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**ABOUT DAMINA**

DaMina Advisors is a preeminent Africa-Asia focused independent frontier markets political risk research, due diligence, M&A transactions consulting and strategic geopolitical risks advisory firm.

DaMina Advisors is legally registered and has offices in the US, Canada, The UK and Ghana. DaMina is headquartered in Toronto.

## US pivots Asia strategy away from Pacific to Indian Ocean nations

*Lars Henriksson, Senior Research Fellow; Co-Head, Frontier Asia Consulting*

The US has quietly re-oriented its Asia economic and security strategy away from a 'Pacific' focus historically centered on Japan and the Korean peninsula, towards an 'Indo-Pacific' strategy with the Mekong Delta nations at the center, with the aim of limiting growing Chinese influence in the region.

On May 28, 2018 the US renamed its oldest and largest military command – the Pacific Command ("PACOM") – to Indo-Pacific Command ("INDOPAC") – signalling the biggest geopolitical realignment of its military interests in the Asia-Pacific region since World War II. The choice of the term "Indo Pacific" rather than the "Asia Pacific" reveals a pivotal shift from East Asia (China, Pacific Ocean) to include West Asia (India, Indian Ocean). In early October 2018, the US Congress passed the \$60bn Better Utilization of Investment Leading to Development Act (BUILD) Act which is primed to compete against China's One-Belt-One-Road program in Asia.

### Mekong Delta separates China and India

The Mekong Delta nations are likely to be one of the principal beneficiaries of the change in US strategy. The Mekong Delta has often acted as the natural geopolitical buffer zone between India and China since ancient times. Named after its 4,350km long Mekong River - the world's 12th longest – which originates at the foot of the Tibetan Plateau and snarls through China's Yunnan province, Myanmar, Laos, Thailand, Cambodia and Vietnam.

While currently the Mekong Delta nations have a wide range of GDP per capita: \$1,330 for Cambodia and Myanmar, \$2,169 for Laos, \$2,286 for Vietnam and \$6,357 for Thailand, the economies of the sub-region are deepening. The combined GDP for the Mekong Delta nations estimated to be around \$800bn in 2018 according to the IMF and growth projected at 6-7% over the next 3-5 years.

### BUILD Act

On July 30 2018, US Secretary of State Mike Pompeo launched the Indo Pacific Business Forum as key economic pillar for the region, centred on three key measures:

- (1) Digital Connectivity and Cybersecurity Partnership** to support communications infrastructure development through technical assistance and public-private partnerships; promote market-driven digital regulatory policies; and build partners' cybersecurity capacity to address common threats (\$25m initial government funding).

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(1) **Asia EDGE** (stands for Enhancing Development and Growth through Energy) to help 'partners' import, produce, move, store and deploy their energy resources – focus to grow sustainable and secure energy markets through the Indo-Pacific (\$50m initial funding this year).

(2) **Infrastructure** by launching an Infrastructure Transaction and Assistance Network to boost the development of infrastructure “done right.” This is seeded by \$30m to establish a new interagency body to coordinate, strengthen, and share U.S. tools for project scouting, financing, and technical assistance.

Additional financial resources to support these measures were boosted a new \$60bn **Better Utilization of Investments Leading to Development ('BUILD') Act** passed in October 2018.

The BUILD Act consolidates the Overseas Private Investment Corporation (OPIC) and other development-finance programs into a reformed United States International Development Finance Corporation (USDFC) with the stated aim of “facilitate the participation of private sector capital and skills in the economic development of countries with low- or lower-middle-income economies”

Ray W. Washburne, President and Chief Executive Officer of OPIC, described as an alternative model to the One Belt, One Road Initiative:

“At a time when China is investing heavily in emerging markets under a state-directed model, the U.S. model offers an alternative for advancing development in a manner that is financially sound, adheres to high standards and avoids debt traps.”

### **Competing with Belt and Road Initiative**

The BUILD Act’s initial funding will be \$60bn, or more than twice as much as the existing financing development finance capacity. If assuming a standard 3:1 debt/equity ratio, it would mean that the total funding could be as high as \$240bn. Without doubt substantially less capital than China’s Belt and Road Initiative (BRI) where trillions have already been pledged. However there is increased weariness about the Chinese BRI – focused on inefficient implementation, causing debt traps, creating few jobs for local people, damaging the environment and meddling in local politics.

Three examples illustrate this anxiety.

In September 2017, Luo Jianbo, head of the influential China Foreign Policy Center at the Central Party School wrote an article warning that, “the implementation of “Belt and Road” has come with a degree of disorder and messiness, with various departments and regions and industries all fighting to be first to the door, to become advance soldiers on the beachhead of “Belt and Road.””

Last month, the Vietnamese government postponed a decision to set up three special economic zones due to heavy protests in June that saw more than 1,000 people arrested, which is unusual in Vietnam. The criticism focused on three China-related issues: 99-year land use provisions (current laws allow only maximum 70 years), sites are home to Vietnam's fastest growing Chinese populations and all are strategically important from defense standpoint.

In August, the \$7.3bn Kyauk Pyu deepwater port, in Myanmar's Rakhine state, was scaled down to around \$1.3bn because the government feared the project would lead to a debt-trap which has been the case in similar Chinese-backed port projects in Sri Lanka and Pakistan.

### **Eastern Europe precedence**

Following the collapse of Soviet Union in 1991, Eastern European countries (particularly the Baltics and Poland) that had historically served as buffer states between East (Russia) and West (Europe) saw an influx of foreign capital (government and private), expertise and political support. The result was a bonanza for foreign investors

The Mekong Delta with its bloc of frontier markets offers a rare chance to repeat that feat.

The parameters of the INDOCAP strategy and attached economic policies are to be known in greater details over the next 3-6 months.

Vice President Mike Pence is expected to attend two important Asian meetings which will shed further light on the issues: (1) 33<sup>rd</sup> ASEAN Summit in Singapore (Nov 11-15) and (2) APEC Summit in Papua New Guinea (Nov 12-18).

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To schedule an in-depth Q&A with Lars

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