GEOECONOMICS AND INDO-PACIFIC ENTERPRISE INITIATIVE

# Aligning the G7's Strategic Interests and the Indo-Pacific's Infrastructure Needs

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At their meeting in June 2022, the G7 countries announced the Partnership for Global Infrastructure and Investment focused on the infrastructure needs of the Indo-Pacific region. The decision was driven by the opportunity to invest in countries with great economic promise, the recognition of the fragility of existing supply chains, and to meet the competition posed by China's Belt and Road Initiative.

Countries need extensive investments in traditional infrastructure include roads and rail, power plants, and water supply sectors. At the same time, country after country is seeking to build a modern infrastructure that will foster growth and innovation. In addition to traditional infrastructure, the Indo-Pacific wants investments that will bring high-speed internet, global communications, and research driven universities. The G7 countries are well situated to provide investments in 21st century infrastructure, and the purpose of this select collection of essays is to draw attention to how to invest effectively in infrastructure projects that will have lasting results.

With an educated population, investment friendly policies, and a commitment to innovations, the Indo-Pacific offers the G7 an opportunity to help drive their own economies and innovations. At the same time, heightened interest among the world's wealthiest nations to invest in much-needed infrastructure provides on opportunity to reimagine infrastructure beyond the traditional structural projects of roads and bridges.

Of course, G7 interest in the Indo-Pacific is in part a response to China's Belt and Road Initiative (BRI). Through BRI, China has clearly been ahead of the curve when it comes to outlining and financing infrastructure project in the region. But Beijing's approach using loans rather than grants have led to charges of unsustainable loans. Because China is not a member of either the Paris Club (of nation's who have made loans) or the London Club (private companies that have made loans to developing countries) China does not have an international approach to dealing with non-performing loans. As a result, there is a decrease in the Chinese appetite to finance infrastructure projects across the Indo-Pacific region. At the same time, China's investments have focused on traditional infrastructure such as rail networks, roads, and ports.

In addition to responding to China, the G7 countries are taking a new look at supply chains. The Pandemic has focused attention on the way inventories, domestic production, or reliance on more than one source supply can aid economic resilience. The concern is heightened when countries are dependent on a potential adversary. The Indo-Pacific is already attracting international investments by G7 countries as they seek a more diverse supply chain. Investments in traditional and modern infrastructure will contribute to the effectiveness of diversified supply chains.

The United States is committed to providing one-third of the total GDP to the tune of $200 billion, which will be spent over the next five years through grants and federal financing.[1]

Part of Washington's strategy is to encourage more private investments into projects as the G7 countries step up their commitment to infrastructure. Certainly, public financing alone cannot meet the needs of the region, especially at a time when all industrialized countries are themselves focused on investing in their down domestic infrastructure needs. The U.S. Infrastructure Investment and Jobs Act which was signed in November 2021 will provide $550 billion in new investments by the government over the next five years to provide much-needed funding for public transit, communications, water, and energy systems across the country.

Yet if infrastructure were to be defined more broadly as a common good, then the need to invest in the production of technology components is vital for the future of the global economy. In their essay entitled *The G7's Way Forward For Semiconductor Infrastructure Development in the Indo-Pacific*, Shelby Lauter and Stephen Ezell of the Information Technology and Innovation Foundation note that the complexities and prohibitive costs of manufacturing semiconductors requires a concerted approach. They call for a coordinated approach in technology development, ecosystem support, and technology protections together with countries across the Indo-Pacific. At the same time, Lauter and Ezell call for the recognition of the centrality of semiconductors in the national and economic security goals of the G7, and develop a semiconductor-specific infrastructure strategy.

Meanwhile, John Fowler of Arizona State University focuses on the need to develop a technology focused workforce in his essay *The Challenge to Cultivate Global Semiconductor Talent.* He points out that one of the biggest risks facing the chip sector is access to highly skilled talent, and that talent shortages

1 https://www.whitehouse.gove/briefing-room/statements-release/2022/06/26/fact-sheet-chips-and-science-act-will=lower-costs-jobs-strengthen-supply-chains-and-country-china/

in turn will hurt innovation and competitiveness. At the same time, the talent dearth is seen across the board in all countries, and calls for more funding not only for research, but also to grow talent focused on the semiconductor industry from the ground up at universities in addition to providing financial incentives to attract the best and brightest.

Yet semiconductors are hardly alone in requiring more funding and coordinated support from the G7. Investing in water resources too is highlighted by John Matthews, Ingrid Timboe, and Kelsey Harpham of the Alliance for Global Water Adaptation. In *Water as a Resilience Multiplier and an Inclusive Indo-Pacific*, they note that access to water, containing water, and risks posed by water as a destructive force due to climate change continue to rise rapidly. The authors call for greater awareness of the need for water resilience in the Indo-Pacific that can ultimately lead to greater social as well as economic security.

Even the best of strategies, however, cannot be put into action without adequate financing. In *International Financial Institutions and the Infrastructure Financing Gap*, Bart Édes of Canada's Asia Pacific Foundation points out that the G7's ambitious plan to boosting infrastructure financing in developing countries cannot be done without the support of multilateral development banks, not only for their ability to finance projects, but also to provide the expertise as well as capacity to ensure that projects are actually implemented. In turn, the development banks will need the continued financial support of the G7 to ensure that they are able to deliver upon expectations.

As for Michele Acciaro of the Copenhagen Business School, he provides insight into the history of infrastructure development that had initially been dominated by western powers in his essay *The G7 Challenge in Facing China's Infrastructure Ambitions*. In outlining China's motivations for promoting its own infrastructure vision, Acciaro also points out the challenges facing European nations as they too look to Chinese capital to fund some of their own critical infrastructure needs. He also cautions the lack of clarity of the G7 infrastructure proposal beyond financing measures, and points out the need for specific collaborative projects to ensure that the plan does not simply end without action.

To be sure, the G7 each have their own ambitious infrastructure development plans either in the making or being signed into law. In the United

States, commitments have been made not only to fund infrastructure, but Washington has also shown a renewed commitment to investments in research and innovation. There is no doubt that fear of China has been a driving force for new capital on that front too. The $52.7 billion Chips and Science Act garnered bipartisan support in September of buildup the U.S. semiconductor industry and enhance U.S. technology and research and innovation more broadly, including in information technology. While responding to China is an important motivation for the G7, the emphasis on the information technology sector. That focus on information technology nicely parallels the Indo-Pacific's interest on modern as well as traditional infrastructure. That focus is echoed in PGII and its goal to further 5G and 6G networks and enhance cybersecurity.

As President Biden stated in unveiling the G7 initiative, the infrastructure is not aid or charity. Rather, plan can be an opportunity for the establishment of a true partnership between the richest countries and the Indo-Pacific, where the interests of both sides are aligned. Only then can investments come to full term, given the need for bipartisan support to ensure continued commitments.

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