Infrastructure Choices and the Future of the Indo-Pacific

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Cross-border infrastructure is the next frontier for the economic integration of the Indo-Pacific. The developmental success of the Indo-Pacific has been predicated on regional integration, with trade, investment and technology flows unlocking complementarities between economies. As several decades of policy liberalisation has driven down regulatory barriers to trade and investment, it is now physical links — road, rail, shipping, energy and telecommunications connections — which are the principal challenge for the next phase of regional integration.[1] Unfortunately, the Indo-Pacific is plagued by a range of 'infrastructure gaps', as governments have struggled to supply infrastructure at the pace and quality required by their high-speed growth. Estimates suggest that USD 0.7 trillion[2] of new investment per year, every year, is required to close these gaps. Building better infrastructural linkages is a top priority for all governments in the region.

Yet infrastructure has also emerged as a source of geostrategic tension. This is principally due to China's Belt and Road Initiative (BRI), which promises to channel $1 trillion to infrastructure projects through state-owned banks and industrial firms.[3] As this capital-injection is much needed, many governments have welcomed the BRI as an important step in promoting regional integration. However, concerns have also been raised over the impacts of China's state-financed largesse. These include the governance and transparency of projects led by state-owned enterprises, the prospect of 'debt-trap diplomacy' in less-developed economies, and security risks facing critical infrastructure such as ports and telecommunications.[4] There is now a heated debate regarding how to weight the economic benefits and strategic risks of engagement with the BRI. Even governments in critical need of infrastructure — such as Indonesia[5] — have significant concerns about the strategic implications of welcoming Chinese investment.

Much commentary on Indo-Pacific infrastructure diplomacy has therefore focused on the implications of the BRI. Some analysts have even identified infrastructure as an emerging front in the so-called 'new Cold War' between China and the United States.[6] However, the popular fixation on the BRI ignores the much wider range of infrastructure initiatives at play in the region. Given the economic and strategic importance of connectivity, many governments have launched programs to help close the region's infrastructure gaps.

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1 Luis Andres, Dan Biller and Matias Herrera Dappe, *Infrastructure Gap in South Asia: Infrastructure Needs, Prioritization, and Financing*, Policy Research Working Paper, no. 7032 (Washington, DC: World Bank Group, 2014).

2 Asian Development Bank, *Meeting Asia's Infrastructure Needs* (Manila: ADB, 2017).

3 Jonathan Hillman, 'How Big Is China's Belt and Road?', *Reconnecting Asia Project*, 3 April 2018.

4 'How Asia Fell Out of Love with China's Belt and Road Initiative', *Bloomberg*, 11 December 2018; 'China's Belt and Road Initiative: Debt trap or hope?', *Straits Times*, 20 October 2018.

5 Gatra Priyandita, 'Belt and Road Investment under Fire in Indonesia's Presidential Elections', *East Asia Forum*, 20 November 2018.

6 Mie Oba, 'The Unpredictable, Conflicting Structure of the New Cold War, *The Diplomat*, 29 December 2018.

Each offers a distinctive 'blueprint' for regional connectivity, with different goals, governance arrangements and institutional mechanisms. In this way, these blueprints offer competing geo-economic visions for the future of Indo-Pacific economic integration.

The Contemporary Landscape of Indo-Pacific Infrastructure Initiatives

In recent years, there has been a proliferation of infrastructure initiatives by Indo-Pacific governments. The conventional debate on regional connectivity — which is almost exclusively focused on the drivers and implications of China's BRI — fails to understand the breadth and complexity of the infrastructure programs in the contemporary Indo-Pacific. By taking a regional perspective, which locates the BRI within this broader landscape of initiatives, a very different set of insights regarding the geo-economics of infrastructure are revealed.

First, there is now a competitive marketplace for infrastructure in the Indo-Pacific (Table 1). Eight programs are now active. Three have been launched by the region's major powers (the United States, Japan and China), and a further three by established regional organisations (APEC, ASEAN and the GMS). Additionally, two multilateral development banks also support regional connectivity projects. These are the longstanding Asian Development Bank, and the newly formed Asian Infrastructure Investment Bank (the first development bank to specialise solely in infrastructure[7]). The collective budget for those that have allocated investment capital is approximately $1.5 trillion. The landscape of infrastructure mechanisms in the Indo-Pacific is now well-developed, and indeed somewhat crowded. Importantly, China's BRI is just one player in this competitive marketplace.

Second, these programs offer distinctive governance models. Three are *national programs* led by a donor government, which offer finance — in the form of FDI (foreign direct investment), aid, loans, and/or technical assistance — for infrastructure in host states. These employ a bilateral model, with financing packages negotiated directly between the donor and host. Another two are *multilateral development banks*, which also offers loans and technical assistance. These are differentiated by their multilateral model, in which a transparent and rules-based set of funding criteria are used to design and set conditions for supported projects. Three are *regulatory dialogues*, which operate on a minilateral basis within existing regional organisations (APEC, ASEAN and the Greater Mekong Subregion). These dialogues provide spaces for like-minded countries to discuss infrastructure policy, identify priority projects, and coordinate strategies on a voluntary basis.

Third, a pattern of functional specialisation has now emerged. China's BRI principally emphasises concessional finance from public sources (either aid programs or investment from state-owned enterprises). The two multilateral development banks adopt the same approach, albeit on a multilateral basis. The US and Japanese programs also offer public finance, but focus on using this to leverage greater amounts of private sector investment into projects. The involvement of private capital means their footprint will be considerably larger than their headline budgets. The regulatory dialogues take a different approach again. These do not offer financing at all, but instead aim to provide a space in which

7 Jeffrey Wilson, 'The Evolution of China's Asian Infrastructure Investment Bank: From a Revisionist to Status Seeking Agenda', *International Relations of the Asia-Pacific*, 2018.

governments can coordinate infrastructure policy efforts. Dialogue is especially important for cross-border infrastructure, which requires a degree of policy harmonisation between the involved countries before a project is 'investment ready' for the private sector.

Table 1: Indo-Pacific infrastructure initiatives

	Initiative	Members	Budget	Activities	Description
National Programs	Belt and Road Initiative (BRI)	China	No official budget, est. $1 trillion	FDI, ODA, loans, technical assistance	State-owned enterprises invest in I&C projects across region
	Partnership for Quality Infrastructure (PQI)	Japan	$200 billion	FDI, ODA, loans, technical assistance	Targets ODA and technical assistance to I&C projects
	International Development Finance Corporation (IDFC)	United States	$60 billion	FDI, ODA, loans, technical assistance	Reorienting ODA to leverage private sector investment
Multilateral Development Banks (MDB)	Asian Development Bank (ADB)	67 members	$147 billion subscribed capital	Loans, grants, technical assistance	Longstanding regional MDB; major I&C focus in recent years
	Asian Infrastructure Investment Bank (AIIB)	68 members	$100 billion subscribed capital	Loans (commercial only)	New regional MDB, with functional specialisation in I&C projects
Regulatory Dialogues	Master Plan on ASEAN Connectivity (MPAC)	10 ASEAN members	None, dialogue only	Policy harmonisation and capacity building	Nonbinding intergovernmental planning for priority I&C projects
	Greater Mekong Subregion (GMS)	Cambodia, China, Laos, Myanmar, Thailand, Vietnam	None, dialogue only	Policy harmonisation and capacity building	Dialogue process to foster I&C-enabling regulatory reforms
	APEC Framework on Connectivity	21 APEC members	None, dialogue only	Policy harmonisation and capacity building	Adoption of best-practice methods for evaluation and implementation of I&C projects

Source: Jeffrey Wilson, *Blueprints for the Indo-Pacific: Infrastructure and Connectivity Programs for Regional Integration* (Perth: Perth USAsia Centre, 2019).

Note: FDI (foreign direct investment); ODA (overseas development assistance); I&C (infrastructure and connectivity).

Making Informed Infrastructure Choices

The emergence of these new infrastructure initiatives is a welcome development for the Indo-Pacific. Collectively, they promise to add approximately $1.5 trillion of public investment to the regional infrastructure funding pool. They indicate that governments are now taking the connectivity problem seriously, and are willing to commit political and financial capital to close infrastructure gaps. The fact that governments are also making cooperative efforts to address regulatory barriers — beyond simply funnelling yet more investment to the problem — means there is also an institution-building dimension to these initiatives. This combination of financial, political and institutional efforts will go a long way to building the physical infrastructure needed to sustain the Indo-Pacific's economic dynamism.

However, governments are also spoiled for choice. With eight major initiatives now in play, donor states have several vehicles through which they can deliver their efforts; while recipients have multiple options to bootstrap transformative projects. This is a positive development, insofar as it means there are now multiple models which suit a diverse range of countries and infrastructure types. However, it also means there are clear overlaps, which may lead to duplication, inefficient allocation of resources, and institutional fragmentation. There is also the shadow of geostrategic competition, as the region's major powers have begun using infrastructure initiatives as a tool in contests for leadership. If aspirations for a connected Indo-Pacific are to be realised, governments will need to make careful decisions to manage risk and maximise results.

How should governments go about making informed infrastructure choices? While the calculus will naturally vary for different parties, there are three general principles that should inform decision-making in this complex policy space:

First, it should be recognised that these initiatives do not pose an either/or choice. The scale of the region's infrastructure gaps is so large that all could be accommodated. Indeed, their functionally differentiated approaches hold the potential for a beneficial division of labour, with initiatives matched to the specific projects and countries that best fit their model. For example, those which offer investment capital are best suited to large-scale but high-risk projects; while initiatives focused on regulatory cooperation are important for enabling cross-border infrastructure that needs common standards. The infrastructure choice is therefore one of *efficient resource allocation*, not *picking winners*. Governments need to ensure a good functional match between infrastructure projects and the regional platforms they use to develop them.

Second, there are fruitful opportunities for building cooperative linkages. As no initiative provides all the potential forms of support, joint projects that combine their respective strengths could develop innovative solutions. Clear synergies exist between those with large pools of available capital (BRI, PQI, AIIB, IDFC), those with in-house technical capacity and expertise (ADB, APEC), and those that provide dialogue mechanisms to facilitate inter-governmental cooperation (GMS, MPAC). Fortunately, this kind of inter-institutional linkage is already underway. The AIIB and ADB have cooperated on several loan packages,[8] and ASEAN's infrastructure planning pipeline has been used to guide

8 Wilson, 'The Evolution of China's Asian Infrastructure Investment Bank', Table 3.

the form of Chinese BRI investments in Southeast Asia.[9] Joint packages that combine capital, knowledge and dialogue will provide more effective solutions than go-it-alone approaches.

Third, geostrategic concerns will need to be carefully managed. In an era when geostrategic rivalry is increasing, there is already evidence that infrastructure has become a vehicle for major power competition. If this pattern accelerates, there is a risk that internecine competition between the various initiatives may result in zero-sum games. While it is impossible to separate the strategic and economic dimensions of infrastructure, their relationship can certainly be managed. Investing in cooperative institutions with a diverse range of stakeholders will prove critical. By providing a space for the achievement of shared interests, cooperative institutions help ensure the regional infrastructure game is positive-sum in nature. They can provide transparency regarding the efforts of both donors and recipients, improving trust and lowering risks of conflict. They can also negotiate mutually-agreed standards, principles and processes, which will build consensus behind rules-based approaches to infrastructure development.

Infrastructure is at the heart of debates over the future of regional integration in the Indo-Pacific. Governments have finally begun to address a pressing problem facing individual and collective development of economies in the region. But with so many initiatives now on offer, governments need to make informed choices that deliver positive outcomes and manage geopolitical risks. By framing connectivity as a shared problem requiring collaborative solutions, a cooperative approach to infrastructure is essential to secure the ongoing economic dynamism and integration of the Indo-Pacific.

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9 Via Chinese involvement in the ASEAN-managed Singapore-Kunming Rail Line (SKRL) framework. See SKRL project listing at Reconnecting Asia ('Singapore-Kunming Rail Link', 2018), <reconnectingasia.csis.org/database/initiatives/singapore-kunming-rail-link/c66fed28-f2a3-44a2-946f-bac6155127d3/> [Accessed xx Month 20xx].