RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore

RSIS COMMENTARY

www.rsis.edu.sg No. 132 – 6 August 2018

Indo-Pacific: US Role in Infrastructure

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Synopsis

The US has announced that it will make a US$113 million "down payment" to support its initiatives in the Indo-Pacific in the areas of digital economy, energy, and infrastructure. While this amount pales in comparison to China's Belt and Road Initiative, it is a mistake to dismiss the US' role in regional infrastructure development as puny.

Commentary

AT THE US-ASEAN Foreign Ministers' Meeting in Singapore, Secretary of State Mike Pompeo announced on 3 August 2018 that Washington would contribute US$113 million as a "down payment" to support new programmes in the areas of digital economy, energy, and infrastructure in the Indo-Pacific region.

Echoing his statement first made at the Indo-Pacific Business Forum in Washington DC on 30 July, he said $50 million and $10 million would be allocated to projects under Asia EDGE (Enhancing Development and Growth through Energy) and the US-ASEAN Connect Initiative respectively. Asia EDGE is aimed at increasing the Indo-Pacific states' access to energy and achieve energy security. US-ASEAN Connect aims to strengthen Washington's economic engagement with ASEAN in four pillars: business, energy, innovation, and policy in addition to America's security commitment to the region.

US Indo-Pacific Strategy: Economic Dimension

The pledge is an economic prong of the Trump administration's Indo-Pacific Strategy. Washington's plans to collaborate with the regional states encompass three areas: trade, investment, and infrastructure. On trade, the administration aims at fostering "free, fair, and reciprocal" trade by lowering barriers. On investment, Washington wants to boost investment climate, raise the private sector participation, and ensure that investment in the region encourages entrepreneurship and innovation.

Regarding infrastructure, President Trump himself said that his administration would support multilateral financing institutions such as World Bank and Asian Development Bank to pursue high-quality infrastructure development promoting economic growth, and reform the American development finance institutions. Concerning the latter, the bipartisan Better Utilisation of Investments Leading to Development Act of 2018 (or BUILD Act) has been passed by the House of Representatives and is now with the Senate.

If approved, the Act will establish the US International Development Finance Corporation (IDFC) which will assume the activities of the Overseas Private Investment Corporation, USAID's Development Credit Authority, USAID's Enterprise Funds, and USAID's Office of Private Capital and Microenterprise. The Bill also grants to IDFC "the ability to make equity investment, a doubling of the contingent liability ceiling to $60 billion". In short, the Act will consolidate the US development finance authorities, elevating Washington's connectivity assistance in the region.

US Model for Infrastructure Development

Some critics compared America's pledge of $113 million with China's $1-trillion-worth Belt and Road Initiative (BRI), making them regard this US effort laughable. It is a mistake to completely dismiss Washington's commitment. Looking closely at the US business model can enhance our understanding of how its development finance functions:

In the American model, the private sector plays a key role in infrastructure financing. Most investment decisions are made in corporate board rooms, not by the government. American firms' untapped financing capacity is enormous.

The US currently possesses about $50 trillion in savings yet to be invested overseas. However, the private sector is reluctant to invest abroad for several reasons, including the inability to find bankable projects. According to Marsh & McLennan Companies' Study, about 55%-65% of the connectivity projects in the region are unbankable without support from governments or multilateral financing institutions.

As a result, one should not view the $113 million as the entire amount of the American infrastructure finance in the Indo-Pacific because a more substantive chunk of investment is likely to be come from US firms.

How Will Indo-Pacific States Respond?

The jury is still out on how the American authorities will make the best use of this pledged amount to support American businesses in their overseas endeavour. Should the government pull it off, it will elevate the US' role in regional development finance. Still, craving for connectivity improvement notwithstanding, the Indo-Pacific states will not blindly scramble for external support.

After the reports of discontent arising from Sri Lanka's Hambantota Port and Laos' China-financed railway project, several countries increasingly realise the risk of unsustainable development and sovereignty trade-off, and are seeking to diversify accordingly. For instance, Indonesia's Jokowi administration has recently navigated among big powers by, for example, inviting Japanese firms to bid for the state's oil and gas blocks in 2017. Moreover, the latest expansion of Cambodia's Sihanoukville Port in July was funded by Japan.

Although Washington has taken steps in the right direction, work is needed to be done on the following: First, the US authorities should better help its businesses in identifying bankable projects, facilitating joint ventures between American companies and those from other countries, and seize opportunities to conduct public-private partnership.

Also, beyond physical infrastructure development, American authorities (perhaps in collaboration with other like-minded countries) should provide more capacity training to Indo-Pacific policymakers, enabling them to create "soft infrastructure", namely rules and regulations facilitating cross-border logistics.

These capacity-building schemes should specifically be geared towards tackling the issue of governance over fragmented connectivity caused by an alphabetical soup of various frameworks in the region. Therefore, such workshops should focus on the harmonisation of rules to boost the inter-operationality of different rules and regulations.

Washington's promise of $113 million is not the total amount of the US' commitment to infrastructure finance in the Indo-Pacific as "real investment" is likely to come from the American private sector, whose enormous potential has yet be realised. As infrastructure in one area of the economic component of the US Indo-Pacific Strategy, the stakes are high. American policymakers need to think harder about how to effectively unleash such potential.

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