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After AIIB, What's Next?

By Kaewkamol Pitakdumrongkit

Synopsis

The AIIB has joined the alphabet soup of entities assisting the infrastructure building in the ASEAN region. Despite the AIIB-ADB agreement to co-finance projects, ASEAN needs to craft effective mechanisms to manage overlaps and spillovers.

Commentary

THE PREVALENCE of global production networks (GPNs) has heightened the importance of infrastructure development for ASEAN countries. Better connectivity not only bolsters international trade and financial linkages but also boosts their economic development. Realising this significance, collective effort has been harnessed to advance infrastructure, as seen in the Master Plan on ASEAN Connectivity (MPAC) launched in 2010. Among the MPAC's 15 priority projects are the ASEAN Highway Network, Singapore-Kunming Rail Link, and ASEAN Power Grids. Implementation of the MPAC, however, is hampered by the lack of funds to meet its connectivity demands.

According to the report by the Asian Development Bank (ADB), Southeast Asia would require about US\$60 billion each year until 2022 to fill its gaps. However, the ASEAN Infrastructure Fund – a financing arm of MPAC – can provide only US\$ 4 billion through 2020.

What Next After AIIB?

Support by external players is necessary to complement the MPAC resources. The MPAC document highlights that the scheme can be materialised by fostering and entrenching “partnership with external partners, including Dialogue Partners,

multilateral development banks, international organisations and others for effective and efficient implementation of the Master Plan”.

Furthermore, the member states have welcomed China’s One Belt, One Road Initiative and joined China-led Asian Infrastructure Investment Bank (AIIB), seeing the latter as an alternative financing source.

After AIIB, what will be the future of regional connectivity structure? Given that the AIIB is the newest player joining the alphabet soup of institutional investors and other financing entities, how will the MPAC unfold? The outlook will partly hinge on how different players interact with one another.

Good signs of cooperation have surfaced. For example, AIIB and ADB announced that they will work together to identify opportunities for co-financing. However, how such joint effort will be carried out depends on how the different entities reconcile their priorities, interests, and operational procedures.

They also diverge on rules and regulations such as lending conditions, procurement policy, and labour standards. The jury is still out on how their differences will be ironed out. ADB may want to convince AIIB to adopt its practices, but AIIB may have in mind a more flexible approach. As a result, it is going to take some time for these institutions to negotiate a common ground.

Where Money is Not Enough

Even though the AIIB-ADB collaboration may turn out to be a success, more needs to be done, especially from the ASEAN side. Looking to the future, given the member states’ infrastructure needs, one can expect a rise in the number of projects and increased engagement with external actors. Such developments risk international conflicts as projects are usually transnational in nature.

The Xayaburi mega-hydropower dam building in the Mekong River is a case in point. Its construction in Laos affects fish migration patterns and decreases the flow of nutrients useful for rice production in the downstream states of Cambodia and Vietnam. As a result, the plant not only undermines the latter’s fishery and agricultural industries but also creates environmental and food security concerns.

Hence, what is required to sustain the future advancement of regional infrastructure architecture is institutional frameworks and mechanisms, especially those helping to manage disputes emerging from the spill-over effects of infrastructure development. Moreover, ASEAN needs to find ways to effectively enforce rules and regulations to exact compliance from the ASEAN and non-ASEAN participants.

These elements are crucial. Without them, clashes may not be resolved, which can ultimately create rifts among ASEAN countries, cause implementation delays, and undermine the region’s connectivity aspirations altogether. On the contrary, effective frameworks and enforcement can ensure the future building of regional infrastructure, enabling ASEAN economies to reap more benefits from GPNs.

ASEAN Needs to be More Proactive

ASEAN policymakers have to be more proactive in crafting dispute-settlement mechanisms as well as finding ways to enforce them effectively. They can start by learning from the past and current controversies such as Xayaburi and Don Sahong hydropower plants. For the former case, the Laotian government decided to adjust the design of the dam but the updated blueprint has not been made public.

At the Mekong River Commission (MRC) in January, some stakeholders voiced that “whether and how the design changes to the dam comply with MRC’s Design Guidance for Mainstream Dams still needs to be analysed”. The latter project began without the completion of the MRC’s consultation process. Such evidence indicates ASEAN’s weakness in extracting Laos’ compliance.

Learning from these incidents, ASEAN practitioners can jointly craft rules or mechanisms that better hold stakeholders accountable for their actions. Even better, they can come up with ways to prevent such problems from happening in the first place. In addition, they should welcome more inputs from the private sector in the policymaking process, as businesses are among important players implementing the projects and sometimes know better than the governments about problems at the ground level.

ASEAN infrastructure development is crucial as it enables regional states to better benefit from GPNs and raises the region’s competitiveness. Given that connectivity schemes can cause international conflicts which can undermine their aspirations, more joint efforts should be made to address and prevent such clashes from occurring. With many projects being carried out and many more to come, the stakes are very high for ASEAN.

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