

**HIGH-SPEED RAILWAYS AND
SINO-JAPANESE RIVALRY
IN SOUTHEAST ASIA**

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Executive Summary

1. Railway exports, including high speed railways (HSR), play an important role in China's and Japan's agendas for sustained economic growth and diplomacy. Leaders are personally vested in promoting HSR exports as their credibility is tied to securing HSR projects abroad. Hence, they have committed significant financial and diplomatic resources to promoting railway exports, particularly in Asia.
2. China, Japan and Southeast Asian (SEA) countries have plans to build HSR lines and networks throughout the region. Given the central place of railway and infrastructure projects in China and Japan, competition between the two for HSR markets is taking shape in the region.
3. In a watershed development, both Japan and China expressed interest in the Jakarta–Bandung HSR project in Indonesia. After intense competition, the project was awarded to China in September 2015.
4. This setback caused Japan to significantly adjust its HSR export policy to better compete against China. China has also adjusted its approach to address widespread negative perceptions in terms of quality, bidding strategies and strategic impacts behind its railway diplomacy.
5. The risks to such a development are bids to “race to the bottom”, pushing down project costs, lowering risk management standards, widening the scope of technology transfer to host countries and committing significant funds with slim chances of financial return.
6. While such an approach may increase the chances of securing projects, it threatens to erode the profitability of these enterprises and endangers their long-term competitiveness, with potential negative spill-over effects on the railway industry and on the prospects of growth of Chinese and Japanese economies.

7. At a foreign policy level, for China and Japan, HSR competition proceeds within an already problem-laden relationship and adds fuel to their fierce rivalry in Southeast Asia.
8. Sino-Japanese competition has the potential to impact the region, as these projects are perceived as a zero-sum game for China and Japan, placing much pressure on the host countries. The relationships of individual countries with these two regional powers will be affected by this competition and particularly its outcome. The regional status quo may hence be influenced.
9. SEA governments are therefore attempting to manage this competition to mitigate risks for the region. Encouraging Sino-Japanese cooperation on developing the regional railway network at both policy and project levels is an option. Placing the development of regional railway networks under the framework of ASEAN is another.