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# BRIDGES TO SOMEWHERE? DECONSTRUCTING ASIA'S INFRASTRUCTURE PUSH

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## Upcoming Events

- July 28-31: TPP Ministerial Meeting (Maui)
- August 20–21: G20 Infrastructure and Investment Working Group Meeting (Berlin)
- August 22– September 6: Third APEC Senior Officials' Meeting (Cebu)

The past two years have seen a veritable landslide of new infrastructure-focused initiatives across the Asia-Pacific region. These include the China-led Asian Infrastructure Investment Bank (AIIB) and "One Belt, One Road" (1B1R) vision; Japan's five-year, $110 billion "quality infrastructure" push; and the Australia-based Global Infrastructure Hub. There is no question that Asia needs more and better infrastructure, both to boost growth and support the region's development. However, beneath the flood of new financing commitments is the bedrock reality of a shortage of viable projects and the inherent challenges of this kind of investment. This suggests that the Asian infrastructure push may be less about putting money to good use than about a competition to shape the region's economic geography.

The scale of infrastructure needs in Asia is staggering. The Asian Development Bank (ADB) estimates that more than 700 million people in the region do not have access to electricity and that more than 60 percent of households lack access to modern sanitation and a secure water supply. In 2009, the ADB put Asia's infrastructure needs at $8 trillion over the present decade.

But financing is not the constraint. The world is awash in liquidity, and more and more institutional investors (including sovereign wealth funds) are looking to invest in infrastructure as an asset class. Rather than a shortage of interested money, a more critical choke point is the lack of well-prepared, bankable infrastructure projects—and the sources of this problem go well beyond what checkbook diplomacy can address.

For starters, infrastructure is a tricky proposition even in the developed world. Ask any longtime Boston resident about the "Big Dig," or a Washingtonian about Metro's capital improvement plans. Big infrastructure projects are costly, technically complex, and slow to generate promised returns—if they ever do. Research by Professor Bent Flyvbjerg of Oxford University has shown that "megaprojects," those costing over $1 billion, almost always end up being completed late, over budget, and with less than the promised benefits.

In Asian countries with the most pronounced infrastructure needs, such as Tajikistan, Afghanistan, Laos, and India, conditions are far more challenging. In addition to these countries' rough geographies and climates, unclear land rights can complicate the acquisition process and raise the risk of social conflict. Extensive red tape or lack of bureaucratic capacity can draw out the investment process, increasing costs for countries ill equipped to afford them. Project selection and procurement require navigating labyrinthine local politics. Add in weak rule of law, corruption issues, environmental challenges, and uncertain macroeconomic and political environments in many developing countries, and it is clear why institutions like the World Bank long ago expanded their focus beyond infrastructure into areas such as health and capacity building.

This makes the current rush to boost infrastructure finance something of a puzzle. In the case of the AIIB, why create a new institution focused on financing when more binding constraints on infrastructure supply lie elsewhere? Other initiatives endorsed by the G20, such as the World Bank's Global Infrastructure Facility, had begun to mobilize to address areas where important gaps do exist, such as project preparation.

There is a range of explanations for China's actions. The AIIB may reflect a genuine intention by Beijing to increase provision of public goods through multilateral means. Jin Liqun, China's capable nominee to head the AIIB, has promised a "lean, clean, and green" institution that will uphold the high standards of the existing development architecture. He has argued that the AIIB will complement existing lenders and shorten the long lead times that often come with projects funded by multilateral development banks. Beyond altruism, there are a number of other Chinese objectives the AIIB could serve: enhancing China's

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stature as head of its own international institution; helping to generate higher returns on the country's massive foreign exchange reserves and to export some of its serious industrial overcapacity; and advancing Beijing's foreign policy agenda by expanding its influence in its near-abroad.

These motivations are not mutually exclusive, and all make sense coming from a rising great power. Moreover, even if driven largely by self-interest, Beijing's assertive new economic diplomacy has the potential to benefit the region. Quality infrastructure projects built with appropriate attention to environmental and social sustainability would be of long-term value to a region with not only enormous development needs but also particular vulnerability to natural disasters.

But a focus only on the potential upside of China's efforts may miss important strategic implications of the AIIB and Beijing's other new initiatives in the infrastructure space.

Infrastructure can create influence in two ways: by encouraging favorable patterns of activity or by magnifying direct influence. As an example of the former, north-south railways connecting China's southern provinces with the countries of the Mekong River delta have the potential to boost trade by lowering the cost of moving goods between these countries—similar in effect to a preferential trade area. As China seeks to accelerate its industrial upgrading, and as lower value-added industries migrate toward areas such as peninsular Southeast Asia, Sino-centric patterns of infrastructure can help lock in China's centrality in regional value chains. This could have the effect of deepening these countries' already asymmetric integration with China and give Beijing greater leverage over their foreign and domestic policies. Infrastructure projects that improve China's access to Central Asia's energy resources can help slow the inevitable increase of Chinese reliance on the Middle East.

Investments in infrastructure can also generate direct influence. Chinese control over critical infrastructure chokepoints for data and financial flows could provide a means to monitor, filter, or limit activity. Increased financing through "One Belt, One Road" initiatives as well as the AIIB can help Chinese companies going abroad gain experience with new techniques and become more competitive, ultimately supporting their development of "secure and controllable" technologies. Finally, there are some categories of infrastructure—such as ports and canals—that can have specific military applications or might confer security advantage; a $50 billion canal project underway in Nicaragua and a long-considered canal across Thailand's Kra Isthmus are examples of these.

To be sure, even if strategic considerations do lie behind Beijing's new infrastructure push, there is plenty of room for skepticism about how successful these efforts will be; historically, promised Chinese aid dollars have often translated into just pennies in both investment and influence. Washington should not assume that Beijing's efforts will fail, but neither should U.S. policymakers assume superhuman vision and capacity on the part of their Chinese counterparts. The United States does not need to match China dollar for dollar; instead, it should continue to work with allies and partners to promote a trans-Pacific economic order that is open, transparent, fair, and market-based. Developing a comprehensive U.S. economic strategy based on these principles is a topic the Simon Chair will continue to explore in future writings. ■

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## Simon Says...

Drawing from his extensive research on the performance of large-scale infrastructure projects, Oxford professor Bent Flyvbjerg has coined what he calls the "iron law of megaprojects": they are almost always "over budget, over time, over and over again." This holds true even in countries like Germany, which one might expect to be the exception that proves the rule.

Europe's undisputed industrial powerhouse has lately suffered an embarrassing string of high-profile boondoggles, including the Stuttgart 21 railway station and a new concert hall in Hamburg. However, both pale in comparison to the debacle that is Berlin Brandenburg Airport. As detailed in a recent Bloomberg report by Joshua Hammer, Berlin is now spending €16 million per month just to maintain a €5.4 billion facility that is running three years beyond its expected completion date and three times over its projected budget. Safety inspectors have found more than 85,000 "serious defects" within the facilities and 55 miles of cables that make up its fire protection system—a problem that at one point led managers to consider stationing 800 orange-clad human smoke detectors around the airport in order to avoid a delayed opening.

But there's no room here for schadenfreude: as Professor Flyvbjerg's research shows, infrastructure is challenging wherever it occurs. Perhaps President Kennedy foresaw the troubles his hometown would have with the Big Dig when he stood by that wall and said, "Ich bin ein Berliner..." ■