US Infrastructure Interests in the Indo-Pacific

By Sam Barr and Mark Kennedy

Executive Summary

In the dynamic landscape of great power competition, the Indo-Pacific region has emerged as a focal point, characterized by its strategic importance and diverse demographics. The United States, recognizing the significance of infrastructure diplomacy, particularly in strategic competition, has outlined its Indo-Pacific Strategy with a strong emphasis on quality infrastructure. Leveraging partnerships within the Quad and other regional relationships, the US aims to promote sustainable development through robust infrastructure investment.

However, challenges persist, including the dominance of China's Belt and Road Initiative and the need for enhanced domestic infrastructure capabilities. Strategic investments in maritime, digital, and critical mineral infrastructure are key components of US policy prescriptions to navigate the complex geopolitical terrain of the Indo-Pacific. Strengthening alliances, enlarging the investment footprint and improving governance are essential steps towards fostering stability and prosperity in the region.
US Policy Recommendations

• The role of bilateral Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs) are critical. The architecture is already in place, but origination and project development can be enhanced, and the capacity of these bodies must be increased. Coordination between DFIs and ECAs should continue to be enhanced.

• The Development Finance Corporation (DFC) should continue to expand its Indo-Pacific footprint and collaborations with allied DFIs and ECAs, while sharpening its focus on maritime, trusted communications and critical minerals.

• A set of quality standards should be adopted broadly as the agreed framework for development finance by DFIs and Multilateral Development Banks (MDBs).

• Funding for United States Trade and Development Agency and the Global Infrastructure Facility should be significantly expanded.

• The Quad nations should focus on de-risking countries rather than just de-risking projects. This will have a greater long-term impact on the supply of bankable infrastructure projects.

• Quad members and allied nations should continue to enhance their collaboration in securing maritime commerce, trusted communications and diversifying critical minerals supply chains.

• The United States needs to continue to boost its domestic infrastructure investment and capability if it wishes to be a beacon for quality infrastructure overseas.
Context and Background

Two trends in great power strategic competition have revealed themselves in the last decade—slowly at first, but more rapidly over the last few years. First, infrastructure diplomacy is a key plank of soft power projection. Second, the major field on which infrastructure diplomacy is being played, at least for now, is the Indo-Pacific.

The way in which geostrategic regions are defined is a blend of historical path dependence married with contemporary political exigencies, and factual analysis allied to popular wisdom. The Indo-Pacific is no different.

At this point, it is worth reviewing the sheer weight of the region in question. It comprises 40 countries. These countries are home to 65% of the world's population. It is hugely diverse in terms of language, culture, national incomes and political systems. It contains both the world's most populous and some of the world's least populous countries. And—crucially—it is a maritime region. It is defined by two oceans. Distances are great and land borders are relatively rare. This means that any sovereign land masses take on outsized strategic importance.

And it also just happens to include the world's only superpower, its regional challenger, and an array of rising and middle powers, while also being the most visible epicenter of the impact of the great borderless problem of our age—climate change.

As the importance of the Indo-Pacific has become apparent, so has infrastructure become a key domain in strategic competition in the Indo-Pacific.

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The US Indo-Pacific Strategy—released in 2022—is a notable attempt on the part of the Biden administration to provide a broad outlook of the region and the United States' role in it. It specifically identifies the People's Republic of China (PRC) as the other major actor in strategic competition in the region.

The consensus among Chinese scholars has been that the Indo-Pacific Strategy's goal is to provide a counterweight to the PRC, and “to achieve this goal, the United States hopes to leverage Japan, India, Australia, and other pivotal countries in the Indo-Pacific.”

The 2023 Indo-Pacific Strategy released by the White House in February 2022 runs to nineteen pages, and references “infrastructure” twelve times. There are two key points that come across strongly in how the Biden Administration sees infrastructure playing a key role in the Strategy.

Firstly, the Quad—comprised of the United States, India, Japan, and Australia—is seen as the ‘minilateral’ architecture through which the United States will deliver its infrastructure diplomacy program. Secondly, there is a strong focus on ‘quality’ infrastructure.

Quality infrastructure investment was defined by the G20 under the then Japanese Presidency in 2017 as comprising six elements:

1. Maximizing the positive impact of infrastructure to achieve sustainable growth and development
2. Raising economic efficiency in view of lifecycle cost
3. Integrating environmental considerations in infrastructure
4. Building resilience against natural disasters

5. Integrating social considerations in infrastructure investment

6. Strengthening infrastructure governance

Korea and Europe are also major contributors to development finance in the Indo-Pacific and, both have strong ties to the United States. Working with both actors, as well as the regional grouping of the Quad, will be key to a successful Indo-Pacific strategy. Initiatives like the Blue Dot Network (BDN), which aims to support and certify ‘quality’ infrastructure, may represent another avenue for cooperation on infrastructure standards in the Indo-Pacific. While still being developed, the United Kingdom, Spain, and Switzerland are European members, along with Japan, Australia, and the United States. The OECD is currently working with member countries to further develop the BDN.

If the BDN can gather more members and support, it may be able to promote an accepted standard on quality infrastructure. This could then become a standard applied to projects financed by member country DFIs and, potentially, MDBs. Applying a stronger, agreed-upon quality lens to projects will support better infrastructure. This leading to acceptance of common environmental assessments being accepted by all DFIs and MDBs would streamline project costs and make quality infrastructure alternatives more competitive with alternatives.

While this quality framework will apply to projects, there should also be a renewed focus on derisking of countries—through enhanced governance, long-term strategic planning, and capacity building—rather than only focusing on derisking projects.

A Growing Role for DFC And EXIM Bank

The increased activity of the US International Development Finance Corporation (DFC) and the Export-Import Bank of the United States (EXIM) marks a significant development in US infrastructure diplomacy. In 2023, the DFC committed $9.1 billion USD to new projects, a significant increase on any previous year.

At the same time, both DFC and EXIM have been forging new international partnerships: in 2023, DFC signed a Memorandum of Understanding (MoU) with the European investment Bank. The MoU will support greater collaboration between the US and Europe across several critical infrastructure sectors.

These partnerships not only expand the reach and effectiveness of US financing but also promote greater coordination and alignment of development priorities among international stakeholders.

The Belt and Road Initiative

No conversation about US infrastructure interests in the Indo-Pacific without discussing the Belt and Road Initiative (BRI). The BRI commenced in 2013, when Chinese President Xi Jinping announced it to the world. Consisting of maritime silk road and a land ‘belt’, the BRI “aims to strengthen Beijing’s economic leadership through a vast program of infrastructure building throughout China’s neighboring regions.”

Worldwide, 147 countries have joined the BRI. Of the twelve countries that owe more than 20% of their GDP to China, seven are Indo-Pacific nations. In the Indo-Pacific, only the United States and Australia have no national-level involvement with the BRI.
The BRI has had mixed success in driving strategic outcomes in the Indo-Pacific: “While the BRI is a flawed model with often-questionable outcomes, it is usually the “least worst” (and sometimes only) route to financing major infrastructure projects for participating countries.” The sheer scale of the BRI is extraordinary and regardless of its imperfections, it has provided the PRC a huge amount of influence, both economically and diplomatically. The BRI will inevitably shape strategic competition in the Indo-Pacific.

**Maritime Infrastructure**

Unlike some previous theatres of strategic competition, the Indo-Pacific is defined by the two oceans it is named for. It is a uniquely maritime region.

The United States has signaled intent to play a much larger role in port infrastructure in the region. In [October 2023, the DFC announced $553 million USD in financing for a new container terminal at the Port of Colombo in Sri Lanka. The Terminal will ease capacity constraints and enhance the US-Sri Lanka relationship.](https://www.whitehouse.gov/donaldjtrump/2023/10/24/department-finance-announces-financing-project-colombo-port-sri-lanka/)

Significantly, the project is being delivered by Indian firm Adani Ports, adding to the network of allies and friendly nations that underpin the US Indo-Pacific strategy. And China appears to be losing ground in Sri Lanka to both India and the US.

It is worth noting that while there are diplomatic positives in the Adani deal, there was precious little domestic US capacity to deliver such a project. Despite being home to two major global ports (Los Angeles and New York), none of the [world's top ten port operators](https://www.overseasinfrastructure.org/port-operators-ranking) are American. And ongoing issues with American port operations suggest limited capacity to deliver projects in the port sector.

That said, the Port of Colombo deal is a step in the right direction. Under the BRI and even before, China was undertaking a major program of port investment in the Indo-Pacific “designed to enhance Sino-centric connectivity among cities and resource frontiers globally.” Greater US and Quad activity in this sector will be an important element of delivering the outcomes of the Indo-Pacific Strategy.

As well as port ownership, maintenance of free passage through Indo-Pacific Sea Lines of Communication such as the South China Sea and the Malacca Straits is critical to economic and military security in the region. The idea of a ‘free and open’ Indo-Pacific has become a key statement among America and its allies in major strategy documents, such as the US Indo-Pacific Strategy and Japan’s ‘[Free and Open Indo-Pacific.’](https://www.state.gov/indopacific-strategy/)

The PRC has tested this concept, most notably through its “grey-zone” warfare [in the South China Sea](https://www.defense.gov/policy/pd-cartoons/nan-16-south-china-sea-warfare/), to which the United States and regional allies have consistently responded with Freedom of Navigation exercises. These are critical to deterrence in the region and can be supported by security of critical maritime and other infrastructure assets.

Some scholars have [noted the challenges](https://www.rand.org/content/dam/rand/pubs/research_reports/RR15000/RR16000/RR16607/RAND_RR16607.pdf) of global power projection to the United States, and this challenge is just as pressing in the Indo-Pacific as it is elsewhere. A strong network of regional alliances is critical to managing this challenge. The US Defence Strategy, released in 2022, notes the important of regional alliances to “reduce competitors’ ability to hold key geographic and logistical chokepoints at risk.” A strong regional posture around key infrastructure assets that support open sea lines of communication is critical to deterrence in the region.
Digital and Communications Infrastructure

Information and digital infrastructure warfare has been called the ‘fifth domain’, after land, sea, air and space. It is of great importance not just in a shooting war, but in every other form of competition short of outright war, including trade and diplomacy.

In, *The Digital Silk Road*, Jonathan E. Hillman showed how China is looking to control these networks, saying “The CCP [Chinese Communist Party] is harnessing communications technology to cement its control at home and expand its influence abroad.” China’s development finance arms have been instrumental in this international push.

For example, in 2022 the government of the Solomon Islands borrowed $66 million USD to finance the installation of 161 communications towers by Chinese telco giant Huawei. The loan was financed by China’s Export-Import Bank at an annual interest rate of one percent. The Solomon Islands had severed diplomatic ties with Taiwan and switched to the PRC in 2019.

The Solomon Islands case spurred key regional ally Australia to support the purchase of Digicel Pacific, a telecommunications company, by Telstra, Australia’s largest telecommunications provider. The private purchase was supported with $1.33 billion USD in financing from Export Finance Australia. Both the United States and Japan also provided around $50 million USD each in credit guarantees.

The Digicel Pacific sale will allow Australia to work more closely with Pacific partners to support quality digital connectivity in the region and provide a competitor to Chinese providers such as Huawei.

Undersea cables are another area of strategic competition in communications infrastructure—both in terms of physical security and network ownership. As part of the ongoing conflict in the Middle East, fears have arisen that Houthi militants may threaten crucial undersea cables. Given the relative lack of resources of the Houthis, the risk posed to undersea cables by a sophisticated state actor is immense.

To safeguard vulnerable undersea cables in the Indo-Pacific, the United States can employ a multifaceted approach. This may include increased naval patrols, strategic partnerships with regional allies, enhanced surveillance technologies, and diplomatic initiatives to deter threats. Protecting these cables is crucial as they underpin global communication networks, economic transactions, and military operations, making them prime targets for disruption, espionage, or sabotage by hostile actors.

Critical Mineral Supply Chains

2023 saw a renewed focus on critical mineral supply chains worldwide. China has a near-monopoly on many of these minerals (for example, processing 90% of the world’s lithium).

A recent paper by the Australian National University’s National Security College identified the Quad as ideally placed to address vulnerabilities in the critical minerals supply chain. Unfortunately, while this has been identified, there has been little by way of results. The launch of the Quad Investors Network in 2023 is designed to support a private sector led approach to building a new critical minerals supply chain. More support may be required from Quad Governments to drive achievement of this goal, including the transportation linkages necessary to operationalize a mine.
**Improving Domestic Infrastructure**

It is critical that the United States enhance its domestic infrastructure capabilities if it wishes to both finance and deliver infrastructure projects in the Indo-Pacific. Successful infrastructure diplomacy is as much about exporting good governance and processes as much as it is about sheer dollars.

One of the key strengths of the BRI is quite simply that it gets things built: “partner countries have largely found the most attractive elements of the BRI to be its provision of hard infrastructure.” This needs to be a key consideration in designing a strategy in the Indo-Pacific.

The Global Infrastructure Hub's *InfraCompass* found that the United States significantly lagged Europe and other high-income countries in governance, strategic planning, procurement, and activity relative to infrastructure. All of these elements are critical to a strong infrastructure diplomacy strategy, especially to support greater private investment.

The 2021 *Infrastructure Investment and Jobs Act* provided billions of dollars for investment in infrastructure across a range of sectors and has already seen significant projects supported. Crucially, the Biden Administration also released a supporting ‘Action Plan’, “which included guidance on expanding the use of best practice, providing direct support to delivery agencies, and focusing resources on delivery”—key elements to ensuring the success of this massive investment.

**Military Infrastructure and Changing Doctrine**

In December 2023, Commander of US Pacific Air Forces Gen. Kenneth Wilsbach, announced that the United States would be reclaiming a WW2 era airfield at Tinian, a US island in the Pacific. Tinian is the westernmost Pacific Island of the United States. It lies over 3,700 miles west of Honolulu, but only 1,700 miles east of Taiwan.

The Tinian airfield is part of a broader doctrinal change on the part of US Air Force, ‘Agile Combat Employment’ (ACE). The ACE focuses on many smaller airfields nearer to potential adversaries’ territory. This appears to have been driven to some degree by the PRC’s missile-based Anti-Access/Area Denial (A2AD) capability.

The ACE is also an apparent response to intense PRC militarization of island chains in the South China Sea, a practice that first came to light in 2015, and has continued on since. This aggressive island building is part of a broader strategy of what has been called ‘maritime territorialization’ by claiming sovereignty over contested maritime regions in a way and to a degree that has been found to be in violation of international law.

As well as airfields, the United States has also commenced a response with naval infrastructure, announcing access to four new naval bases in the Philippines in March 2023. This is in addition to the existing five bases the US has access to in the country, and which it recently announced an additional $80 million USD in funding.

Political challenges in the United States have meant that one of the key elements of US strategy in the Pacific, the Compact of Free Association (COFA), development and military agreements between the United States, Palau, the Federated States of Micronesia, and the...
Republic of the Marshall Islands, has been held up as Congress has yet to approve funding of the COFA.

The COFA is a key element of delivering a coherent and stable strategy in the Indo-Pacific. In February 2024, Palau President Surangal Whipps Jr., bemoaned the situation, and outlining that domestic political challenges in the United States could see desperate Pacific leaders align more closely with China. These political disputes have demonstrated that a bipartisan approach is needed to strategic competition in the Indo-Pacific.

Conclusion

In a rapidly evolving arena of global competition, the Indo-Pacific region has emerged as a pivotal theater, characterized by its strategic significance and multifaceted dynamics. Recognizing the imperative of infrastructure diplomacy in countering Chinese influence, the United States has articulated a robust Indo-Pacific Strategy, accentuating the pivotal role of quality infrastructure. While challenges loom large, including China’s expansive Belt and Road Initiative and domestic infrastructure deficiencies, strategic investments in maritime, digital, defence and critical mineral infrastructure will benefit both the United States and its partners commercially, diplomatically and from a security perspective.

By bolstering alliances and enhancing quality investment, the United States can navigate the complex geopolitical terrain of the Indo-Pacific, fostering stability and prosperity in the region.

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