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# Rethinking Sino-Japanese competition: the diffusion of economic statecraft

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## Abstract

The Belt and Road Initiative (BRI) has been one of the primary vehicles through which China exports its infrastructure and developmental standards. China's expanding ambitions to become an international standard-setter compelled a Japanese response. Shinzo Abe's government has initiated strategies such as the Partnership for Quality Infrastructure. This paper juxtaposes the Chinese and Japanese approaches to securing their position in the global governance of infrastructure finance, with a particular focus on the high-speed railway industry. It posits that economic statecraft has diffused from Japan to China and then back to Japan. In emulating Chinese economic statecraft, Japan has increased state involvement in infrastructure project exports and centralized authority within the Prime Minister's Office. The permeation of such statecraft and the apparent escalation of Sino-Japanese competition bear significant consequences for regional trade and developmental cooperation regimes. This heightened competition may initially afford South and Southeast Asian nations a broader choice of service and infrastructure providers. In the long run, if the competition solidifies, secondary states might find themselves compelled to integrate into either China's hub-and-spoke model or Japan's reinvigorated production networks. Moreover, such integration could render secondary states dependent on the technology and finance supplied by regional great powers. However, the eventual structure of the region will likely depend on how these two major powers navigate their rivalry. As South and Southeast Asian states and corporations become entwined in both states' geopolitical and geoeconomic networks, we cannot rule out the evolution of a latticework of intersecting relationships.

**Keywords** The belt and road initiative · Partnership for quality infrastructure · Sino-Japanese relations · The Chinese National Development and Reform Commission · Japanese Prime Minister's Office

## Introduction

The leitmotif of development finance and infrastructure export in the Asia–Pacific could be that of Sino-Japanese competition. As a latecomer, China successfully caught up and aggressively exported its infrastructure projects, especially after launching the Belt and Road Initiative (BRI). Announced in 2013, its goal was to enhance connectivity among signatories, specifically in policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and people-to-people connections. Infrastructure connectivity sits at the core of the BRI and has caught the attention of regional great powers.

As a traditionally dominant supplier of infrastructure development, the rise of China “compelled a Japanese response,” such as the emphasis on high-quality infrastructure (Liff and Lipsy 2022). Additionally, to improve its geoeconomic and geopolitical positions in the Asia–Pacific, Japan’s economic statecraft marked a return to development finance, a long-term Japanese practice since the end of the Second World War. Such statecraft, however, involved political centralization, which entailed strengthening the Prime Minister’s (PM) administrative authority and improving inter-agency coordination—a marked feature of the second Abe administration.

Against this backdrop, this paper asks two research questions. First, why did Japanese economic statecraft involve a centralization of political power? Second, how was such centralization implemented during the Abe administration? We argue that a reciprocal diffusion of economic statecraft occurred between China and Japan. Statecraft, according to Thurbon and Weiss (2021), involves a reconfiguration of domestic institutions to outcompete geopolitical and geoeconomic challenges. In the case of development finance and infrastructure export, these policy ideas were first transmitted from Japan to China, then back to Japan. However, the latter’s re-adoption of what Chen (2021) called “mercantilist development ideals” went beyond “supporting national firms with state-backed credits” as Abe introduced profound institutional changes to better coordinate infrastructure exports. These empirical phenomena suggest that (1) a rising China can have major implications on the development policies of advanced countries and (2) practices of statecraft, though prompted by geoeconomic and geopolitical pressures, are ultimately conditioned by domestic developmental practices.

The paper does not deny the salience of power centralization in the hands of the Japanese PM that predates Abe’s tenure. However, we want to argue that external pressure from China provided a crucial catalyst, especially regarding infrastructure export policies. Against this backdrop, the contribution of this study is twofold. First, theoretically, the transnational circulation of infrastructure development practices challenges the conventional understanding that norms and practices usually flow from advanced countries to developing ones. Developmental ideas did not simply flow from Japan to China as China’s unique practices also influenced Japan’s management of its geoeconomic strategies. Moreover, particular practices of statecraft are conditioned by a state’s developmental

outlook. Second, empirically, this paper details the institutional changes brought by Shinzo Abe's centralization of administrative and decision-making powers.

The return to statecraft bears significance to the engagement of cross-border businesses in the future and financial flows. The Asia–Pacific region will potentially witness greater intervention from policymakers, who opt to create the enabling conditions for multinational corporations to penetrate overseas markets. And this could lead to indistinct boundaries between businesses' and states' overseas economic activities.

This qualitative study process traces reciprocal diffusion between Japan and China and evaluates the centralization of power under Shinzo Abe. We highlight that this study is a snapshot of a particular period. The centralization of power in the current PM's Office (PMO, the *Kantei*), on the one hand, started during the Hashimoto period and, on the other hand, has weakened under the leadership of Fumio Kishida. Data was collected from official documents and news coverage published in Chinese, English, and Japanese. These documents were also supplemented by semi-structured interviews conducted in China and Japan. Interviewees were recruited through the snowball method and selected based on their professional and academic knowledge of the inner workings of the Chinese and Japanese national governments and Sino-Japanese relations. For example, we have interviewed officials from the Chinese National Development and Reform Commission (NDRC), China's Center for International Knowledge on Development, China State Railway Group (CR), Japan International Cooperation Agency (JICA), Japan External Trade Organization (JETRO), Central Japan Railway Company, former Japanese government officials, think tank researchers in Japan and China, and scholars working on Sino-Japanese relations in China and Japan. Interviews are coded throughout the text. For example, 191119Y indicates an interview conducted with Ms./Mr. Y on November 19, 2019.

This paper is divided into six sections, including the introduction and conclusion. The second section outlines the main argument and positions the contribution of this study against existing literature on economic statecraft and policy diffusion. The third section provides an overview of policy learning on the Chinese side. The fourth section examines Japan's responses to a rising China, and the fifth section outlines the specific ensuing institutional changes.

## Literature review

China's economic statecraft has focused on strengthening its geostrategic positioning through the provision of overseas infrastructure developmental assistance, and such globalization was done through "emulat[ing] the way Japan practiced development finance through being a recipient of Japanese ODA" (Chen 2021). The definition of statecraft initially focused on understanding practices through which noneconomic goals were achieved through economic means, such as sanctions and trade (Hirschman 1980; Baldwin 1985; Drezner 1999). Newer conceptualizations, however, looked inward as scholars began to examine the relationship between domestic economic practices and geopolitical and geoeconomic pressures. Such statecraft follows three logics: geoeconomics, focusing on strengthening commercial

competitiveness; geopolitics, focusing on military might; and geopolitics and geoeconomics, focusing on both commercial and military superiority (Thurbon and Weiss 2021). The exercise of statecraft, according to Thurbon and Weiss (2021), for example, involves the deployment of domestic policy tools and industrial policies.

In the context of China, Chinese statecraft aims to facilitate the “going global” of Chinese capital, create international markets, and explore opportunities for economic cooperation and China’s overcapacity issues. More importantly, establishing first-mover advantages in foreign markets allows China to export and internationalize its technical standards and standards for global (private) governance (Yoshimatsu 2018; Yan 2022). Weiss and Thurbon (2021) see the Chinese case as one that uniquely achieves military-economic fusion capable “to lead in *both* military and economic arenas” and predominantly driven by state-owned enterprises (SOEs).

Against this backdrop, integrating SOEs’ overseas business activities and the state’s strategic agenda is of utmost importance for top Chinese leaders. Scholars have found that the NDRC is crucial to such endeavor (Yan 2021, 2022; Paltiel and Yan 2025). The commission plays the role of a gatekeeper, especially concerning international infrastructure projects, despite the creation of the China International Development Cooperation Agency and related reforms to the commission in the late 2010s that can be interpreted to have weakened the commission’s ability to coordinate domestic and international situations. Indeed, with the Leading Group for Promoting the BRI and its Executive Office both located inside the NDRC compound, the commission’s directors have since served as the deputy director of the leading group and the office manager of its executive office. These institutional arrangements signify the salience and continuous involvement of the commission in the BRI-related policy process. In fact, the commission sees international infrastructure projects as akin to “domestic transaction in which a Chinese company is contracted to deliver a Chinese project paid in Chinese funds” (Paltiel and Yan 2025).

A careful Japanese observer may argue that such statecraft has been Japan’s marked feature since the Second World War. This statement is not wrong, considering that Japan has long been using infrastructure development assistance for strategic purposes. However, contemporary statecraft in Japan involved streamlining decision-making and implementation processes at the national level. Power centralization was therefore adopted to achieve a similar goal as Chinese statecraft—executive coordination to ensure compliance and successful implementation of overseas projects. These practices belong to Japan’s broader initiative—what Katada (2020) called a “new state-led regional geoeconomic strategy” to “reinvent its usefulness in the regional setting.”

Moreover, according to Katada and Liao (2020), China’s aggressive export of infrastructure projects has “pulled [ed] Japan back to its roots” by re-adopting development finance. Among various means of policy diffusion, such as coercion, learning, and emulation, it seems that diffusion between China and Japan occurred through competition, as Japan needed to manage a rising China. In implementing these policies, many scholars identified a process of two-way influence or mutual learning in infrastructure export strategies (Kratz and Pavlicevic 2019; Jiang 2019; Yoshimatsu 2023; Mao et al. 2024). For example, Japan’s policy frameworks around the Partnership for Quality Infrastructure (PQI) and Expanded Partnership for

Quality Infrastructure (EPQI) were strategic responses to the BRI. Japan's official development assistance (ODA) became a key tool for their implementation, and the scope of the two initiatives was broadened beyond Asia to include the rest of the globe. Japan also placed a premium on anti-corruption, openness, and transparency, as well as financial sustainability, as core principles of infrastructure aid, in addition to emphasizing the debt-servicing capability of recipient nations. These strategies concerning high-quality infrastructure were practiced in a complex geopolitical environment triggered by the BRI and took shape in a more defensive posture as Japanese leaders realized that they must deal with the China challenge in global infrastructure competition (Yoshimatsu 2023). In so doing, Japan re-evaluated its regional infrastructure finance strategies to encourage infrastructure exports (Kratz and Pavlicevic 2019).

As a result, Japan and China, through mutual learning, adopted the other's practices of tying commercial financing with government involvement with a particular focus on physical infrastructure and industrialization (Jiang 2019). Taking note of the China challenge, Yoshimatsu (2022) highlighted the ensuing centralization of policymaking and changes in the institutional arrangements of the Kantei. Mao et al. (2024) also picked up the point concerning a strengthened Kantei in the realm of infrastructure policymaking. These practices can be emblematic of what Chen (2021) noted as a return to mercantilist development finance policy.

The aforementioned literature provides the perfect foil for the present study. Our contribution is twofold. First, theoretically, this paper advances the concept of "reciprocal diffusion" between Japan and China. It highlights how Japan's policy adaptations were not only reactions to China's actions but were also facilitated by pre-existing domestic enabling conditions, such as historical mercantilist practices. Ultimately, Japan's roots in developmentalism—defined as active state engagement in promoting economic development—helped shape power centralization (Eaton and Katada 2022).

We see reciprocal diffusion as an important aspect of the multidirectional flow of policy practices highlighted by Eaton and Katada (2022), Leutert (2022), and Liao and Katada (2022). Based on our observation of Sino-Japanese interaction, reciprocal diffusion is more likely to happen when two competing states share similar developmental approaches. Japan remodeled its domestic institutions to overcome pressures in infrastructure export. Its adoption of interventionist strategies was conditioned by its past developmental practices, emphasizing the state's administrative guidance and organic interactions with market actors. Moreover, by highlighting the path dependence and stickiness of developmental institutions in both countries, we echo the aforementioned scholars' findings concerning the convergence of Sino-Japanese competition and see that external pressures act as accelerators of domestic institutional change, emphasizing a nuanced interplay between domestic structures and external influences.

Second, empirically, this study tracks the institutional development within Japan and illustrates the connection between changes in international environments and local responses. We contribute to the existing discussion by taking a deep dive into the domestic political changes within Japan, including legal amendments and institutional arrangements, that have been pivotal in shaping its adaptive strategies

toward China. These insights shed light on the often-overlooked role of domestic factors in enabling Japan to respond effectively to external pressures. By bridging empirical analysis and conceptual innovation, this study enhances our understanding of the two-way influence and adaptive strategies between the two nations and their implications for domestic policymaking environments. It highlights that foreign policy changes are not impervious to influences from domestic factors and actors and the outcome of those changes is deeply rooted in local dynamics. Specifically, how states climbed the global value chain has long-lasting effects on their outlook on competition and global integration, as a state's development finance approaches are outward expressions of its developmental model.

### **The origins and practices of Chinese economic statecraft**

In the postwar years, the Japanese national government explored ways to help firms penetrate overseas markets through foreign aid and build an integrated industrial chain in Asia. The traditional “Japanese model” had two distinct features: focusing on reciprocal exchange and being commercially oriented (Chen 2021). Therefore, Japan benefited from providing aid and investment to improve host countries' investment environment by investing in hardware and software infrastructure. In the process, the Japanese government worked with business actors during the policymaking and implementation phases.

China actively learned and localized developmentalist ideas and practices from Japan in the reform era (see Vogel 2011 for some detailed discussion). In 1976, Chinese leaders discussed ways to learn from Japan including greater opening to the outside and use of foreign capital for the purpose of national rejuvenation (Gu 2009). In 1980, initiated by Gu Mu, the lead Chinese representative of the Sino-Japanese Government Cabinet Meeting, and Saburo Okita, the former Japanese Minister of Foreign Affairs, the Chinese and Japanese governments launched the Sino-Japanese Forum on Exchange of Economic Knowledge. This annual forum became a salient platform on which the two countries could “engage in informal dialogues to promote mutual understanding and provide important advice for decision-making” (Gu 2009).

Japan's industrial policies, for instance, especially those carried out by the Ministry of International Trade and Industry (MITI), had profound influences on how China ought to develop its own economy, especially concerning how to support key industries, direct national champions in international markets, and coordinate state resources. In fact, a total of 148 books were published between 1980 and 1993 on Japanese experiences in economic and technological development and how China can learn and adapt from these lessons. Three books stand out in particular: *Japan's Investment and the Rise of Asia* (by Yongming Fan), *Japan's Transnational Corporations* (by Wenguang Li and Yan Zhang), and *Japan's Post-War Opening to the Outside* (by Linan Zhu). They summarized Japan's experience in opening its economy to the outside, export relations, and development finance and explored how Japan aptly responded to challenges from host countries and competitors. Most

importantly, these works were later integrated into materials for cadre training at the Central Party School in the early 1990s (Li 1995; Han 2013).

Among the key lessons were how Japan linked infrastructure projects and low-interest loans to advancing domestic commercial interests. For example, Japan's integration of aid, trade, and investment motivated China to link foreign aid to the interests of domestic companies (Chen 2021). As Japan did in the 1970s, Chinese contractors use loans from the Export–Import Bank of China (Chexim) to assist host countries in funding infrastructure projects. Moreover, China's current emphasis on international contracting mirrors Japan's earlier phases, which shifted from export-driven development financing to foreign direct investment (FDI)–oriented finance in the 1980s.

In 1995, the National Conference on the Reform of China's Foreign Aid Work issued the “Reply on Issues Related to the Reform of China's Foreign Aid Work.” The publication of the Reply marked the shift from providing economic assistance through fiscal expenditure or “gift funds” to integrating aid with China's domestic development, such as providing loans via banks and financial institutions to buy Chinese materials and equipment or hire Chinese technicians. In later advances in China's development finance, Chinese practices began to resemble traditional Japanese business-oriented and exchange-based approaches (Katada and Liao 2020; Chen 2021). Learning through being a receiver of Japanese official development assistance (ODA) and related knowledge via official and unofficial bilateral knowledge exchange, Chinese development finance also aims to facilitate the economic development of host countries and, at the same time, the global expansion of Chinese firms. China's foreign aid and its firms' foreign investment became mutually reinforcing because overseas markets can be created via foreign aid. To be specific, as noted by Katada and Liao (2020) and Chen (2021), Chinese foreign aid projects were mainly infrastructure development projects tied to large Chinese firms, similar to the Japanese approach. Similar to Japan, state-backed credits benefit Chinese business actors, as China's development finance projects, usually dispersed through the China Development Bank (CDB) and the Chexim, are always tied to Chinese businesses. These acts are emblematic of the “international development investment” approach that was once practiced by Japan as the role of state institutions and their active “guidance” remain similar (Saidi and Wolf 2011; Chen 2021). Chen (2021) aptly described the parallels between Sino-Japanese development finance as “one between China's present and Japan's past—specifically before the 1980s.”

In implementing the “going global” of Chinese SOEs, China's top leaders also designed new institutional arrangements after launching the BRI. A Leading Group for Promoting the BRI and its Executive Office were created. Both are nested under the NDRC, effectively making it one of the most important economic bureaucracies in implementing national BRI projects and supporting the export of large infrastructure projects with an emphasis on “top-level design” (Yan 2021). While the Leading Group is comprised of members from the Chinese Ministry of Foreign Affairs and the Ministry of Commerce, these ministries would send representatives to station at the NDRC to enhance communication and coordination (210331M). Moreover, because of the commission's role in macro-managing the domestic economy, it is the main organization coordinating Chinese SOEs. By “reverse engineering” the

domestic economic structure, the NDRC remains China's "pilot agency," having the authority to coordinate inside and outside China (Yan 2021).

The commission's role in overseeing China's development finance was institutionalized in 2014 with the publication of the *Administrative Measures for Approving and Record-Filing of Overseas Investment Projects*. According to the *Measures*, the NDRC holds the power to approve investment projects of over one billion USD, and investments between 300 million USD and one billion USD must be kept in the commission's file. The State Council must approve, based on the commission's recommendation, investments over two billion USD. However, all investments in sensitive industries must be approved by the commission, notwithstanding the amount, such as telecom, cross-border water resource development, and large-scale land development sectors. In an updated version of the aforementioned *Measures*, the commission can make appropriate approvals by itself—no longer required to make recommendations to the State Council for larger projects. The inflow and outflow of capital for these projects and BRI ones are under the purview of the commission's Foreign Capital and Overseas Investment Department (FCOID), which is the department responsible for approving overseas investment projects. If the project is of national importance, the department's decision is forwarded to the State Administration of Foreign Exchange and China's policy banks for financing and execution (210401Z).

Against this backdrop, the commission handles two sources of projects: top-down and bottom-up. Top-down projects are often the result of bilateral strategic cooperation initiated by China or host countries' top leaders. These projects enjoy top leadership commitment and are driven by state planning and intervention.<sup>1</sup> Bottom-up projects, however, are usually initiated by SOEs and private enterprises, which report them to the State Council, the NDRC, or its local offices for approval.<sup>2</sup> As the gatekeeper of the State Council, the commission conducts the necessary preliminary research and decides whether the proposed projects fall under central or local authorities (210331M). The commission evaluates each project's salience based on its economic returns, access to resources, benefits to bilateral relations, and China's regional influence, among other considerations. If the commission finds a project of strategic importance, it can propose implementing it through business-to-business (B2B) collaboration or government-to-government (G2G) cooperation (210331M).

Despite the nature of large BRI projects, the Chinese authorities rely on the NDRC to troubleshoot and coordinate project execution (Paltiel and Yan 2025).

<sup>1</sup> The Jakarta-Bandung High-speed Railway Project was a top-down one launched due to high-level exchange. It began with bilateral exchanges between President Joko Widodo and President Xi Jinping when they met in 2014 and 2015. A bilateral framework agreement was signed between the Indonesian Ministry of SOEs and the Chinese NDRC, which then asked the CR to work with its Planning Department, International Cooperation Department, and the FCOID on a feasibility study and a potential bid proposal. After winning the bid, the CR coordinated action through its international arm—the China International Railway Corporation.

<sup>2</sup> The Malaysian East Coast Rail Link began as a typical bottom-up project initiated by the China Communications Construction Company. It was perceived that the project could deepen the firm's presence in Malaysia and help it become a key player in Malaysia's infrastructure development market.

Interventions are, however, evaluated carefully by the commission based on the project's ability to yield mutually beneficial results for China and the host country—thus improving bilateral relations and global implications. If the commission were to find a project to be of national and strategic importance, it would “guide” SOEs to a successful conclusion (210401Z). For example, the NDRC was able to greatly influence the re-negotiation of the Malaysian East Coast Rail Link (ECRL).

Following the 2018 Malaysian national election, “the China threat” became publicized issues. The newly elected PM, Mahathir Mohamad, suspended the project in July. To re-negotiate a better term, Mahathir dispatched Daim Zainuddin, the chairman of the Commission of Eminent Experts, as his special envoy to China. The China Communications Construction Company (CCCC) wanted to continue the project under the original B2B model, while Malaysia wanted to pursue it through G2G means. At this critical juncture, and in light of looming Chinese negativities, the NDRC intervened and guided the CCCC toward an acceptable resolution (Paltiel and Yan 2025). Chinese leaders believed that granting Malaysia's request would result in a better global impression of the BRI, counter fears of “debt-trap diplomacy,” and induce future bilateral and multilateral cooperation (Paltiel and Yan 2025). The outcome of the re-negotiation was a two billion Ringgit cost cut. The project resumed in April 2019 but with four stations removed.

Summing up past experiences and looking ahead for future practices, in 2019, the then-Director of the NDRC's FCOID, Xiao Weiming, gave a speech on promoting high-quality BRI projects. In his speech, Xiao noted that the commission must promote “high-quality development” in policy communication among BRI signatories. The commission must, starting with top-level design, “combine the national conditions of all parties after signing the intergovernmental memoranda of understanding, developing cooperation plans, establishing docking platforms and implementing project lists” (Xiao 2019).

Top-level design can also be seen in other areas, such as digital infrastructure export. On November 11, 2022, the Ministry of Foreign Affairs released the Plan of Action to Implement the ASEAN-China Strategic Partnership for Peace and Prosperity (2021–2025), which aimed to strengthen interconnection in the digital field and embrace the fourth wave of the industrial revolution. Under this new initiative, the Chinese state continues to control the direction of cooperation from the macro level and undertakes important functions such as coordinating and docking with the leaders of ASEAN countries. In the export of 5G technology infrastructure in particular, the NDRC, together with the Ministry of Industry and Information Technology, the Central Internet Information Office, and nine additional state departments, jointly issued the “Set Sail” Action Plan for 5G Applications (2021–2023).

In promoting the export of digital infrastructure, Xu Jianping, the Director of the FCOID, noted that due to complementarities in industrial and supply chains, China and the commission can continue to coordinate inheritance and innovation, government and market, bilateral and multilateral relations, scale and efficiency, and development and security (The State Council of the People's Republic of China 2023). These manifested in the construction of overseas promotion channels and service platforms for 5G applications and the promotion of mature 5G applications overseas.

A brief overview of Chinese statecraft tells us that (1) China has adopted Japan's approach to development finance and (2) such practices have been guided by top-level design and coordination, especially over large infrastructure projects in BRI signatories. Such top-level design focused on strengthening the role of state institutions and economic bureaucracies, such as the NDRC, and fusing Chinese capital with overseas market expansion.

## Japan's response

China's rapid technological upgrades have caught the attention of its regional neighbors. Korea's pursuit of economic statecraft in the robotics sector was much due to geoeconomic pressures from "an increasingly technologically competitive China and a technologically superior and highly cost-competitive Japan" (Thurbon and Weiss 2021). Similarly, Japan also had to conjure a series of measures to fend off Chinese influences in development finance as the defeat to China over the Jakarta-Bandung HSR project "resulted in JICA and Japanese companies to rethink how to compete against China," noted by a Japanese think tank researcher (181121KK). Therefore, according to another Japanese think tank researcher, finding new ways of dealing with the "China Threat" was one of the top priorities among officials from JICA and JETRO and leaders in private businesses (181122K).

During Abe's first term, the Japanese government already implemented reforms to its ODA system to address the rise of China. These reforms were to promote the rule of law and liberal values and create new ideas so Japan could increase its presence in the international community (Ogawa 2019; Sasada 2019; Yamamoto 2020). Japan was well aware that the Chinese approach concurrently promoted development, investment, and exports by providing loans to infrastructure projects in developing nations (Ogawa 2019).

Japan's attempt to revive its development finance and strengthen overseas infrastructure investment began as early as 2013 when the Kitakami Administrative Scrivener noted Abe's consolidation of Japan's infrastructure export. The report noted Abe's belief in a unified system through which to promote infrastructure abroad, from design to construction, operation, and management. Additional measures include strengthening Public-Private Partnership (PPP), supporting small and medium-sized enterprises (SMEs) overseas economic activities, and promoting its high-quality infrastructure concept. The goal was to triple Japan's overseas infrastructure order within 20 years. This was documented when the Infrastructure Export Strategy was implemented in May 2013.

In 2014, the Japanese government established the Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development. The company was the fruition of the idea of "bringing the safe and reliable Japanese brand to global infrastructure" (Prime Minister's Office of Japan 2014). The aim was to support entrepreneurs in the transport and urban development sectors in terms of financing international projects. One year later, in 2015, the Japanese government also established the Fund Corporation for the Overseas Development of Japan's ICT and Postal Service Incorporated (JICT). The fund was established to support

businesses implementing projects in sectors such as telecommunication, broadcasting, and postal services in overseas destinations by financing and providing expert assistance. In the same year, Japan also announced plans to invest 110 billion USD in assisting the activities of the Asian Development Bank. In addition, Japan, through a revision of its Development Cooperation Charter, signaled its turn “towards a broader concept of development assistance” (Söderberg 2016). The Abe government seemed to be committed to protecting Japan’s national interest by reverting to the traditional concept of economic cooperation through which Japan, Japanese firms, and host countries would all benefit (Söderberg 2016).

Abe’s infrastructure export strategy culminated in the announcement of PQI and EPQI in 2015 and 2016. The former was established based on three principles. Quality infrastructure refers to projects that are safe, resilient, and environmentally friendly. Connectivity means that projects must be integrated and aligned with local development strategies. Finally, collaboration highlights the need for cooperation between various stakeholders to promote quality infrastructure investment. The crux of the partnership is to promote high-quality and sustainable infrastructure investment in overseas countries focusing on Asia and other emerging economies. Similar to the BRI, the PQI also stresses the importance of connectivity and regional economic integration through infrastructure development.

The PQI is promoted through four pillars. First, the expansion of the Japanese ODA will be done through the full mobilization of economic cooperation tools, including strengthening PPPs. Second, Japan will explore more collaboration with the Asian Development Bank, including expanding the bank’s lending capacity by 50% and facilitating the application of PPP for infrastructure development. Third, the Japan Bank for International Cooperation (JBIC) will be strengthened to increase capital supply and actively fund projects with higher risk profiles. Fourth, Quality Infrastructure Investment will be promoted as an international standard (The Japanese Ministry of Foreign Affairs 2015).

The Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT) proposed an *Action Plan for the Overseas Development of Infrastructure Systems* in March 2016. The ministry asserted that the PQI contributed to host countries’ institutional building and human resource development. Moreover, Japan could help make the PQI more competitive by accelerating the process of providing yen loans to recipient countries. The plan also detailed projects within the purview of the MLIT and its role in strengthening overseas infrastructure investment. A total of nine important points were made, including the development of policies tailored to specific regions and countries, strengthening soft infrastructure measures and the support for overseas development of SMEs and improving competitiveness in price and response speed (The Ministry of Land, Infrastructure, Transport and Tourism 2016).

Crafting Japan’s competing response is especially important to increase Japan’s involvement in development finance and champion norms such as transparency and sustainability. Abe clearly articulated this point at the Sixth Tokyo International Conference on African Development in 2016, where he committed to building a partnership based on shared values and mutual trust.

In light of a rising China, in 2018, the Japan Research Institute produced a report on the BRI and China's economic relations with neighboring countries. In the report, Sano (2018) noted that the initiative is a concept that advocates mutual development but evolved to become a core geoeconomic strategy and a new framework for international cooperation. Against this backdrop, Sano (2018) raised three points on Japan's possible response. First, the Japanese government and firms must cultivate a sense of trust and familiarity with Japan in the region and provide the necessary technology and knowledge to meet local demands for socio-economic development. Second, Japan should explore opportunities to cooperate with China in Southeast Asia. Third, mutualism is a sensible choice when dealing with the BRI. The report indicated that Japan should avoid competition over scale and capital; instead, Japan should focus on strengthening soft infrastructure development and the content industry.

JETRO produced another report in 2019, which had drawn similar conclusions (IDE-JETRO 2019). Cognizant of direct competition, JETRO suggested providing equipment, technology, and knowledge to Chinese firms. Moreover, officials from JETRO noted that Japanese firms must become more competitive due to a growing Chinese economy and increasingly competitive Chinese firms, which had profound implications for regional architecture and global competition in Asia-Pacific. Furthermore, buyers of large infrastructure projects are usually national governments. Therefore, bilateral relations and other geopolitical and geoeconomic considerations become important factors shaping the outcome of the competition. Finally, Chinese companies are backed by the state and receive "strong government support", explained by officials from JETRO (181119NM).

On the point of helping Japanese firms to compete, the Institute for Peace Policies suggested that Japan should promote a high-quality infrastructure development system in Asia, build a maritime alliance based on a free and open Asia-Pacific strategy, and promote the establishment of an "open and wide-ranging economic circle" (Institute for Peace Policies 2018).

In 2020, the Japanese government announced a new strategy—Infrastructure Systems Overseas Expansion Strategy 2025. In March 2021, the Japan Business Federation published a policy report focusing on the development of overseas infrastructure projects, in which the federation noted the expansion of the global infrastructure market. According to the report, Japan must strategically incorporate this global demand to achieve sustainable development (Japan Business Federation 2021). To achieve these goals, the federation called on the Japanese government to develop green infrastructure, realize the "Free and Open Indo-Pacific," and strengthen top-level sales and the promotion system for acquiring overseas projects.

## **Abe's centralization of power**

To meet these challenges, a centralization of power occurred. These reforms arguably led to a return to Japan's earlier forms of development finance (Sasada 2019; Katada and Liao 2020; Chen 2021; Mao et al. 2024), and the core characteristics are as follows: a strengthened top executive in decision-making and coordinating

capacities, a stronger role to be played by the *Kantei* and Cabinet secretary, and proper channelling of the will of the PM for a proper executive at the ministerial/bureaucratic level. The expansion of the Japanese PM's power cannot be argued solely because of China; as, for example, Takenaka (2019) showed the domestic drivers of such expansion. However, this paper shows how Japan has learned from China and how external pressure has served as an accelerator of reform.

Indeed, Japan internalized some of the strategies that allowed for China's rapid execution of infrastructure projects abroad (Jiang 2019; Mao et al. 2024). The first was greater coordination and state-to-state bilateral negotiations (Mao et al. 2024), and the second was heavy government involvement and state-sponsored business approaches (Jiang 2019). Therefore, according to officials from JETRO, greater efforts have been introduced to provide private firms with more government support, and such support often resulted in the re-packaging of Japan's ODA (181119NM). These measures were necessary moves for Japan and Japanese firms to become more competitive. They argued that financial support and policy commitment were preconditions to winning projects abroad (181119NM).

However, coordination is not always easy due to a demarcation of responsibilities within the Japanese national government as many actors are involved in the policy process and each exerts influence to shape the policy discussions and outcomes. For instance, the more important actors include the Cabinet Secretary of Japan (CAS), the Ministry of Economy, Trade and Industry (METI), the chief advisors to the PM, the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), JICA, JETRO, and Nippon Export and Investment Insurance. Regarding development finance, the MOFA and MOF are key stakeholders in approving projects endorsed by JICA. The MOFA usually remains neutral despite favoring projects that can facilitate stronger bilateral relations. Contrastingly, the MOF tends to be more conservative due to budgeting concerns. Therefore, according to officials from JICA, the agency has relied on the CAS for assistance and coordination (181120KT; 181115NM).

Against this backdrop, coordination among national-level ministries and the private sector was needed to ensure coherent governmental intervention led by the PM and his cabinet. Coordinative practices were reflected in the new role Abe assigned to himself during his second tenure—as the top sales of Japanese projects. This was perceived as a turning point when businesses and governments reached a common base for the “going global” of Japanese infrastructure and firms, according to a Japanese think tank researcher (181119Y). As a result, Abe's cabinet expanded its power to coordinate the interests among various actors. For example, in 2013, Abe established the National Security Council to coordinate foreign policy decision-making (Liff 2018). An additional body, the Industrial Competitiveness Council, was established, with 17 members from the bureaucracy and business community, to ensure coordination between the government and businesses.

It is worth highlighting that Abe's turn to centralization was presaged by a continuous trend to strengthen the authority of the PMO. For example, the abolishment of the Foreign Economic Cooperation Council and the establishment of the Overseas Economic Cooperation Committee in 2006 were meant to reduce the influence of bureaucrats and create a command post for deciding Japan's foreign aid policies.

This committee is chaired by the PM, and members include the chief cabinet secretary, ministers of MOFA, MOF, and METI. In the 2010s, the PMO also began guiding Japan's ODA in infrastructure development (Yamada 2021). Under the second Abe administration, the PM and Kantei's influence over these bodies was considerably strengthened. Top-level design in infrastructure export involved the drafting of the annual Infrastructure Overseas Expansion Strategy and the creation of an Economic Cooperation Infrastructure Portal. These initiatives are akin to China's institutional design in having the NDRC as the central coordinating body where all relevant parties meet and carve out a plan to engage in infrastructure exports.

In 2018, Abe introduced several reform measures to strengthen the functions of the PMO and streamline decision-making inside it. A strengthened *Kantei* leads to the empowerment of the PM, allowing him to wield centralized authority. Decision-making was therefore made and implemented in a top-down and politically demand-driven manner affecting policy changes in a wide range of issues, including foreign policy, security, and monetary and fiscal policies (Oren and Brummer 2020; Hoshi and Lipsy 2021; Liff and Lipsy 2022). The PMO's "remarkable influence and reach to traditional centers of power in Japan" helped Abe to establish "control towers" (*shireitō*) in foreign and security policy circles (Pugliese and Patalano 2020). In turn, business leaders could directly propose international projects to the PMO instead of going to government ministries (Mulgan 2018). Abe, therefore, found the strategy useful for coordinating otherwise powerful stakeholders—allowing him to channel his influence and ensure compliance in implementing the government's agenda (Pugliese and Patalano 2020).

Additionally, changes to the national civil service law allowed the cabinet to directly appoint public servants in ministries responsible for policymaking in economic and national strategies. This reform empowered the CAS to assist the PM in designing important cabinet policies to be strategically promoted by the state. The pre-reform CAS only provided advice to the PM. Reforms to the civil service also gave the PM and his Chief Cabinet Secretary greater influence in appointing senior officials in ministries and providing "assistance" to the design and planning of national policies (Enomoto 2018). These become concrete ways through which the PM can afford the capacity to extend his will in forging bureaucratic consensus concerning national projects.

By creating these institutional spaces, Abe was also able to appoint his consiglieres and exert greater influence on the ministries. For example, Abe made sure that his assistant and secretary—Takaya Imai—would be involved in the management of government administration, who would wield similar "influence alongside chief cabinet secretary Yoshihide Suga, and phone calls from Takaya are said to reflect the Prime Minister's intentions" (The Sankei News 2023).

Power concentration is visible in the execution of the PQI. Prior to its launch, though a formal decision concerning the adoption of yen loans was made by the Cabinet meeting, the actual decision was made by the MOFA, MOF, and METI. Currently, while ongoing projects were decided by JICA, infrastructure projects were reported at the monthly Infrastructure Monitoring Committee meetings chaired by the deputy PM (181119Y). Moreover, important projects were reported to the PM's advisor and, if necessary, guided by the PMO. Regarding

financial regulations, Japan's PQI program, though developed jointly by the MOFA, METI, and MLIT, saw an expansion of JICA's responsibility in promoting development finance. JBIC would also work with JICA to invest in high-risk projects.

Japan's export of its Shinkansen system to India is reflective of the power concentration used for railway export due to its high capital investment and the involvement of multiple actors across complex subsector systems. Its defeat in the Jakarta-Bandung HSR project prompted a shift toward the adoption of bilateral top leadership negotiation; this can be evidently seen in the Mumbai-Ahmedabad HSR project, when Modi agreed to adopt Japan's Shinkansen system without any competitive process (Mao et al. 2024). In May 2013, Abe, as Japan's top sales, visited India and agreed with Manmohan Singh, the then-PM of India, to co-finance a feasibility study of the Mumbai-Ahmedabad HSR Corridor; the two countries signed an MOU later in September. To complete the study, JICA, supported by the Japanese government, invited Japan Railway (JR) East, Hitachi, and Kawasaki, among other relevant actors, to visit India to research the applicability of the Shinkansen technology and transit-oriented development (TOD), said a manager from JR East (181117JRE). The Japanese government's decision to invite JR East, not JR Central, was because of the latter's involvement in exporting the Shinkansen to the USA. Two years later, in 2015, Abe visited India again and pledged US\$3.6 billion to support quality infrastructure projects, including the aforementioned HSR corridor.

The Japanese government, under Abe, played the key coordinating role for the Mumbai-Ahmedabad HSR Corridor. First, though Hitachi won the bid together with other Indian firms, government coordination with other ministries was apparent, as Abe engaged in the signing of MOUs, government-to-government agreements, and packaged the project as one of Japan's overseas development assistance programs, noted by our interviewees from Japan (181115NM; 181120JK; 181121KK). Second, while JICA provided the feasibility study, its mandate was given by the Japanese state, which would organize and provide loans to this particular project. Third, besides JICA, the International High-Speed Rail Association (IHRA) also plays a coordinating and platform-building role among Japanese HSR actors. Working with the Japanese government, explained by a manager of the association, the IHRA focused on working with HSR operators, transferring the know-how and solving practical challenges faced by technology receivers (181122I). The association frequently exchanges information with MLIT to facilitate the smooth export and implementation of Shinkansen abroad.

However, it must be noted that the coordination work done by the Japanese state was not the same as that of the Chinese. The major reason is that infrastructure export is still done through private firms instead of SOEs. Therefore, the Chinese state and the NDRC have more tools at their disposal in terms of influencing, if not coercing, firms to comply with their international strategies. For Japan, the involvement of private firms is not restricted to policy implementation but also to the realm of financing (181121KK). In turn, solving collective action problems in the private sector is not always easily done through a simple concentration of power as Japan's private firms have become more autonomous (181120K; Chen 2021).

## Conclusion

This paper argued that a reciprocal diffusion of economic statecraft occurred between China and Japan. Riding on longer trends of power centralization, external competition from China served as an accelerator for the second Abe administration to further consolidate the power of the PM in decision-making. Such power consolidation, according to scholars, signals Japan's return to its roots, which initially influenced China's approach to development finance and infrastructure export. The occurrence of reciprocal diffusion suggests that (1) China's rise has significant implications on the international and domestic behaviors of its regional neighbors and (2) Abe's centralization of power was made possible because of Japan's traditional approach to infrastructure finance and the country's recent trend in bolstering its PM's authority.

The strengthening of the Kantei empowered the PM's ability to wield authority among ministries. Under this policy structure, decision-making is made and implemented in a top-down and political demand-driven manner, in areas such as infrastructure export, foreign policy, and national security. Ultimately, the centralization of authority was a means to streamline decision-making, which in turn allowed the Prime Minister to exert greater influence on how to realize his vision for Japan's global competitiveness.

The implication of reciprocal diffusion on the regional architecture of Asia–Pacific can be threefold. First, we are witnessing what Kuik (2021) argued is a double increase in regional financiers and demand for infrastructure development. Friendly competition between China and Japan leads to more opportunities for Asian countries. With more options, these states can bargain for better loans and a complete transfer of technology—both help secondary states escape dependent development. Moreover, there will be a diversification of lenders. Investment may not just be from the global north, but a strengthening of south-south relations (esp. infrastructure investment). Such integration helps foster a vibrant economic zone, albeit with complex relationships and crisscrossing technical standards.

Second, however, more Chinese and Japanese money and technology in the region may also reinforce dependency. A deepening of their respective grand regional strategies may spiral into unrestrained competition that could fragment the region. Moreover, competition based on ideological and geopolitical grounds can fragment the region with more friend-shoring and on-shoring of supply chains—leading to concurrent financial regimes, complex interdependence, and a latticework of intersecting relations. Under such conditions, secondary states may be forced to bandwagon or work together on a mechanism to incorporate both regional powers. Needless to say, the region is moving toward great uncertainty and with lots of moving parts.

Finally, competition is not the only leitmotif. Both governments and businesses at national and commercial levels are working on sustainable or green development. While promoted and highlighted by Japan, Chinese business groups have responded by recognizing and integrating the necessary criteria into their

interactions with Japanese counterparts. The CBD and JBIC also signed an MOU in October 2018, and the two banks agreed to provide financial support to projects that comply with global standards (Keidanren 2018). To conclude, competition or cooperation, Asia remains one of the most dynamic regions in the world, home to vibrant market opportunities and various types, even contradictory, of market structures and developmental outlooks.

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