

AJISS-Commentary

The Association of Japanese Institutes of Strategic Studies

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No. 284

14 January 2021

A NEW PHASE OF INDO-PACIFIC ECONOMIC CONNECTIVITY AND GOVERNANCE

Saori N. Katada

- The Indo-Pacific concept has provided a new forum for economic connectivity and development within the region.
- The Indo-Pacific coalition is an effective forum to address Covid-19-related regional challenges, including supply chain disruption, debt sustainability and democratic backsliding.
- The new leaders in Japan and the United States should use this valuable forum to promote economic connectivity and good governance.

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The Indo-Pacific concept has come a long way since its introduction in foreign policy lingo about a decade ago. This geostrategic construct covers a broad geographic area merging the “two seas” of the Pacific and Indian Oceans, and has incubated many cooperative initiatives under the Free and Open Indo-Pacific (FOIP) strategy, ranging from protecting freedom of navigation to establishing regional peace and prosperity. In addition, the Quad has been formed as a foreign policy dialogue forum among the United States, Japan, Australia and India. As a structure to assemble like-minded members supporting democracy, the rule of law and open trade, the Indo-Pacific has also become a forum for efforts toward economic integration and connectivity in the region.

From the start, challenges have existed for the Indo-Pacific concept to connect this vast region. China is the center of regional economic activities with its expansive trade and ever-increasing investment, but some conceptualize the expanded Indo-Pacific regional notion as a way to counter China. The United States, especially under the Trump presidency, is also keen on utilizing the Indo-Pacific as a security forum, yet India is quite reluctant to agree. In addition, ASEAN members are worried about losing their centrality in regional institution building. Despite such discontent, the core members’ interests and priorities have converged on economic connectivity, particularly through infrastructure investment, and economic governance.

Since China launched its Belt and Road Initiative in 2013, infrastructure investment has been a realm of concern for FOIP members. China’s strong connectivity push into Central Asia as well as throughout Southeast and South Asia was, on the one hand, a welcome change from the old global development regime that had shied away from infrastructure funding. On the other hand, it has raised challenges and concerns about lax assessment, detrimental social/environmental impact, lack of transparency and debt sustainability, as well as the geostrategic intent to lay out exclusive Chinese access routes to the Middle East, Africa and Europe. Given that the world faces an estimated US\$94 trillion in infrastructure investment needs over the course of the next two decades, it is vital to meet this challenge in the Indo-Pacific through better rules and higher standards. Here, Japan took the lead by promoting its Partnership for Quality Infrastructure with US\$200 billion in funding and an emphasis on life-cycle cost and debt sustainability, while the US followed up with the BUILD (Better Utilization of Investment Leading to Development) Act that established the new International Development Finance Corporation. Following the declaration of the G20 Principles for Quality Infrastructure Investment at the Osaka G20 Summit in June 2019, the United

States, Japan and Australia launched the Indo-Pacific initiative of Blue Dot Network with the goal of creating a mechanism to certify that infrastructure projects meet their high standards based on criteria including transparency, sustainability and social/environmental impact.

The Covid-19 pandemic has imposed additional burdens in the region throughout 2020. Beyond the immediate questions of virus containment, medical equipment procurement or vaccine access, the leading governments of the FOIP face three vital concerns that will have lasting impacts on Indo-Pacific geopolitics.

The first impact is the disruption of the broader supply chain. Specifically, many economies have begun to worry about their overdependence on Chinese imports, prompting efforts to diversify supply chains away from China through the Indo-Pacific framework. The trade ministers of Japan, Australia and India met in late August 2020 to agree on supply chain resilience in the Indo-Pacific to balance China's dominance. Independently, the Japanese government has established a US\$2.2 billion fund to encourage private companies to shift their production back to Japan or to Southeast and South Asia. At the same time, with the successful conclusion of the 15-member Regional Comprehensive Economic Partnership (RCEP) on November 15, 2020, there is an incentive to connect these economies in the western Pacific at the expense of India and the United States, which are not participants of the RCEP.

The second challenge is debt sustainability. With declining economic activity both domestically and internationally, 83 countries around the world are currently receiving some kind of financial assistance and debt relief extended by the IMF. Even prior to this crisis, some borrower countries in Asia have faced repayment challenges, especially vis-à-vis China's infrastructure loans. With the need for restructuring government debts under Covid-19 likely to expand, the G20 finance ministers have recently agreed to establish a common framework among G20 creditors for a coordinated debt restructuring process. The FOIP is well-placed to contribute to these efforts.

Finally, there are increasing concerns of democratic backsliding or corruption, as the pandemic imposes unusual demands on governments and leaders to control economies and societies. Authoritarian impulses are on the rise with the apparent success of virus containment in China despite the country being the origin of Covid-19. There is also increasing demand for government leaders to intervene and provide funds to support people's livelihoods and control their behavior. Many worry about the abuse of executive powers in the Indo-Pacific as seen from election suspensions and

crackdowns on political opposition. As a forum of democracies, supporting democratic governance at this time of crisis is a vital task for the Indo-Pacific coalition.

2020 will be remembered as the most disruptive year of the century. It would serve the Indo-Pacific forum well to provide a footing for securing stability, connectivity and openness in the region. Added to last year's disruption, however, are changes in leadership in two major actors of the FOIP, Japan and the United States. Following the resignation of Japanese Prime Minister Abe in September 2020, the new prime minister Yoshihide Suga has large shoes to fill in leading Indo-Pacific efforts while balancing Japan's precarious relations with China. Incoming US President Joe Biden also has his foreign policy plate full when he is inaugurated in January 2021, with many agenda items left from his predecessor. That said, no foreign policy agenda item is more important for the new administration than reviving US relevance in the vibrant yet volatile region of Asia by utilizing the Indo-Pacific framework. 

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