘differentiate its contribution from Chinese-banked hard infrastructure connectivity’ (Gong 2019, p. 648) and takes good care of soft infrastructure, including concerning legal and institutional enforcement, customs clearance mechanism establishment, transportation logistics procedural streamlining, human resource development, and so on. At the Ninth Mekong-Japan Summit in November 2017, for example, Japan underscored that ‘soft connectivity is the key to further developing effective distribution systems and industries in each country and the region’ (Joint Statement of the Ninth Mekong-Japan Summit' 2017) while admitting the great need for hard connectivity there. Meanwhile, Japan decided to ‘expand the scope of infrastructure from a narrow sense to a broader sense, which includes natural resources and energy’ (G7 Lse-Shima Summit 2016) within the framework of the ‘Expanded Partnership for Quality Infrastructure’ in 2016. In other words, Japan’s infrastructure exports in Asia might keep an eye on the energy subsector.

As for Southeast Asian countries, particularly those low-income ones, hard infrastructure is undoubtedly the most urgent need, whereas soft infrastructure is also necessary. After all, ‘hard infrastructure requires the complementary construction of soft infrastructure’(Blanchard and Flint 2017, p. 223) as soft infrastructure is obviously a prerequisite for hard infrastructure’s smooth construction, management, and operation. China, therefore, has to share some responsibilities for soft infrastructure, as it did in the Lao railway project. Given that Laos lacks adequate and efficient skilled workers, China established a training center in Kunming and embarked on training workers for Laos (Ghosh 2016).

In summary, on the one hand, having distinct sector preferences can work and help assuage the direct competition between China and Japan to some extent. When there is a potential infrastructure project, China and Japan will consider their different subsector factors before making decisions. Another key thing to remember is that having distinct sector preferences does not mean much possibility of cooperation for China and Japan either. As above mentioned, China began to do some soft infrastructure on its own, and Japan also kept an eye on hard infrastructure like the energy subsector.

3.2 Approach

In light of the similar aim of promoting infrastructure exports in Asia at an unprecedented speed, China and Japan apply dissimilar approaches separately. On the whole, when it comes to exporting infrastructure to Southeast Asia, China takes a state-driven, demand-inducing, top-down approach, whereas Japan takes a market-driven, private-sector heavily involved, bottom-up approach. In China’s case, the Chinese government plays a proactive and pioneering part in promoting infrastructural exports. It made the initial proposal of the BRI aim to promote infrastructure
investment in the 65 countries along the Belt and Road, released governmental guidance titled ‘Vision and Action’ to instruct on the way to promote it, made plans to shepherd related local governments at the provincial level to practice the BRI, and called for an annual summit conference with partners to make sure the BRI achieves a great accomplishment in the end.

Furthermore, the Chinese government actively seeks potential infrastructure projects in relevant countries in Southeast Asia, motivated by its demand to build the Pan-Asia Railway Network. Top leaders from central government in Beijing, such as President Xi Jinping, Premier Li Keqiang, dubbed the ‘super salesman’ of China’s HSR, and former Vice Premier Zhang Gaoli, among others, have all taken an active role in promoting China’s infrastructure sales on numerous occasions. One of them is Meng Jianzhu, then Secretary of the Central Political and Legislative Affairs Commission. He, as President Xi’s special envoy, paid a formal visit to Najib Razak, then the Prime Minister of Malaysia, in May 2016, when Meng ‘urged him to move forward with plans for a Kuala Lumpur-Bangkok HSR line’ (Pavlicevic and Kratz 2018, p. 156) and Najib responded enthusiastically, saying ‘Malaysia stands ready to explore the possibility of working with China and Thailand to conduct a swift feasibility study on the Kuala Lumpur-Bangkok high speed rail and the east coast rail link’ (Tarmizi 2016). This meeting seems to not work effectively on the former project-Kuala Lumpur-Bangkok HSR in view of the stagnated progress of this project. Despite this, it seems to contribute lots to the latter project-ECRL HSR line, for which a framework finance deal and construction agreement were signed soon in November 2016. Unfortunately, the project was suspended temporarily after Mahathir Mohamad came into power in early 2018. Aiming to resume the project, China’s government paid a heavy cost by reducing the budget, revising the planned route line, and promising to use the freight-dedicated part of this line as much as possible once it is done. What China has done alleviated Malaysia’s worries, and eventually the project was resumed a year later. This suggests that China’s demand-inducing approach is workable and can work effectively to promote infrastructure exports in Southeast Asia, even in a challenging case.

Finally, China’s enterprises, particularly multinational corporations (MNCs), made breathtaking progress in participating in Beijing’s initiative. ‘Chinese MNCs will be key players in the implementation of the MSRI in Southeast Asia and elsewhere’ (Blanchard 2018, p. 339). And indeed, they played, are playing, and will continue to play a crucial role in infrastructure projects’ negotiation, construction, management, and operation during the whole implementation of the BRI. In contrast with the 2000s, when the Beijing government made the initial proposal to establish CAFTA and dominated the whole negotiating process with ASEAN and Chinese enterprises just enjoyed it passively, the 2010s saw the great contribution made by Chinese MNCs. However, their ultimate contribution depends on the capability to balance Beijing’s geo-economic goals and the enterprises’ profit-maximizing counterparts. After all, the Beijing government still holds an overwhelmingly dominant status in promoting the BRI, which results in China’s approach featuring top-down in promoting infrastructure exports in Southeast Asia.

In line with the mercantilist goals, Japan promoted the infrastructure system by making policy-decisions based on market needs, placing more emphasis on the role
of Japanese enterprises, enabling the private sector to be heavily involved, and following a bottom-up method. The Japanese government took various measures to ensure business groups are fully involved in exporting infrastructure systems in terms of working mechanisms and procedures. In January 2013, Abe’s cabinet set up the Industrial Competitiveness Council as a platform for businesses to state opinions, analyze difficulties, and offer suggestions concerning the infrastructure export. Japanese business groups and their representatives, as well as sector-specific industrial associations, are able to participate in the policy-decision procedure through submitting position papers to the government, dispatching executive staff to the government’s advisory councils, and keeping in close touch with governmental officials.

‘This does not imply that business groups were passive actors that were forced to follow the government’s initiative’ (Yoshimatsu 2017, p. 499); on the contrary, they took an aggressive and active part in the infrastructure export. Representatives from business groups such as Nippon, Hitachi, and Mitsubishi tended to be present at the events where top-level leaders attempted to sell Japanese infrastructure systems. In December 2016, a couple of Japanese enterprises, including Mitsubishi UFJ, Hitachi Capital, and Bank of Tokyo-Mitsubishi, joined forces and organized a new venture company specially tasked with supporting overseas infrastructure projects undertaken by Japanese companies. They launched ‘Japan Infrastructure Initiative (JII)’ and committed JPY 100 billion to support Japanese infrastructure exports. This is ‘the first effort in the country by a company to extend financial assistance to Japanese entities looking to export infrastructure projects’ (Mitsubishi UFJ 2016), which highlights the strong determination and powerful capability of Japanese enterprises to work together with the Japanese government to export infrastructure systems to overseas markets.

Because of the close public-and-private partnership (PPP) between the Japanese government and businesses, Japanese private sector investment in infrastructure projects in Southeast Asia has captured a sizable market share. According to statistics from the World Bank’s Private Participation in Infrastructure (PPI) Data, Japanese private sector investment holds the largest market share in infrastructure projects funded by extra-regional foreign investments in low-and middle-income countries in Southeast Asia such as Laos, Myanmar, Thailand, Vietnam, and Indonesia, and the second biggest share in Malaysia, following Malawi. In other words, apart from intraregional ASEAN members, Japan’s private sector is the single biggest investment source for infrastructure projects in nearly all low-to middle-income countries. Relatively speaking, China’s enterprises are eclipsed by their Japanese counterparts’ glory; they, aside from Hong Kong enterprises, only show up in Cambodia and Indonesia. To sum up, Japan’s approach, albeit different from China’s thought, proves to be workable, effective, and successful as well.

In conclusion, China and Japan concurred in making decisions to promote infrastructure exports to Southeast Asia in the early 2010s, which undoubtedly portends some competition at the national level between them, and this will last at least until the next decade. What’s more, Japan has shown a slight shift regarding its goal lately. Japan made it clear that ‘for projects of special political significance, Japan may consider taking additional measures’ (G7 Lse-Shima Summit 2016), which means Japan will, as China did, give special consideration to those projects.
bearing political importance. Japan’s slightly shifting goal, coupled with its long-standing maintenance in infrastructure exports in Southeast Asia and its heavy sum of invested funding as high as US$ 310 billion within the frameworks of PQI and Expanded PQI, enables it to be a worthy competitor to China.

Japan’s proposed PQI and Expanded PQI raise a total of US$ 310 billion for infrastructure investment from 2016 to 2021. Among them, PQI consists of US$ 100 billion, lasting from 2016 to 2020, while the Expanded PQI is US$ 200 billion from 2017 to 2021. ‘Half the (PQI) funds will be channeled through Japan’s aid agencies like the Japan International Cooperation Agency (JICA) and half through the Asian Development Bank. Japanese companies take up around 40–50% of the ADB’s procurement of commercial products and services’ (Chan 2016, p. 9). And in essence, the Expanded PQI followed a similar financing method to PQI.

It is found that both China and Japan enlist funds from MDBs; the former from the AIIB and the latter from the ADB. It is also found that China relies more on state-owned policy banks and the SOEs than Japan does on private businesses. China’s AIIB is not a major player in financing BRI projects; Chinese banks and SOEs finance most of the projects. However, ADB is quite a major player in financing PQI projects; it is as important as Japanese private businesses. Given the fact that BRI’s investment aims at developing infrastructure projects in a total of 65 countries along the BRI route (instead of the Southeast region) over 10 years, while PQI intends to develop infrastructure projects in the Asia–Pacific region (rather than the Southeast Asian region) over 5 years, it is not sensible to argue that Japan’s role as an unqualified competitor in Southeast Asia is dwarfed from the perspective of investment scale. Japan is definitely an unqualified competitor of China in Southeast Asia in terms of its longstanding maintenance of infrastructure investment there and the newly released PQI and Expanded PQI programs.

However, there is no need to exaggerate the competition because they pursue different goals, have various market priorities, prefer distinct subsectors, and apply dissimilar approaches to financing infrastructure investment in Southeast Asia. Such a kind of competition between China and Japan has been going on for decades, from the 1997 to 1998 AFC onward. Learning from the historic rivalry during the past decades, there is no need to be alarmist about the present competition between them. It is an incremental process and unlikely to lead directly to China’s being the new regional leader in the short term.

In the meantime, there is no need to be a polarist by arguing that China and Japan might cooperate in infrastructure investments in the future. Their goals and approaches to promoting infrastructure investment in Southeast Asia are totally different, which will probably hamper them from deepening cooperation in this regard. Actually, Japan has already called for bilateral cooperation by joint investing in those quality infrastructure projects which herald good governance, economic viability, and debt repayment capability. At the current stage, China would rather focus explicitly on hard infrastructure; it is only willing to include soft infrastructure that it cannot avoid. Furthermore, China has strong reservations about Western ‘good governance’, which does not help China and Japan cooperate. Sure, the major reason still lies in the fact that China and Japan have different actors, which has resulted in different investment objectives and approaches. When it comes to China,
the actors include the Chinese government, China’s state-owned enterprises (SOEs) like the China Investment Corporation (CIC), China Communications Construction Company (CCCC), and others, China’s state-owned policy banks such as the China Development Bank (CDB), the Export–Import Bank of China (Exim Bank), and others, and occasionally even China-led multilateral development banks/funds such as AIIB, New Brics Development Bank (NDB), Silk Road Fund (SRF), and so on. In Japan’s case, the actors include the Japanese government, a large number of private corporations primarily centered on Mitsubishi UFJ, Hitachi Capital, and others, some implementing agencies like the JICA and Japan Bank for International Cooperation (JBIC), and so forth. In comparison, China relies heavily on public actors, whereas Japan heavily relies on private actors. Different actors have different objectives and apply different approaches when investing in infrastructure in Southeast Asia, which determines the fundamental nature of competition between China and Japan and reduces the likelihood of cooperation between them. In retrospect, both China and Japan managed to establish free trade areas with ASEAN, yet they did not manage one between them. In the best case, they might jointly invest in infrastructure projects in the third market (Harris 2019). This depends on Japanese businesses’ willingness and China’s acceptance of Japan-defined quality projects.

4 Institution-Level Analysis of the AIIB and ADB

The previous section focuses on analysis of state-level competition between China and Japan in infrastructure investment in Southeast Asia. Yet, when China-Japan competition is analyzed, one part of this issue that cannot be ignored is the competition between the AIIB and the ADB as financial institutions. This is based on the facts that AIIB is a Chinese initiative; that China invests the biggest share of the AIIB’s initial funding; that China bears the largest voting share in the AIIB; that AIIB’s headquarters is in Beijing and it has a Chinese presidency currently; and that ‘the AIIB’s approved projects largely overlap with the geographic area of the OBOR’ (Weiss 2017). In the ADB’s case, the Japanese banker Takeshi Watanabe initially and spontaneously proposed to set up the ADB in 1962 and took the responsibility as the first president after its establishment in 1966; from then on, all presidents were from Japan; and Japan holds the biggest proportion of the initial funds of the ADB. In other words, Japan plays a leading role in ADB in terms of both the personnel and the financial arrangements (He 2015a; b, p. 205). This section, therefore, delves into the competition between two financing institutions: the China-led AIIB and the Japan-led ADB. This section, therefore, delves into the competition between two financing institutions: the China-led AIIB and the Japan-led ADB.

As the AIIB was established and went into operation in early 2016, the competition between the AIIB and ADB became a hotly debated issue and drew much attention from a range of academic literature. Some of the academic literature sheds light on the argument that ‘the competition and differences between the China-led AIIB and Japan-led ADB are reflected in the concepts of aid conditions and criteria’ and that ‘these differences and disagreements may certainly affect and undermine their cooperation’ (Zhao 2019a, pp. 566–567). So this kind of competition will result
in ‘two Asias’ (Cook 2015). Some believe that AIIB is not a competitive initiative (Yang 2016, p. 765); it can ‘supplement’ (Ren 2016, p. 441) and ‘complement cooperate with the existing MDB’ (Kawai 2015, p. 6), including ADB, rather than ‘compete with them’ (Liu and Umehara 2017, p. 15). Some accommodate the former two arguments by asserting that ‘the AIIB will create new competition for the World Bank and ADB, but the new bank will also have a strong incentive to cooperate with them’ (Elek 2014). Jin Liqun, President of AIIB, insists that ‘there is no competition but only cooperation and coordination between AIIB and other development banks’ (Xinhua 2016a, b). Jin’s ideas got an enthusiastic response from ADB President Takehiko Nakao, who said ‘there was ample room for AIIB to cooperate with other development banks like the ADB and the World Bank’ (Kajimoto 2017).

4.1 Financing Competition Between the AIIB and ADB

This section discusses the competition between the China-led AIIB and the Japan-led ADB from both the supply-side and demand-side perspectives. As far as the supply-side perspective is concerned, the AIIB and the ADB have committed a large sum of finance to infrastructure investment in Asia. Although ADB is somehow overstretched by other sectors in other areas aside from Southeast Asia, their focus on infrastructure investment in Southeast Asia is an undisputable fact. ‘Unless AIIB intends to fund projects that the World Bank and ADB reject (for legitimate commercial or non-commercial considerations)’ (Sun 2015, p. 32), there must be competition between AIIB and ADB in Southeast Asia and beyond.

As far as demand-side competition is concerned, there is competition in Southeast Asian countries to attract investments from the AIIB and the ADB; after all, the investment funds of the AIIB and ADB are limited. The massive needs for infrastructure investment in Southeast Asia far outweigh the amount both the AIIB and the ADB can provide together. Consequently, not every single infrastructure project in Southeast Asia is going to be financed by the AIIB and the ADB. According to Global Infrastructure Outlook (GIO) estimates, there will be a larger gap between current investments and needed investments in Southeast Asia in the next two decades. A majority of ASEAN members, including Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam, will have their needed investment gap doubled by 2040 compared to 2020. Take Cambodia and Thailand as examples of low-income and middle-income countries individually. At the current investment growth speed, Cambodia will be able to invest US$ 1.9 billion in infrastructure projects by 2020. However, it will require an investment of up to US$ 2.7 billion, leaving a US$ 0.8 billion gap. In 2040, Cambodia will invest US$ 3.1 billion, and the needed investment will rise to as high as US$ 4.7 billion. Then the gap is US$ 1.6 billion, which happens to be twice that in 2020. In the Thai case, the gap between the actual investment (US$ 14 billion) and the needed (US$ 17 billion) is US$ 3 billion in 2020, which will climb up to US$ 6 billion in 2040, doubling that of 2020. This suggests an increasing need for investment in Southeast Asia, which will struggle tremendously for potential funds from the AIIB and the ADB.
4.2 Necessity and Driving Factors of Cooperation Between AIIB and ADB

Regardless of the competition between them, it is necessary for the AIIB to cooperate with other MDBs, including ADB. Three reasons, as follows, justify the necessity. The first reason comes from AIIB’s shifting role, originally as a means of financing the infrastructure projects of BRI and later as a quasi-commercial bank and a MDB in the contemporary financial governance system. As early as in 2014, President Xi Jinping pointed out that the AIIB was ‘tasked exclusively with providing financial support for the infrastructure projects of countries along the Belt and Road’ (Xi 2014, p. 2). In 2015, when European developed economies, e.g., the UK, Germany, France, and Italy, joined the AIIB, China was encouraged and motivated to convert the AIIB to be a quasi-commercial bank and a MDB, offering financial support not only for those projects of BRI, but also for others. As a quasi-commercial bank, ‘its investments must generate returns’ (Zhao 2016, p. 2); to that end, the AIIB priced its debut global bond in 2019. As a MDB, AIIB has to follow the best practice of other MDBs, who have been financing infrastructure projects in Asia and around the world for decades. ‘Tapping into the expertise of the experienced development banks is the most efficient way, and perhaps the only way, to build the capacity of the new bank to assess and implement projects successfully’ (Elek 2014).

The second reason is rooted in AIIB’s ‘lean’ principle and the ensuing constraints on expertise staff. President Jin Liqun of AIIB envisions the bank as being ‘clean, lean, and green’ (Zheng 2016). Toward the end of being lean, AIIB did not establish a resident board of directors and strictly confined the number of field officers and staff between 500 and 600, only accounting for 1/6 of that of ADB and 5% of the World Bank. As a negative result, AIIB has to rely on other MDBs in terms of project survey, assessment, and even implementation. The third reason is related to the nature of infrastructure projects. It is widely known that infrastructure projects feature heavy investment funds, long-term cycles, and high risks. Almost all Southeast Asian countries have troubled infrastructure projects, which encounter various kinds of unexpected difficulties and have to be stopped either temporarily or indefinitely. It is wise for AIIB to share the risks with other well-established MDBs. In a word, it is necessary and sensible for AIIB to cooperate with other MDBs, including ADB, particularly at the inception and growing stage.

The above-mentioned factors drive the AIIB-ADB cooperation from the AIIB perspective. Likewise, the views of the ADB should be incorporated. As to the ADB, there are also three motivations driving its cooperation with the AIIB, among others. First and foremost, ADB’s cooperation with the AIIB offers Japan a potential, albeit indirect, cooperation channel with the AIIB and with China as well in building infrastructure projects in Asia. As it is well-known, Japan declined to become a founding member of the AIIB given multiple considerations, including America’s attitude towards the AIIB; and there is no good chance for Japan to join the AIIB in the short term. Japan, however, would like to achieve cooperation with China in view of the huge market for infrastructure in Asia. ‘If Japan does not take part, then it will lose out on infrastructure development projects that will then be monopolized by Chinese companies’ (Ryall 2017). Given Japan’s dominance of the ADB for decades, ADB-AIIB cooperation provides
Japan with a direct opportunity to work with the AIIB and, most likely, an indirect opportunity to cooperate with China.

Furthermore, ADB-AIIB cooperation helps reverse the transmission of pressure to speed up internal reform within the ADB. For years, the ADB has been accused of insufficient funding, lengthy review and approval procedures, low efficiency, and an overstretched scope of projects, for which reforms were advocated by its stakeholders (Orr 2016). The AIIB stands as a better example in this regard, owing to the simpler review and approval procedure, concentrated focus on the infrastructure sector, and so forth. Therefore, the AIIB stands as a better example, at least in this regard, although it does not otherwise in many others. This will help deepen and widen the ADB’s internal reform when the ADB cooperates with the AIIB. Finally, the ADB-AIIB cooperation is a good way for ADB to share its experience, know-how, and expertise. The ADB accumulates a wealth of experience from many years of project management and, according to the former president, Takehiko Nakao of the ADB, the ‘ADB is willing to share its experience, knowledge and information’ with the AIIB (He 2015a; b, p. 219). In doing so, the cooperation between these two banks offers a productive channel. In short, the ADB has its own reasons for working with the AIIB.

In fact, the AIIB has developed cooperation with the ADB, the World Bank, and other financial institutions in various forms. Since 2016, the AIIB has co-financed four projects with the ADB and other institutions, which are: the national motorway M-4 project in Pakistan, approved in June 2016, with the AIIB and the ADB each extending US$ 100 million loans and the United Kingdom’s Department for International Development (DFID) providing a US$ 34 million grant (ADB 2016), the natural gas infrastructure and efficiency improvement project in India in November 2016, with the AIIB financing US$ 60 million and the ADB extending US$ 167 million (AIIB 2017a), the Batui bypass road project in Georgia in June 2017, with the AIIB and the ADB each extending US$ 114 million (AIIB 2017b), and the transmission system strengthening project in India in September 2017, with the AIIB investing US$ 100 million and the ADB US$ 50 million (AIIB 2017c). Besides, the AIIB signed a co-financing framework agreement and a memorandum of understanding with the World Bank, respectively in 2016 and 2017, since when the two banks have co-financed five projects located in Pakistan, Azerbaijan, and Indonesia.

Four factors drive such a kind of cooperation between the AIIB and other MDBs and ensure it is a success. First and foremost, the AIIB keeps a low profile in its cooperation with other MDBs, including the ADB and the World Bank. No matter whether AIIB’s financing fund is more (as embodied in the Indian project) or less (as demonstrated in the Bangladeshi projects) or as equal (as revealed in Pakistani and Georgian projects) as that of ADB’s counterpart, it is ADB who claims the leading role (Zhao 2019a, p. 568; AIIB 2017a; AIIB 2016), represents the AIIB and other co-financiers and takes the responsibility of administering and managing the projects. The AIIB has no disagreement on that. In cooperation with the World Bank, the AIIB agrees to supervise the co-financed project in accordance with the World Bank’s policies ‘in areas such as procurement, environment and social safeguards’ (Wu 2016). That the AIIB kept a low role and did not adhere to its own
procurement policy is an imperative factor that facilitates the cooperation between the AIIB and other MDBs.

Moreover, the fact that other MDBs accommodate AIIB’s preference for not doing the land acquisition and resettlement in co-financed infrastructure projects is another factor that drives the cooperation. China prefers not to do land acquisition and resettlement in infrastructure projects in Southeast Asia, which is fully exemplified in the case of the Jakarta-Bandung HSR project in Indonesia. The World Bank itself does not exclude land acquisition and resettlement work from its own infrastructure projects. However, it ‘removed the grid station resettlement issue to avoid the AIIB having to address land acquisition and resettlement issues’ (Brettonwoods Project 2017) in Pakistan’s Tarbela 5 dam project. The World Bank’s accommodation of the AIIB’s preference catalyzed their cooperation to a substantial degree.

In addition, that the ADB and the World Bank show respect for the AIIB’s non-condition loan principle boosts cooperation between them. The AIIB does ‘not ask borrowers to privatize or deregulate businesses for loans’ (Qing 2015), which distinguishes itself from other MDBs. Unless the ADB and the World Bank respect that, the cooperation will not come into fruition.

Finally, but not least, it is not difficult to imagine that top-level staff who work for both the ADB and the AIIB bridge the cooperation between them. From 2003 onwards, a Chinese official has been taking the position as a vice president of the ADB for 16 years. Jin Liqun, the ADB’s first Chinese vice president (2003–2008), is now the AIIB’s inaugural president. Zhao Xiaoyu and Zhang Wencai succeeded in this position, respectively, from 2008 to 2013 and later. This enables them to accumulate project-running experience in the ADB and contribute to cooperation between the ADB and the AIIB if they get the chance to work for the AIIB later, which will probably happen in the future. In brief, cooperation between the AIIB and other MDBs depends on the AIIB’s low profile, other MDBs’ compromise for the AIIB’s preference, and non-condition principle. Meanwhile, it is foreseen that the top-level Chinese officials who used to work, are working, and will work for both institutions will further enhance the bilateral cooperation between them.

5 Conclusion

In the 2010s, infrastructure investment in Southeast Asia and beyond, which served to channel China’s industrial overcapacity in construction and other sectors and redirect Japan’s dropping infrastructure needs domestically, saw an intensified competition between China and Japan. Within the framework of the BRI and with financial assistance from the AIIB, China entered into an intense competition in Southeast Asian infrastructure investment with Japan, which has remained a long-standing maintenance in infrastructure investment with the ADB and refreshed itself with the ‘PQI’ and expanded ‘PQI’ initiatives. The competition between them suggests something more nuanced, subtle, and complicated than it appears. The article explored it by analyzing the competition between China and Japan at the state level and that between the China-led AIIB and Japan-led ADB at the financial institution level. This takes care of the deviation of the AIIB from a development bank established
exclusively to financially channel China’s BRI projects to a standard MDB, although admittedly, China and the AIIB are closely related in infrastructure investment in Southeast Asia.

The first section discussed the competition between China and Japan at the state level by comparing the objectives, member priorities, sub-sector preferences, and approaches of China and Japan when investing in infrastructure projects in Southeast Asia. China pursued more geo-economic goals when investing in infrastructure projects in Southeast Asia, while Japan emphasized a more mercantilist goal. China gave priority to land-based members of ASEAN, e.g., Malaysia, Cambodia, and Myanmar, when choosing market and investment destinations and got a warm response from them, whereas Japan tended to invest in maritime members of ASEAN, e.g., Vietnam and the Philippines, who are supposed to share Japan’s stance on the Senkaku Islands issue. China preferred hard infrastructure when investing in Southeast Asia and relied on energy, albeit with a decreasing tendency, and transportation, with an emerging and increasing tendency, when investing in and for Japan’s soft infrastructure. When it comes to exporting infrastructure to Southeast Asia, China takes a state-driven, demand-inducing, top-down approach, whereas Japan takes a market-driven, private-sector-heavily involved, bottom-up approach. China and Japan’s pursuing different goals, having different market priorities, preferring distinct subsectors, and taking dissimilar approaches to infrastructure investment in Southeast Asia may ease competition. On the one hand, there is no need to be alarmist about the competition in infrastructure investment in Southeast Asia currently, in particular in consideration of their previous competition in trade and investment promotion in the 2000s and in monetary competition in the late 1990s. On the other hand, there’s no need to be a polarist to prospect their technocratic cooperation (Wu 2022) in the near future. Cooperation in investment in the third market might be an ideal way for them.

The second section interpreted the competition between the China-led AIIB and the Japan-led ADB at the institutional level. It analyzed the competition between the AIIB and the ADB from both the supply-side and demand-side perspectives, aiming not to downplay or exaggerate that competition. Analysis of supply-sided competition proved that this kind of competition could not be avoided unless the AIIB aimed at those projects ignored by the ADB and other MDBs, which at least happens. The vast needs for infrastructure investment in Southeast Asia have been justified by demand-side competition analysis, at least over the next two decades, which intensifies competition among Southeast Asian countries and provides ample room for AIIB-ADB cooperation, is necessary and wise for the AIIB to cooperate with other MDBs, including the ADB: the AIIB, particularly at the inception stage, can tap into the expertise of those well-established MDBs; work together with them in project survey, assessment, and implementation; and share responsibilities and risks with them. The AIIB’s humble profile, together with other MDBs’ accommodation of the AIIB’s principle and preference, catalyzed the cooperation; besides, the top-level officials who used to work, are now working, and will work for both institutions, will bring the cooperation to a closer extent.

It is worth emphasizing again that this type of competition in Southeast Asian infrastructure investment between China and Japan is not only self-serving for
the two countries, but also altruistic for Southeast Asia, Asia, and even the world. Although China and Japan decided to advance their infrastructure investment in Southeast Asia essentially based on domestic demand from an inward-looking perspective, their exports are not only self-serving but also altruistic. Their dedication to the hard and soft infrastructure projects will make a significant contribution to the local community by providing swifter, more comfortable, and convenient transportation for freight and passengers with better connectivity, facilitating trade, investment, and people exchange between ASEAN and China/Japan, building local capability, and boosting economic growth in Asia. In the end, the whole world will benefit, since China–Japan competition and cooperation in infrastructure investment happens not only in Southeast Asia, but also in Africa and the rest of the world.

**Acknowledgements** The author would like to send her thanks to the reviewers for their inspiring comments and suggestions on the paper. Special gratitude goes to the funding support from Fundamental Research Funds for the Central Universities (PA2021000281) at Tongji University.

**Funding** Tongji University (Grant no. PA2021000281).

**Declarations**

**Conflict of interest** No potential conflict of interest was reported by the author.

**References**

ADB. 2016. *ADB Approves First Cofinancing with AIIB for a Pakistan Road Project*. Retrieved March 7, 2021, from https://www.adb.org/news/adb-approves-first-cofinancing-aiib-pakistan-road-project

AIIB. 2016. *Pakistan: National Motorway M-4 (Shorkot-Khanewal Section) Project (Cofinanced with the Asian Development Bank)*. Retrieved March 8, 2021, from https://www.aiib.org/en/projects/approved/2016/_download/pakistan-national-motorway/summary/approved_project_summary_pakistan_national_motorw

AIIB. 2017a. *Project Summary Information (PSI), Project No. 000015*. Retrieved March 8, 2021, from https://www.aiib.org/en/projects/approved/2017a/_download/bangladesh/summary/bangladesh-natural-gas-infrastructure_summary.pdf

AIIB. 2017b. *Project Summary Information (PSI), Project No. 000021*. Retrieved March 8, 2021, from https://www.aiib.org/en/projects/approved/2017b/_download/georgia/summary/Batumi.pdf

AIIB. 2017c. *Project Summary Information (PSI), Project No. 000006*. Retrieved March 8, 2021, from https://www.aiib.org/en/projects/approved/2017c/_download/india-transmission/summary/Indian-PSI-Sep-29-v2.pdf

Blanchard, J.-M.F. 2018. *China’s Maritime Silk Road Initiative (MSRI) and Southeast Asia: A Chinese ‘Pond’ not ‘Lake’ in the Works*. *Journal of Contemporary China* 27: 329–343.

Blanchard, J.-M.F. 2021. *Belt and Road Initiative (BRI) Blues: Powering BRI Research Back on Track to Avoid Choppy Seas*. *Journal of Chinese Political Science* 26: 235–255.

Blanchard, F.J.-M., and C. Flint. 2017. *The Geopolitics of China’s Maritime Silk Road Initiative*. *Geopolitics* 22: 223–245.

Brettonwoods Project. 2017. *Deepening World Bank and AIIB Cooperation: Locking in a Failed Development Model?* Retrieved March 8, 2021, from https://www.brettonwoodsproject.org/2017/07/deepe ning-world-bank-aiib-cooperation-locking-failed-development-model/

Brinza, A. 2018. *Japan’s Belt and Road Balancing Act*. Retrieved March 1, 2021, from https://thediplomat.com/2018/11/japans-belt-and-road-balancing-act/

Central Committee of the Communist Party of China. 2016. *The 13th Five-Year Plan for Economic and Social Development of the People’s Republic of China (2016–2020)*. Retrieved March 1, 2021, from
Wijaya, T., and Y. Osaki. 2018. *Japan Doesn’t Need to Compete with China’s Belt and Road*. Retrieved March 2, 2021, from https://thediplomat.com/2018/09/japan-doesnt-need-to-compete-with-chinas-belt-and-road/

Wu, S.-s. 2015. *Japan’s Train Diplomacy*. Retrieved March 1, 2021, from https://thediplomat.com/2015/11/japans-train-diplomacy/

Wu, W. 2016. AIIIB and World Bank Reach Deal on Joint Projects, as China-led Lender Prepares to Approve US$1.2 billion of funds this year. *South China Morning Post*.

Wu, C.C.-H. 2022. The Maritime Silk Road Initiative and Its Implications for China’s Regional Policy. *Chinese Political Science Review*.

Xi, J. 2013. Building the China-ASEAN Community of Shared Future. *Speech at the Indonesian parliament*. Retrieved March 1, 2021, from http://www.chinadaily.com.cn/hqgj/2013-10/03/content_17008585.htm

Xi, J. 2014. Expedite the Development of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. *Xinhua News Agency*.

Xinhua. 2016a. *AIIIB Cooperate with World Bank, ADB to Approve First Batch of Project in June*. Retrieved March 1, 2021, from http://www.chinadaily.com.cn/business/2016a-04/14/content_24537140.htm

Xinhua. 2016b. AIIIB Cooperates with World Bank, ADB, to Approve First Batch of Projects in June. *China Daily*.

Xu, L. 2015. Full speed ahead. *China Daily*.

Yang, H. 2016. The Asian Infrastructure Investment Bank and Status-seeking: China’s Foray into Global Economic Governance. *Chinese Political Science Review*, pp. 754–778.

Yilmaz, S., and T. Sun. 2022. The China-US Great Power Rivalry and the New Anarchy. *Chinese Political Science Review*.

Yoshimatsu, H. 2017. Japan’s Export of Infrastructure Systems: Pursuing Twin Goals through Developmental Means. *The Pacific Review* 30: 494–512.

Yoshimatsu, H. 2018. New Dynamics in Sino-Japanese Rivalry: Sustaining Infrastructure Development in Asia. *Journal of Contemporary China* 27: 719–734.

Zhao, H. 2016. AIIIB Portents Significant Impact of Global Financial Governance. *Perspective*.

Zhao, H. 2018a. Chinese and Japanese Infrastructure Investment in Southeast Asia: from Rivalry to cooperation?. *IDE Discussion Paper*, 689.

Zhao, H. 2018b. The Competition of Chinese and Japanese Infrastructure Investment in Southeast Asia and Its Impact. *International Forum* 2: 39–45.

Zhao, H. 2019a. China-Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition? *Journal of Contemporary China* 28: 558–574.

Zhao, H. 2019b. China’s Belt and Road Initiative and ASEAN. *China: An International Journal*, 17, pp. 127–147.

Zheng, Y. 2016. AIIIB Chief Vows to Run Clean, Lean Green Institution. *China Daily*.

Zhong, N., and X. Cai. 2016. AIIIB leads support for Belt and Road infrastructure projects. *China Daily*.

Zhou, F. 2014. A Study of the Strategic Fulcrum Role of Sino-Thai Relationship in the China-ASEAN Cooperation: From the Perspective of the 21st Century Maritime Silk Road. *Southeast Asian Affairs* 3: 17–22.

Springer Nature or its licensor holds exclusive rights to this article under a publishing agreement with the author(s) or other rightsholder(s); author self-archiving of the accepted manuscript version of this article is solely governed by the terms of such publishing agreement and applicable law.

Liqin Wang is an associate professor in International Political Economy at the School of Political Science and International Relations, Tongji University, Shanghai. She received her PhD in Politics from the University of Hull, UK in 2012. Her main research interests are in the field of economic integration in East Asia and China’s diplomatic philosophy. She has published in *China: An International Journal, among others and authored East Asian Economic Integration: A China-ASEAN Perspective* (2015).