

EURASIA'S INFRASTRUCTURE RUSH: WHAT, WHY, SO WHAT?

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Connectivity infrastructure is all the rage across the Eurasian landmass and its maritime periphery. Governments from Beijing to London, and from Tokyo to Jakarta, are investing in institutions and initiatives ostensibly designed to reconnect old trade routes and build new ones. With credible estimates of infrastructure “gaps” across Eurasia reaching into the trillions of dollars, it seems reasonable to devote a greater share of development assistance and national fiscal resources to building better roads, railways, and other hard infrastructure. However, the reality of infrastructure economics is more complicated than meets the eye, and the current connectivity rush may have as much to do with geopolitical jockeying as it does with supporting commerce and development. A deeper look at the realities, motivations, and implications of the infrastructure rush underway across the Eurasian landmass is both timely and instructive.

The renewed focus on Eurasia's connectivity infrastructure sits atop a far older story dating back to Marco Polo's travels, the Mongol empire, and the fabled Silk Road. Even in modern times, efforts to shape infrastructure across Eurasia—and associated patterns of human activity—have been underway for nearly a century, as Central Asia's Moscow-centric railway system attests. Grand projects of integration through infrastructure have continued in the post-World War II period. For more than 50 years, the United Nations and regional development banks have sought to advance the [Asia Highway and Trans-Asia Railway](#) initiatives, which envision a 250,000-plus kilometer network of roads and railways stretching from Singapore to Turkey.

The fact that these visions have not yet fully materialized reflects the significant challenges of connectivity infrastructure. [As discussed here previously](#), infrastructure needs are often greatest in geographic areas where operating environments are most difficult. Typical challenges include rough terrain, harsh climates, complex local politics, unstable macroeconomic conditions, weak rule of law, and corruption. Moreover, building infrastructure is a complex technical endeavor, reflected in the persistent cost overruns and underperformance that plague projects even in advanced economies (ask any Boston resident [about the “Big Dig”](#)). Given the long time horizons associated with recouping project costs, it is hardly surprising that estimates continue to show significant underinvestment in infrastructure across the developing world. All of these challenges multiply when projects involve more than one host country government at the negotiating table, as connectivity infrastructure efforts inevitably do.

Many of the recent infrastructure initiatives in Eurasia seem to treat connectivity gaps as a problem with an easy solution. For example, the ostensible purpose of China's Asian Infrastructure Investment Bank (AIIB) is to direct large amounts of new credit toward infrastructure projects, suggesting that the problem is a “financing gap.” Yet international credit has been cheap for the better part of a decade, and institutional investors would happily lend money toward long-term projects offering a reasonable and reliable rate of return. Rather than a lack of lenders, a more pressing problem in Eurasia is mobilizing the resources to repay them. Infrastructure is funded in one of two ways: through use of public revenues (i.e., taxes) or through user fees (e.g., tolls). If the estimated infrastructural needs



Upcoming Events

- **January 29:** U.S. Economic Statecraft and the Global Order, featuring Dr. Lawrence H. Summers (CSIS)
- **February 5:** Taiwan's Path Forward: Post Presidential Elections Readout (CSIS)
- February 15–16: Obama-ASEAN Leaders' Summit (Sunnylands)
- February 19: 11th Round of RCEP Negotiations (Brunei)
- **February 26–27:** G20 Finance Ministers and Central Bank Governors Meeting (Shanghai)

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outweigh the resources available, the result is a funding gap rather than a financing gap, and it is the former that remains the more binding constraint in Eurasia.

Funding shortages are only one of the many impediments to increasing infrastructure investment in Eurasia. Others include lack of host-country bureaucratic capacity and a limited pipeline of well-prepared projects. Initiatives such as the [Global Infrastructure Facility](#) run by the World Bank and the G20-supported [Global Infrastructure Hub](#) are trying to address some of these constraints, including by providing project-preparation assistance. By contrast, the big dollar commitments involved in other regional initiatives raise questions of motivation; these plans seem to be aimed at national goals, such as exporting domestic labor and industrial overcapacity or enhancing a country's geopolitical leverage. For example, Beijing has framed its Belt and Road Initiative as a common development project embraced by more than 60 countries, but it remains a China-led effort, likely to focus on creating commercial opportunities for Chinese companies and strategic advantages for Beijing. Other initiatives, such as those proposed by Tokyo and New Delhi, have a less imperial air, but are similarly driven by each capital's commercial and geostrategic interests.

Motivations aside, what might some of the implications be of directing hundreds of billions of dollars in new infrastructure spending—were it to occur—into developing countries across Eurasia?

For commercial actors, the implications could be significant, and not only for companies competing for contracts. Infrastructure represents an important part of the landscape upon which businesses conduct their activities. New infrastructure connections, such as a railway linking a landlocked region to a deep-water port, can open up new commercial opportunities and enhance a region's competitiveness. Quality infrastructure can also be an important factor in corporate decisions regarding where to locate their operations, and can give one country or subnational region an advantage over its competitors in attracting scarce investment dollars.

The implications of infrastructure investment go beyond the purely commercial. They flow from what infrastructure connects, who builds it along what routes, and according to what standards. Looking at the broader economic impact, infrastructure influences what gets produced where. For example, just as harmonized customs procedures can lower the cost of cross-border trade, strong infrastructural links can make it cheaper for two countries to trade with each other relative to trading with other peers, potentially leading to trade or investment diversion. By lowering the cost of transit along certain routes relative to others, infrastructure can be used to induce activity to pass through certain countries' national territory. This has foreign policy implications; whether the activity in question is [trading Philippines bananas](#) or managing the communications of a financial institution operating across borders, control over critical points in a connectivity infrastructure network can provide opportunities to monitor, divert, or even halt traffic.

The points above speak only to the intended effects of infrastructure investment. There is also a host of unintended—often undesirable—side effects. For example, injudicious disbursement of funds can increase the possibility of unsustainable increases in host-country debt burdens. This is an issue that has been a [major focus of recent work](#) by the World Bank and the International Monetary Fund. And when loans are used to pay for low-quality projects, high maintenance costs can add to the long-term fiscal burden for local governments. In addition, projects completed without adequate assessment of their environmental sustainability can have unintended consequences, whether disrupting the migratory patterns of local fish species or increasing rates of soil erosion. These are often difficult to predict and can multiply with the scale and complexity of projects, as the [Three Gorges Dam starkly illustrates](#). And absent careful assessments of likely social impact, such as displacement of large numbers of residents around a proposed infrastructure project, there is the potential to undermine stability in host regions or produce powerful political blowback, as happened with the Myitsone Dam in northeastern Myanmar. Even projects that may not be as harmful can [generate significant resentment](#) in local populations.

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This brief overview highlights how much is at stake from efforts to reshape Eurasia's connectivity landscape—and why the subject deserves more focused attention in Washington. The truth is that the U.S. government is not well equipped to manage these issues, whether from a functional or geographic standpoint. Over time, U.S. development assistance has shifted away from emphasizing infrastructure promotion to focusing greater attention on issues such as governance and health. Organizationally, although there is significant expertise scattered across an array of agencies from the State and Commerce Departments to the Millennium Challenge Corporation and the U.S. Trade and Development Agency, there is no locus of responsibility for international infrastructure issues in the U.S. government and little coordination of the disparate elements. And geographic reporting lines are not suited to consider the implications of initiatives that extend across Eurasia, like China's Belt and Road. For example, four separate bureaus of the State Department cover parts of the Eurasian landmass: East Asia and Pacific, Europe and Eurasia, Near East, and South and Central Asia.

CSIS has launched a major project to shed more light on connectivity infrastructure across the Eurasian landmass and its maritime periphery. By collecting data on existing infrastructure, as well as projects proposed or underway, our goal is to help elevate the level of discussion and analysis surrounding this important set of issues. We hope that by aggregating this information, presenting it in a readily accessible visual format, and providing links to primary source documents that illustrate the diverse array of actors and the wide variety of standards shaping Eurasia's infrastructure and economic geography, we can provide a platform for more informed analysis and debate here in Washington and abroad. We hope to roll out our initial results over the coming months.

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Simon Says...

While we envision subway systems as primarily subterranean infrastructure, they are as sensitive to the elements as buses or cars. Their vulnerability was on display this weekend as Winter Storm Jonas hit the East Coast of the United States and **transit authorities closed** the New York City Subway and the Washington Metro. Although Simon's neighbor has yet to shovel his section of the sidewalk, the Washington Metro has resumed service, yet it has **potentially bigger headaches** than the historic blizzard it just survived. The Metro board, representing the District of Columbia, Maryland, Virginia, and the federal government, is plagued by weak governance and a lack of accountability. It only **recently hired a new general manager** after struggling for months to figure out what type of manager it even wanted. The agency has a long history of financial mismanagement, and riders bemoan the frequent interruptions in service that make **East Berlin "ghost stations"** look like the exemplars of efficiency. Infrastructure governance matters, as Washingtonians can attest.

Meanwhile, in Europe, Helsinki and Tallinn have agreed to effectively merge their two already efficient transit systems by **building the world's longest underwater rail tunnel** connecting the two. Simon wonders whether the Finns and Estonians might be interested in buying the Washington Metro while they're at it. ■

Railroads are often regarded as American history's foremost monopolies, an image reinforced by the activities of mustache-twirling robber barons like **Leland Stanford**. Concerns over large railway trusts' control of the nation's most critical infrastructure made them a prime target for Theodore Roosevelt, who used his time as president to pursue antitrust suits against some of the nation's largest companies. But although he did eventually succeed in dismantling Northern Securities Company, the largest railroad company in the country at the time, railroad companies were themselves at the mercy of others' market power in the dog-eat-dog world of the Gilded Age.

Industries that required rail shipping, notably livestock and petroleum, were some of the railroads' biggest customers, and **used their traffic as leverage to extract rebates** from the railroad companies. As a result, railroad companies operated at effectively lower fares on the large customers' preferred routes, to the **detriment of less industrialized cities**. Major railroad companies hated the practice of rebates and enthusiastically supported the Elkins Act signed by President Roosevelt in 1903, which banned rebates. But it would not be long before TR pursued legislation to regulate the entire industry more tightly. Roosevelt understood the strategic importance of transport flows to the economic health of the nation—though Simon wonders if the **woes of Amtrak** might be beyond even his power to fix. ■