Japan squares up to China over Asian infrastructure

Tokyo has set aside $110bn to finance high-tech projects to regain ground lost to Beijing

A tussle is heating up between China and Japan to secure big-ticket infrastructure projects and assert their influence in Southeast Asia.

On the surface, China appears to have the upper hand. Indonesian officials visited Beijing in March and secured several billion dollars’ worth of committed investments. China was recently invited to build a high-speed rail link between Jakarta and the nearby city of Bandung, getting in ahead of Japan, which has conducted lengthy feasibility studies for the project.

Meanwhile, a Chinese plan to build a high-speed rail link in Thailand from Bangkok to the country’s northeast has gained momentum under Thailand’s military-led government.

Many Asean citizens still regard China as their country’s best strategic partner, according to a survey conducted last year by Asean Confidential, a Financial Times research service (see chart).

But despite the progress of such Chinese-led projects — not to mention the successful launch of Beijing’s Asian Infrastructure Investment Bank — it is not certain that China has the edge over Japan in the battle to secure regional government-to-government infrastructure deals.

China is very competitive in developing coal-fired power generation projects, for example, but lags behind its rival in most higher-tech industries on all aspects but cost.

Japan boasts superior technology, lower financing interest rates and greater experience in
project finance in the region. As it seeks to wrest the advantage from Beijing, Tokyo recently announced plans to provide an extra $110bn to finance high-tech infrastructure in Asia, including soft loans.

In an effort to trump China’s planned high-speed rail project for northeast Thailand, Japan has put forward a separate $8bn high-speed rail link connecting Bangkok with Chiang Mai, Thailand’s second-largest city, in the north of the country. The two countries’ transport ministers signed a memorandum of understanding on the project last week.

“In recent weeks, we have grown more pessimistic about China’s rail project in Thailand,” said a Hangzhou-based Chinese government analyst. “This is due to Japan’s counter-offers, generous financing terms, and Thailand’s limited public finances that hinder its ability to consider two projects simultaneously.”

Other experts worry that the Jakarta-Bandung rail link may also be a white elephant. Bandung is one of Indonesia’s largest cities but traffic between the two reaches high volumes mainly on weekends. The project’s high costs may mean it takes years to break even, industry analysts claim.

Meanwhile, Malaysian Prime Minister Najib Razak visited Tokyo last week, where Japanese officials touted high safety standards as a reason to choose Japanese technology for a planned high-speed railway connecting Kuala Lumpur with Singapore over rival bids from China and France. Representatives from the Japan Bank for International Cooperation have confirmed strong interest in the project.

China will continue using its huge cash reserves, global trading clout and vast industrial capacity to bid aggressively for infrastructure projects across the region. But Japan retains an edge in technology, financing, and foreign direct investment. The battle for Asia’s infrastructure will be long and protracted.