



STATE OF THE NEIGHBOURHOOD

2018

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The Griffith Asia Institute (GAI) is an internationally recognised research centre in the Griffith Business School. We reflect Griffith University's longstanding commitment and future aspirations for the study of and engagement with nations of Asia and the Pacific.

Our vision is to be the informed voice leading Australia's strategic engagement in the Asia Pacific — cultivating the knowledge, capabilities and connections that will inform and enrich Australia's Asia-Pacific future.

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About this Publication

The *State of the Neighbourhood* report is a Griffith Asia Institute publication, offering fresh perspectives on the key issues affecting Australia and its "neighbourhood". Our objective in publishing this collection is to share our research insights, and encourage informed community debate on Australia's engagement in the Asia Pacific.

'State of the Neighbourhood'

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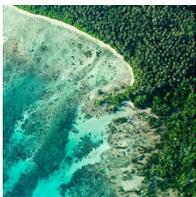
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FOREWORD



Neighbourhoods are inherently local and communal spaces, underpinned by geographic proximity, deep economic interdependencies, rich and enduring personal interactions. The term is a familiar one in the context of our day-to-day interactions, but less well used in the context of International Relations.

The Australian Government's *Foreign Policy White Paper* launched in 2017 makes a single reference to Australia's "neighbourhood" as the Indo-Pacific¹ — a region described in the *White Paper* as 'ranging from the Eastern Indian Ocean to the Pacific Ocean connected by Southeast Asia, including India, North Asia and the United States'.²

It is a view that aligns with Australia's strategic gaze, one that looks outwards towards a transforming world and region. But the Indo-Pacific is striking in the great expanse — of oceans, land, people and economic activity — it encompasses. For those not engaged in the task of foreign policy or diplomacy, it is a daunting and overwhelming expanse to comprehend, let alone understand or engage in.

Where does one start? Thinking about neighbourhood in a more proximate sense offers some useful direction.

When Kyl Murphy, State Director, CEDA³ (Queensland) raised the prospect of hosting a 'State of the Neighbourhood' Business Forum, the opportunity to recast some of Australia's key foreign, economic and development issues from a distinctly local perspective was immediately appealing.

It is a project that raises fundamental questions: Where is *our* neighbourhood? How do we engage with it? What challenges and opportunities do we face together?

We invited five friends of the Griffith Asia Institute (GAI) to take on the task, considering these key questions along the way. Each of the authors brings their expertise to the fore offering fresh perspectives on the neighbourhood, and insights into significant issues facing it, including:

- Transforming geopolitical dynamics of a changing region;
- Shifting economic and trade patterns across the Asia Pacific;
- Rising cities and their potential to shape global agendas;
- Climate change impacts and the sustainable development agenda; and
- Protecting against the outbreak of disease and pandemics through effective health diplomacy.

After reading the contributions in this report it is clear that “neighbourhood” remains a fluid concept. The immediate proximity of Indonesia, Timor Leste, Papua New Guinea and the Pacific Island nations is a notable highlight — and deepening engagement with these countries, especially in the areas of climate change and health, emerges as a nascent priority for Australia’s northern region.

And yet, this neighbourhood is inextricably linked to the wider Indian Ocean-Asia Pacific region. Understanding the broader trends and dynamics of the region and their reverberations in the political, economic and social landscape of our closest neighbours is critical for navigating the way ahead. Recognising that the issues of geopolitics, trade, development and climate, and the opportunities and risks they bring are fundamentally connected introduces new complexities.

This is where the “local” dimension of neighbourhood holds sway. The collective voice of the contributions in this report suggest that the opportunities for state and municipal governments, businesses, universities, think-tanks and community organisations to play a more active role in building links within the neighbourhood has never been more compelling.

This *State of the Neighbourhood Report* is the first in what we hope becomes a regular GAI publication. I would like to thank the contributing authors and the GAI team for their interest and energy in bringing this first issue together. I hope it offers new insights and generates deeper conversations within and about the “neighbourhood” within government, industry and community circles.

I would also thank CEDA for the opportunity to launch this report in conjunction with their 2018 *State of the Neighbourhood Business Forum*.

2018 marks the 7th year of the Griffith Business School's close working association with CEDA as the foundation sponsor of the *Women in Leadership* series. We greatly value our long-standing association with CEDA both through the development and delivery of the *Women in Leadership* series, our long-standing institutional membership, and more recently as a sponsor of, and contributor to, the Research Release series. It is with great pride that we work with the team at CEDA and assist them in meeting their core objectives of delivering informed and rigorous research to influence good public policy for Australia's economic and social development.

I look forward to continuing to work together to develop insights and perspectives that hold relevance for Australia, and our neighbourhood into the future.

Caitlin Byrne
Director
Griffith Asia Institute

Notes

- 1 Commonwealth of Australia, *Foreign Policy White Paper* (Canberra: Department of Foreign Affairs and Trade, 2017), 4.
- 2 Commonwealth of Australia, *Foreign Policy White Paper*, 1.
- 3 Committee for Economic Development of Australia.

CONTRIBUTING AUTHORS



Rowan Callick is an Industry Fellow at the Griffith Asia Institute, and a columnist for *The Australian*. He grew up in England, graduating with a BA Honours from Exeter University, and worked for a daily newspaper before moving to Papua New Guinea (PNG), becoming general manager of a locally owned publishing, printing and retail group. In 1987 he moved to Australia, working for almost 20 years for the *Australian Financial Review* as Hong Kong-based China Correspondent and as Asia Pacific Editor. He worked for *The Australian* from 2006 to 2018, including two postings to Beijing as China Correspondent, and as Asia Pacific Editor. He is a Governor of the Foundation for Development Cooperation and a member of the Advisory Board of the China Studies Department, La Trobe University. He was appointed an Honorary Fellow of the Australian Institute for International Affairs, and has won two Walkley Awards and the Graham Perkin Award for Australian Journalist of the Year. He was awarded the OBE at the nomination the government of PNG for services to journalism and to the training of PNG journalists. He has written three books, each published in English and Chinese, the most recent being *Party Time: Who Runs China and How* (Black Inc in Australia, and internationally by Palgrave Macmillan as *The Party Forever: Inside China's Modern Communist Elite*, by Palgrave Macmillan).



Sara Davies is an Australian Research Council (ARC) Future Fellow and Associate Professor at the Centre for Governance and Public Policy, School of Government and International Relations, Griffith University, Australia. She is also an Adjunct Associate Professor at the Gender Peace and Security Initiative, School of Social Sciences, Monash University. Sara's research interests are in global health governance, health diplomacy and the prevention of sexual violence in conflict situations. Sara Davies has published in *Review of International Studies*, *Security Dialogue*, and *International Affairs*. Sara is author of *Global Politics of Health (Polity)* and *Legitimatizing Rejection: International Refugee Law in Asia* (Martinus Nijhoff), and co-author of *Disease Diplomacy* (Johns Hopkins University Press) with Adam Kamradt-Scott and Simon Rushton.



Charuka Ekanayake is currently reading for his PhD in law at Griffith Law School, Australia. He also holds a Bachelor of Laws from the Queen Mary University, the United Kingdom and Master of Laws degrees from the United Nations Inter-regional Crime and Justice Research Institute, Italy and the University of Colombo, Sri Lanka. Charuka's research interests include human rights law, public international law and the law of international organisations. He is a member of the Law Futures Centre, Griffith Law School, researching how cities become actors in the international arena. He is also a Research Assistant at the Institute for Ethics, Governance and Law (Griffith University). Charuka is enrolled in the Bar of Sri Lanka and the Law Society, New South Wales, Australia.



Susan Harris Rimmer is an Australian Research Council Future Fellow and Associate Professor at Griffith University Law School, Brisbane Australia. She is author of *Gender and Transitional Justice* (Routledge 2010) and over 40 refereed works on women's rights and international law. Susan was Australia's representative to the UN Commission on the Status of Women in 2014, and the W20 (gender equity advice to the G20) in Turkey 2014, China 2016, and Germany 2017. She is a National Board member of the International Women's Development Agency. Sue was named in the Apolitical list of Top 100 Global Experts in Gender Policy in May 2018.



Brendan Mackey is a Professor and the Director of the Griffith Climate Change Response Program, Griffith University, Queensland. Brendan has a PhD from the Australian National University in plant ecology and has over 200 academic publications in the fields of environmental science and policy. His current research is focused on climate change, sustainable development and ecosystems. Brendan is a Coordinating Lead Author for the IPCC 6th Assessment Report.



Tony Makin is a Professor of Economics and the Director of the APEC Study Centre at Griffith University, has served as an International Consultant Economist with the IMF Institute, as an economist in the Australian federal departments of Finance, Foreign Affairs and Trade and Treasury, as well as Australian convenor of the structural issues group of the Pacific Economic Co-operation Council. Tony is a member of the National Economic Panel of the Economic Society of Australia, has previously taught at the National University of Singapore and the University of Queensland. He is the author of *International Money and Finance*, *Global Finance and the Macroeconomy*, *Global Imbalances*, *Exchange Rates and Stabilization Policy*, and *The Limits of Fiscal Policy*, as well as many journal articles.

EXECUTIVE SUMMARY

Much has been written, especially over the past year, about the escalating volatility and uncertainty of the global landscape. China's rise is a dominant feature, with significant implications for Australia and the Asia-Pacific region. Other issues, not least President Trump's withdrawal from major multilateral agreements, along with his recently launched "trade war" against China contributes to the climate of instability. Closer to home, contests for influence, persistent inequalities and evolving threats from a changing climate all challenge Australia's engagement in its wider region.

Making sense of these issues is a challenging task. Australia's *Foreign Policy White Paper*, launched in November 2017, aims to do so, while setting out the nation's strategic priorities. White Papers like this most recent edition are significant policy documents, setting the roadmap for the Government's vision of Australia's place in the world. Yet, they rarely gain traction outside Canberra, and can be difficult for Australia's states and regions to engage with in a meaningful way.

We hope that this *State of the Neighbourhood* report will go some way towards addressing this gap. The five contributors — all friends or members of the Griffith Asia Institute (GAI), hone in on the issues that they see hold significance for Australia and its neighbourhood. Rowan Callick, Industry Fellow GAI, sets the tone, drawing our attention to the major geopolitical shifts that have gripped the region. He points to three deep trends as shaping the nature of the region's future. Firstly, the rise of economic nationalism, especially in the United States (US) and China. Secondly, intensifying contest between democratic and autocratic systems of governance. Finally, Chinese President Xi Jinping's expanding ambitions and systems of control, both at home and abroad.

Callick notes that these trends provide the backdrop for more contemporary events, including the Sino-US "trade war", the arrival of a nuclear North Korea, and the forthcoming meeting of Asia-Pacific Economic Cooperation (APEC) economies in Papua New Guinea. This contribution presents a sobering and forensic view of the global and regional trends, all of which have serious implications for Australia's security and economic prosperity. Yet Callick remains somewhat optimistic, encouraging policy and decision-makers to do all they can to

clearly comprehend the 'nature, extent and complexity of the international challenges we face'.

The second contribution by Tony Makin canvasses the Asia-Pacific economic landscape and the potential risks presented by rising anti-globalisation sentiment and protectionist measures. Makin situates APEC's economic outlook in a state of increasingly restrictive trade measures, high public debt and rising interest rates. Developing trends in the global economy and how APEC economies respond to such risks is important for Australia's economic prosperity. In order to significantly improve national incomes and living standards throughout the region, Makin argues that further liberalisation in cross-border investment is needed. Additionally, more prudent fiscal policy is required to mitigate the risk of high public debt. In a period marking the returning threat to trade protectionism and "trade wars", how Australia and its region engages with these developments in the global economy will come to determine economic performance.

Sue Harris Rimmer and Charuka Ekanayake write about the trends of rapid urbanisation and the rise of Asia's cities. They suggest that cities are important sites of political, economic, social and environmental challenges, and are evolving into serious diplomatic actors. Harris Rimmer and Ekanayake argue that as the urban population continues to increase, cities may come to offer innovative forms of governance on issues such as human rights, inequality and the rule of law. For Australia, deeper engagement with Asia's cities presents opportunities for greater strategic influence within the region.

With Australia's immediate neighbourhood already facing climate threats, Brendan Mackey examines how climate change is more than simply an environmental issue. He presents an overview of the mitigation and adaptation challenges facing Australia's neighbours, and reveals the shared interests and common concerns that unite Australia and the region in its response to climate change. Mackey argues that building climate resilience and adaptive capacity requires innovation and collaboration between the public and private sectors in order to deliver holistic approaches to climate change. Changing environmental conditions need to be factored into the longer-term investment and planning in the region in order to mitigate climate change impeding sustainable economic development.

Finally, Sara Davies' contribution investigates Australia's aid budget in a political climate of reduced government spending. It interrogates the three priority areas for Australia's health aid strategy, which focus on investing in programs that engage the private sector, reduce

poverty, and reduce gender inequality. Davies argues that there needs to be an increased prioritisation of investment in health programs and health sector delivery in the Pacific and South East Asia to further reinforce the “health security” initiative. Given Australia’s extensive international travel and trade arrangements within the Asia Pacific, a strong interest and investment in regional health affairs is vital.



1 THE NEIGHBOURHOOD IN A STATE

Rowan Callick

Introduction

Our Asia-Pacific region continues to drive global economic growth, heading towards 4.8 per cent this year overall, compared with the world figure of 3.9, with the United States (US) on 2.9 and Europe continuing to lag, on 2.4 per cent. Worldwide growth is likely to slide a little in 2019, as the US-China trade war appears set for attrition, but with an increased performance in the Asia Pacific compensating for falls in the US and Europe. The key drivers in this mostly positive regional effort are likely to be China, India, Vietnam, Philippines, Indonesia and under its sprightly new leader, Malaysia.

But beneath this layer of business as usual, life is increasingly becoming unsettled and fractious.

Settings that formerly provided stability are in play, from the governance of global institutions to the guarantors of security. Many people as a result naturally seek out those who appear to promise strong leadership.

But three challenges loom especially large:

- Economic nationalism is on the rise, especially in the US and China;
- The contest between democratic and autocratic systems of governance in our region is intensifying; and
- China's President Xi Jinping is pursuing an extraordinarily ambitious and so far, successful program of absolute control at home and of unprecedented influence worldwide.

Australia is facing growing international threats at an especially difficult time, with Canberra likely to be domestically absorbed as the federal election approaches in 2019.

The Asia-Pacific region ("Indo-Pacific", championed by former Foreign Minister Julie Bishop, never gained much traction — in part because despite its return under Prime Minister Narendra Modi to a healthy-ish economic growth rate, India does not yet loom large as a guiding influence on the Association of Southeast Asian

Nations (ASEAN), North Asia, or indeed the Pacific) is gearing up for important elections in Indonesia as well as India early in 2019, although both are expected to return the incumbent leaders.

Australia remains handicapped not only by its perennial political distraction as it seeks to engage helpfully, profitably and sustainably in the Asia Pacific, meeting challenges and realising opportunities. It also lacks leaders at the decision-making end of its major organisations — state and federal governments and bureaucracies, major corporations, universities, the media — who have direct experience in working and living in the region.

The country's true regional experts tend to be held down in "fixer" type roles, and almost zero are to be found on boards or in top jobs in Australia making or participating in key strategic decisions — compared with the situation in Asia itself, where a couple of hundred thousand Australians are working, often at very senior levels, but the great majority for multinational companies and for the firms of other countries.

Australia cannot address the chief regional challenges alone — it needs to work alongside others who substantially share both values and interests, playing a patient role in helping develop the emergence of informal networks of leaders and countries committed to similar goals as the great powers focus on testing the extent of their pre-eminence.

Fortunately, given the extent of Australia's enmeshment in the Asia Pacific, the region's economy is starting to be driven by strong domestic demand just as the export sector on which it previously relied heavily, is facing growing threats. But that requires renewed diligence and understanding from "Australia Inc." of those regional markets, for services as well as commodities and other products.

It also means comprehending clearly the nature, extent and complexity of the international challenges we face.

The core concerns shift in and out of focus from month to month or year to year, but are rarely cleanly resolved, even if capable of such. They include, besides the highlighted themes of economic nationalism, the resurgent attraction of autocracy and the extraordinary rise of Xi Jinping in his "New Era" for China and the world, the

perennial issues of Papua New Guinea's destiny, highlighted by its hosting of the imminent APEC summit, and of North Korea's nuclearization — which not long ago appeared to terrify the world and is now more met with a shrug.

Economic Nationalism on the March

Both the US and China are claiming that the fast-expanding trade war between them is making few dents in their own economies. Cuts in taxes and red tape have helped American consumer spending and jobs to surge, while China is also sustaining healthy growth in its services sector despite some impact of the new US tariffs on its exports, especially from Guangdong and other southern provinces.

But the battle between the elephants is inevitably impacting on smaller economies that may now need to start seeking alternative markets and production sources.

The mighty effort led by Japan to salvage the ambitious, high-quality Trans Pacific Partnership (TPP) deal — from which America withdrew — leaves 11 active members, all of whom have signed it, and six of whom are set to have ratified it as required to trigger its operation early next year. This response indicates the continuing conviction of most countries in the region, that we need to lower barriers in order to heighten growth opportunities.

But in this area at least Donald Trump has been consistent for years — he takes a crudely mercantilist view of international economic relations.

Xi Jinping was wildly applauded by the cognoscenti at the World Economic Forum at Davos 18 months ago for his rhetorical championing of economic globalism. *People's Daily* ran prominently a commentary as the trade war ramped up, that began: 'White House trade policy has completely lost its rationality, and its bullying behaviour has accelerated to the point where it shocked the world'.¹ But Xi's China too remains in key respects protective, as underlined by the 'Made in China 2025' campaign that seeks to ensure that all key technologies are home-grown, and by the continuing barriers to investment there. In recent years, Beijing has directed

economic boycotts, to back political campaigns, against countries including Japan, France, Norway, the Philippines and most energetically South Korea. But the initial warnings from Chinese telco giant ZTE that American boycotts of parts risked fatally wounding the corporation, underline that Chinese companies too may be vulnerable to politically directed attacks.

Both Europe and Asia are hedging their bets. Mats Harborn, the president of the European Union's (EU) chamber of commerce in China, while lamenting Trump's 'sledgehammer approach' by raising tariffs, said the root cause of the war comprised the failure of the Chinese leadership to act consonant to its free-trade rhetoric.² And while Beijing is now seeking to win the EU over by widening market access in return for support in the trade war with Washington, Brussels is largely staying aloof since while sharing disapproval of Trump's measures, it quietly agrees with the US critique of China.

"Make the US Great". "Make China Great". Indeed. But what does that make of the rest of us?

It will be interesting to observe the tone with which the 40th anniversary of the plenum at which Deng Xiaoping launched China's reform and opening era is marked at year's end. For we are not seeing, as China seeks to pivot its economy away from a focus on exports and inputs towards services and consumption, the same opening to international service and consumer companies that it provided to manufacturers in that earlier stage of modernisation. One senses why; China today spends more on importing semiconductors than it does importing oil. And in politico-philosophical terms, the "New Era" that Xi is championing in his core "Thought on Socialism with Chinese Characteristics for a New Era", is deliberately contrasted with Deng's old era.

A core danger, is that this economic nationalism trend may threaten the great Asian value chain that has brought such complementarity and win-win stability to our region, and in which Australia plays an important part, chiefly as resource supplier. All are set up to be casualties of a US-China trade war, if it should come to that, with global growth and global market confidence certainly hit.

And a posited resolution of such a war — China and the US privileging each other's products and commercial activities above those of international competitors — could be even worse for the rest of us, than the war itself.

In the West, since the global financial crisis the great worldwide consultancies have turned the uncertainty that risked undercutting their revenues into the notional virtue of "disruption". But to Asia-Pacific ears, especially those of the most successful societies with their Confucian roots, that sounds more like threat than opportunity.

Singapore-based Richard Martin, who founded and runs the IMA Asia business advisory, says that hidden beneath his 'innocuous forecast' of good growth for the region in 2018 followed by a mild easing in 2019, lie 'major changes to Asia's industrial structure and to the globalised supply chains that characterised Asia's export sector over the last 40 years. It is this restructuring, rather than marginal variations in growth, that will have the biggest impact on business operations' — and thus on the broader regional communities.³

Port Moresby Takes Centre Stage

Port Moresby is hosting a stream of APEC meetings, culminating in the leaders' summit on November 17-18 this year. This is likely to prove a watershed moment for the Pacific islands region, one way or another.

The way these meetings are handled organisationally, will determine substantially whether Papua New Guinea and the broader Pacific may be deemed as moving to a new, higher stage of modernity.

Already a few leaders appear to be hedging their bets on success — with US Vice President Mike Pence, Canadian Prime Minister Justin Trudeau and the Sultan of Brunei choosing to stay in Cairns, flying up for the meetings.

The most important figure to attend will be President Xi Jinping, who will undertake a state visit before the summit. He will also host a meeting of the leaders of China's eight diplomatic partner nations in the islands. Australian Prime Minister Scott Morrison will be hosting a barbecue there for the leaders of all 14 Pacific states.

Prime Minister Peter O'Neill, Papua New Guinea's most dominant politician since Michael Somare, has invested massive political capital in the event — with his parliament constitutionally free from early next year to raise a no-confidence challenge.

Australia has invested heavily itself, in the software — including the training — needed for such a summit, while China has sent contractors and workers to provide more visible support, with large China Aid signs around Port Moresby ensuring everyone gets the message.

It is conceivable that in hindsight, this summit will be seen as an event that either confirmed China's rapidly rising reach in the Pacific, or after which more traditional partners such as Australia and New Zealand resumed their prominence.

Meanwhile, the Tokyo Olympic Games in 2020 will provide an important opportunity for Japan, under its longest serving prime minister, Shinzo Abe, to underline its own resurgence as the second largest economy in the region and as a leader, if not the leader, of its democracies.

Companies may be pushed to commit to an overall leaning towards either the American or the Chinese side, though most firms, Martin expects, 'will try strategies that can bridge the growing divide. That likely means big adjustments to supply chains, which might be a boost for production in Taiwan and Southeast Asia'.⁴

Thus, products involving components from all over Asia that have often been assembled in China before export and are usually labelled 'Made in China', might in future be assembled in other regional countries — perhaps with substantial Chinese inputs — but now with a different label, avoiding the new Trump tariffs.

The mid-term elections in the US in November may see Trump claim an "historic trade win", although the data will likely show the opposite thanks to a strong US dollar. From China's side, while its parliament, the National People's Congress, has abolished term limits, so that Xi can stay in power for a further lengthy spell, his legitimacy as leader remains crucially dependent on continued rises in prosperity. Both leaders, Trump and Xi, need to be able to claim victory if the economic war persists.

Democracy v Autocracy

It is no coincidence that the contest between democratic and autocratic systems of governance in our region is intensifying as the US is partially withdrawing under Trump from its longstanding role as the global champion of the liberal democratic way.

Myanmar is starting to walk back towards a greater role for the military, from its apparent hour of change when Aung San Suu Kyi's National League for Democracy won the parliamentary election there two years ago. Cambodia's strongman Hun Sen continues to consolidate his power after 33 years; no opposition party is now tolerated. The Philippines' President Rodrigo Duterte has presided over the extrajudicial murders of thousands since his election two years ago. The military junta that seized power in Thailand four years ago retains total control, and indeed is now basking in the reflected glory of the delivery from their flooded cave of the Wild Boar soccer team.

But at the same time, the 93-year-old Mahathir Mohammad has reversed a longstanding political hold over Malaysia, unseating United Malays National Organisation (UMNO) — which he led in government for 22 years earlier — after 61 years in power. Elections have brought power change in the last few years to other countries in Asia too, including South Korea, Taiwan, Sri Lanka, Indonesia — while Vietnam's ruling communist party is slowly edging towards more democratic governance, with a tentative start to separation of powers and to genuine contestability of party positions.

ASEAN has in effect conceded the newly militarised South China Sea to China, in part because China's hold over Cambodia and Laos, and to a lesser extent Myanmar and Thailand, rules out the consensus required by the Association's conventions to challenge Beijing. That however leaves those most affected, led by Vietnam, in a resentful mood.

Meanwhile, Trump continues to indicate that he perceives US alliances, including those in the Asia Pacific, as holding mainly only immediate, transactional value. The region is thus nervous, as it is sullen.

The result is one that it seems Trump would love to see his NATO partners adopt — it is arming at a faster rate than any other region in the world. And it lacks preventive multilateral defence agreements, and in some vulnerable areas the practical military-to-military relationships to contain accidental triggers to conflict.

North Korea Plays the Field

North Korea's behaviour has tested the whole region's resilience, and continues to threaten to undermine many longstanding arrangements and understandings, especially on security.

But the "bromance" between Trump and Kim Jong-un, and the longstanding desire of South Korean President Moon Jae-in for rapprochement with the North, highlighted by his own meetings with Kim — which aided Moon's Democratic Party's landslide electoral victories in mid 2018 — have tended to distract attention from the apparent lack of progress towards the level of nuclear disarmament anticipated at the Singapore summit in June.

Beijing had appeared to be sidelined from this year's fast-moving maelstrom of rhetoric, talks, and plans until Kim — known widely among Chinese people as Jin San Pang, "Fatty Kim 3rd" — twice met Xi Jinping, within a short period, in Beijing and Dalian.

Since then, China's proposal of a "double suspension" — of further nuclear developments in the North, and of joint military exercises with the US and other states, in the South — has become dominant, enshrined in the Singapore deal.

Thus, a covert sense of satisfaction has temporarily papered over the persisting issues of Pyongyang's nuclear arms ambitions, and over its other aberrant behaviour, with Trump, Moon, Kim, Xi and Russia's Vladimir Putin all declaring victory.

Leading North Korea expert Professor Andrei Lankov, at Kookmin University in Seoul, says that most South Koreans were far less concerned about North Korea's nuclear weapons than commonly believed and were prepared to live with them as long as the regime remained stable and relatively placid: 'Denuclearisation is taken seriously only by a rather small minority of hardline conservatives inside South Korea. Other people have a remarkably relaxed approach to the North Korea program'.⁵

He said Moon wished to prevent US military action against North Korea by convincing Washington that denuclearisation was progressing, whether true or not, and that this goal was in reality 'impossible' because Kim would never be convinced to give up his arms: 'Kim Jong-un is a reasonable politician. He has learned the lessons of history, the lessons which have been provided by Iraq, Ukraine and above all Libya. He's not suicidal'.⁶

The Rise and Rise of Xi

Xi Jinping — whose key role is as general secretary of China's communist party — has pursued with extraordinarily ambition and success, absolute control at home and unprecedented international influence, while the world has watched agog instead the shaking up of America and its international relations under Trump. Xi's transformation is likely to prove considerably more significant, radical and enduring.

China has in recent months written into both its communist party and national constitutions, 'Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era'.

Xi's "Era" is one of centralisation and personalisation of decision making, restructured around party commissions, formerly known as leading small groups, many of which Xi personally chairs, but whose memberships and modus operandi remain shrouded in secrecy.

Xi has transformed the internet in the name of cyber sovereignty into a great tool of control, delivering him broader and deeper power over the population than Mao could have dreamt of. The goal, in the phrase of Martin Chorzempa, a fellow at the Peterson Institute for International economics, is 'algorithmic governance'.⁷

Xi has smashed domestic dissent, including through imprisoning the human rights lawyers who acted as the intermediaries of last resort for marginalised individuals and communities.

He has ordained a great revival in Marxist studies at universities, complemented by new institutes of Xi Jinping Thought.

In this New Era Xi wants China's economic heft to be reflected in international influence and respect, and in a capacity to transform global institutions to better suit its own ambitions. Its population is travelling, studying and investing globally; Xi is assuring that population, that Beijing will promote and protect them and their interests in full. He spoke during the 2017 national party congress of China's

system now providing 'a new option for other countries... which want to speed up their development while preserving their independence'.⁸

China's own rapidly spreading influence is being hinged off not only such ideas, but also off the economic interdependence through which it has become the number one partner in trading goods, of most of the world.

Xi is massively boosting China's diplomatic resources. Since 2013, its foreign affairs spending has almost doubled — while last year, the White House cut such US spending by 30 per cent.

Xi's Belt & Road Initiative (BRI) is a geopolitical masterstroke, acting as a great magnet for countries short of capital and infrastructure — despite encountering the inevitable knock-backs and criticisms, including at home where some perceive it as a waste of national resources even though it hinges off loans not grants.

The BRI is being engineered to help ensure that not only all roads but also all rail, air and sea routes, all compliance arrangements and technical standards, all telecommunications carriers, all leading internet platforms, lead not to Rome as of old but to Beijing, as Eurasia's connectivity hub. In certain strategic cases, as massive loans prove unworkable, Beijing has begun to forgive the debt but assume the assets, such as ports in key locations including Sri Lanka and the Maldives. Malaysia's Mahathir has been prominent among those rejecting some of the BRI largesse, referring wryly to 'unequal treaties'⁹ — echoing the phrase used by China of the hated concessions made to foreign powers in the 19th century.

Notes

- 1 People's Daily, 'The US Escalates Trade War is the Provocation of Bullying on the World', *People's Daily Online*, 12 July 2018.
- 2 Michael Martina, 'As Trump Amps Up Trade War, China Plays Nice with Foreign Investors', *Reuters*, 12 July 2018.
- 3 Richard Martin cited in Rowan Callick, 'Age of Uncertainty for the Asia Pacific', *The Australian*, 20 July 2018.
- 4 Richard Martin, 'How the US-China Trade Spat Could Change Supply Chains', *CNBC Online*, 18 July 2018.

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2 ASIA-PACIFIC ECONOMIC OUTLOOK

Tony Makin

Introduction

Australia's Asia-Pacific neighbourhood is the most dynamic economic region in the world and should remain so for the foreseeable future. The Asia-Pacific Economic Co-operation (APEC) grouping comprises 21 Asia-Pacific economies accounting for around forty per cent of world population, yet close to half of global trade in goods and services.

By fostering increased trade and investment APEC has significantly contributed to the region's economic dynamism. The main theme for APEC 2018 is 'Harnessing Inclusive Opportunities, Embracing the Digital Future'.¹ Meanwhile, APEC maintains its focus on connectivity and structural reform, and has adopted the following core priorities to advance APEC's ongoing agenda:

- Improving Connectivity, and Deepening Regional Economic Integration;
- Promoting Inclusive and Sustainable Growth; and
- Strengthening Economic Growth through Structural Reform.

Asia-Pacific Economic Outlook

Seven of Australia's top 10 trading partners are APEC members, with the top 3 — China, Japan and the United States (US) — also the world's three largest economies. On the basis of two-way trade (exports plus imports), close to three quarters of Australia's trade is with APEC members (Table 1).

Table 1: Australia's Top 10 Trading Partners 2017

Rank	Country	Share of Australia's Trade (%)
1	China	23.8
2	Japan	9.3
3	United States	9
4	South Korea	5.3
5	United Kingdom	3.7
6	New Zealand	3.6
7	India	3.5
8	Singapore	3.4
9	Thailand	2.8
10	Germany	2.8
APEC Share of Total Trade		71.9

Source: Department of Foreign Affairs and Trade.²

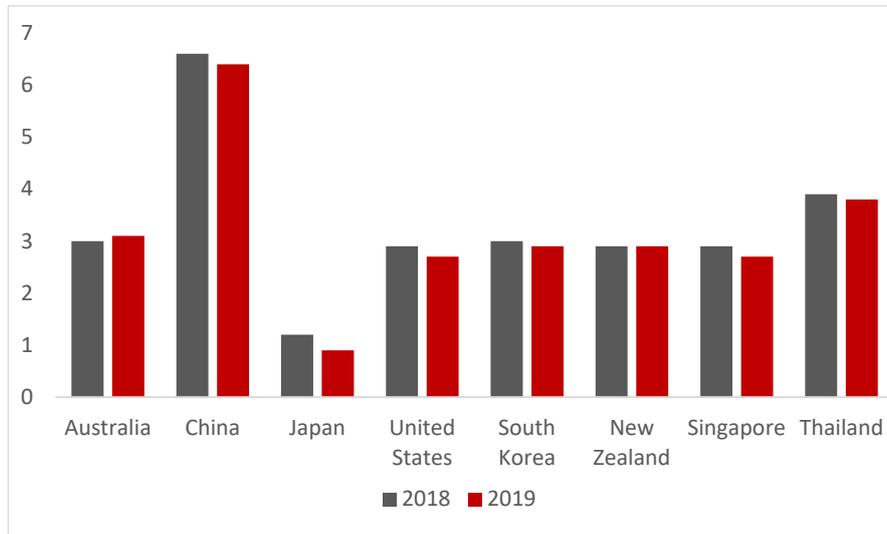
Economic Growth

The Asia-Pacific region recorded over 4.1 per cent growth last year, above 3.7 per cent for the world as a whole. Amongst the advanced APEC economies, economic growth in the US, boosted by the Trump Administration's significant company tax cuts, has strengthened and is expected to grow close to 3 per cent for 2018, while Japan's growth remains relatively subdued at 1 per cent. Amongst emerging APEC members, China continues to perform well with expected growth of 6.5 per cent this year, although China is facing headwinds on the trade and debt fronts. Other emerging Asian economies performing strongly are Indonesia, Malaysia, the Philippines and Vietnam with expected 2018 growth rates of 5.3, 5.3, and 6.6 respectively.

China, easily Australia's largest trading partner, accounts for nearly a quarter of total two-way trade (exports plus imports), around two and a half times more than trade with either Japan or the US. The only European economies in the top 10, the United Kingdom and Germany combined, account for less than 7 per cent of Australia's total trade.

According to the latest International Monetary Fund (IMF) forecasts, economic growth in Australia's main APEC trading partners next year is expected to be slightly lower in China, Japan and the United States. See Figure 1. The medium term risks to regional growth are discussed subsequently.

Figure 1: Economic Growth in Australia’s Main APEC Trading Partners (%)



Source: International Monetary Fund.³

Competitiveness

Productivity is the key driver of economic growth and a useful measure of productivity, broadly defined, is the Global Competitiveness Index (GCI) published annually by the World Economic Forum. Here competitiveness is determined by a country’s set of institutions and policies that influence productivity and hence potential growth.

The GCI measures the performance of 140 countries and includes twelve pillars that contribute to productivity — institutions, infrastructure, the macroeconomic environment, health and primary education, higher education and training, goods market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

Advanced economies are distinctly advantaged in these rankings given the established strength of their institutions, health and education systems.

Table 2 includes the latest ordering of GCI rankings for all APEC members, except Papua New Guinea, where advanced APEC economies are shown in boldface. Australia fails to make the top 20 most competitive economies globally and is behind the US, Singapore, Hong Kong, Japan, New Zealand, Canada, and Chinese Taipei in the region. Specifically, this reflects relative weaknesses in the

infrastructure, macroeconomic environment, goods and labour market efficiency and innovation pillars, offset to some degree by strengths in the financial market development and higher education and training pillars underpinning the ranking. South Korea is the only less competitive advanced economy by the GCI measure.

Table 2: World Competitiveness Rankings for APEC Economies

1. United States (2)	11. China (27)
2. Singapore (3)	12. Thailand (32)
3. Hong Kong SAR (6)	13. Chile (33)
4. Japan (9)	14. Indonesia (36)
5. New Zealand (13)	15. Russia (38)
6. Canada (14)	16. Brunei Darussalam (46)
7. Chinese Taipei (15)	17. Mexico (51)
8. Australia (21)	18. Vietnam (55)
9. Malaysia (23)	19. Philippines (56)
10. South Korea (26)	20. Peru (72)

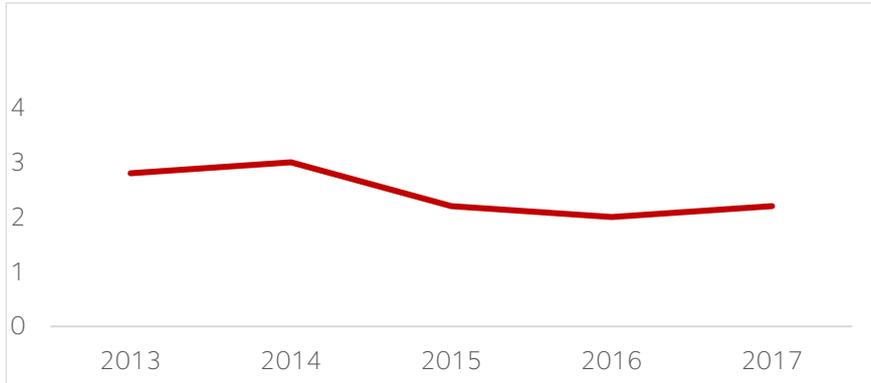
Source: *World Economic Forum*.⁴

Inflation

Average inflation across the APEC region has recently been within the 2-3 per cent range (see Figure 2), on a par with Australia's inflation performance, with regional inflation remaining lower on average than it was before the 2008-09 Global Financial Crisis (GFC). Central banks have recently maintained broadly neutral monetary policies, the exception being Japan, which has pursued quantitative easing involving asset purchases and very low official interest rates.

However, central banks in the region can be expected to react to further moves by the US Federal Reserve to raise official rates as US interest rate rises spill over to global interest rates, affecting international capital flows and exchange rates.

Figure 2: Average Inflation in APEC Economies

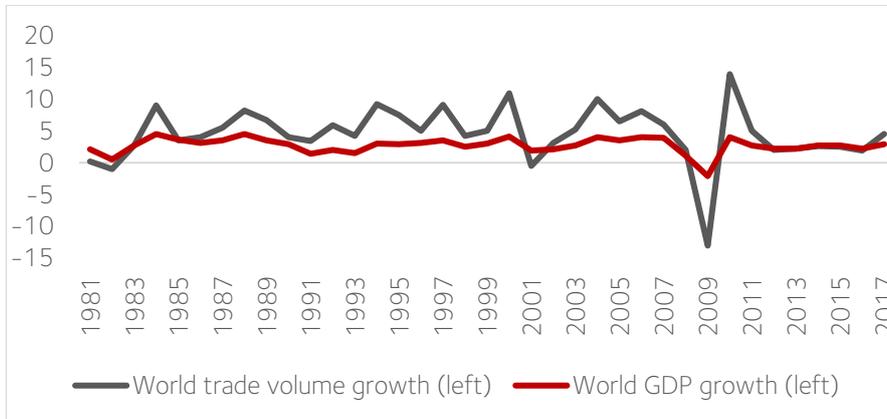


Source: Based on data in APEC.⁵

International Trade

Globalisation was a driver of pre-GFC global growth, consistent with the theory that international trade is a powerful growth engine fuelled by the efficiency and productivity gains it generates. Indeed, world trade growth regularly exceeded world GDP growth in the quarter century before the GFC, but this has not been the case over the past decade. See Figure 3.

Figure 3: World Trade versus World GDP Growth (annual % change)



Source: Based on WTO and IMF data.⁶

The positive impact of international trade is indisputable. It has helped to reduce by half the proportion of the global population living in extreme poverty, and created a global middle class for the first time in human history. International trade has been blamed however for job losses in advanced economies, yet technological change and innovation have been more to blame for job losses, particularly in manufacturing sectors.⁷

The Gains from International Trade

A strong consensus exists in academic and economic policy circles that on balance free international trade mutually benefits engaged parties, thereby raising economic growth and living standards. The classical British economists Adam Smith and David Ricardo first proposed this idea in the late 18th and early 19th centuries. Ricardo used the example of England and Portugal. If England was relatively more efficient at making cloth than wine, it followed that it should specialise in cloth making and export cloth to pay for wine imports.

In essence, comparative advantage proposes that when any two countries specialise in producing the goods in which they have a comparative cost advantage, the combined output and hence income of both countries rises. Hence it pays economies to specialise in production and trade with each other. The same applies to regions and to individual production units within economies.

Other reasons for supporting international trade are as follows. More international trade means consumers enjoy a greater product choice. In addition, producers sell to bigger markets which can lower production costs as production is on a larger scale, while competition from imports checks the market power of domestic firms. Trade is also a powerful vehicle for spreading technology.

The notion that trade deficits are “bad” for an economy is also used to justify protectionist measures and has been around since economics as an academic discipline began. For instance, the Mercantilist School from Elizabethan England advocated achieving trade surpluses as the means to national prosperity. In the words of leading Mercantilist, Thomas Mun, it was necessary to ‘sell more to strangers yearly than we consume of theirs in value’.⁸ However this ancient doctrine was soundly debunked by the father of economics, Adam Smith, who opined that:

‘Nothing, however, can be more absurd than this whole doctrine of the balance of trade ... When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false ... Trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both’.⁹

The value of exports and imports traded between APEC economies and the rest of the world rebounded strongly in 2017 in line with trade trends for the world as a whole. International trade growth now outpaces GDP growth for APEC and the world as a whole, breaking the post-GFC pattern where the opposite was true. According to the IMF, the main cause of the international trade slowdown post-GFC was a slump in private investment, accounting for three quarters of the decline in trade growth post-GFC relative to the five-year period before the GFC.¹⁰

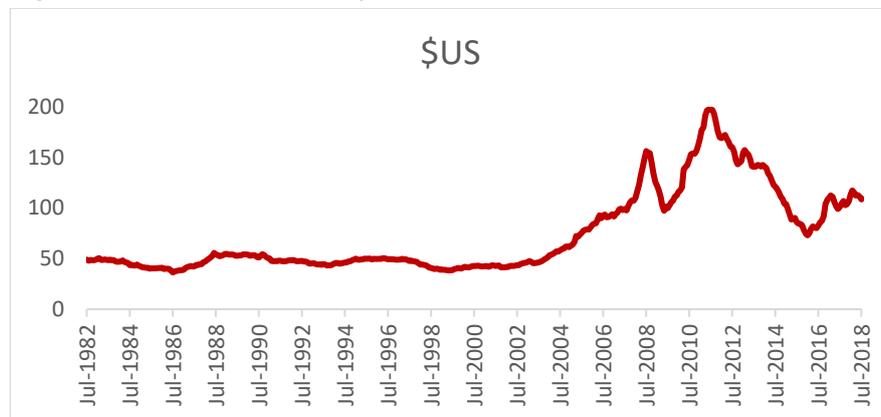
This is a reflection of the fact that a high proportion of international trade is in intermediate and capital goods. Meanwhile, restrictive international trade measures imposed by governments worldwide since the GFC accounted for much of the rest of the slowdown.

Commodity Prices

Based on the proportion of commodity exports in total exports, Australia, Canada and New Zealand, advanced APEC economies, happen to be more heavily reliant on commodity exports than many emerging APEC economies. Australia's main exports to its APEC trading partners are mineral and agricultural commodities, notably iron ore and coal, the values of which depend heavily on world commodity prices.

Commodity prices, especially for minerals, rose markedly above historical norms from 2000 onwards. Over the past decade, they have been exceptionally high by the standards of earlier decades, experiencing sharp gyrations since the GFC. Prior to that prices fluctuated considerably, but around a relatively flat trend line. See Figure 4.

Figure 4: World Commodity Prices (2008-09 = 100)



Source: Reserve Bank of Australia.¹¹

Foreign Investment

Of the top ten countries in the world hosting inward foreign direct investment in 2017, half were APEC members, notably the US, China, Hong Kong SAR, Australia and Singapore, accounting for 43 per cent of total global FDI. According to the United Nations Conference on Trade and Development (UNCTAD) data, foreign investment fell from the previous year due to reduced mergers and acquisitions in advanced economies.

Foreign investment flows are inherently volatile compared to international trade flows due to the “lumpy” nature of large scale investment projects and sizeable one-time mergers or acquisitions of domestic firms.

The Gains from Foreign Investment

International trade growth has persistently dwarfed foreign investment growth in Asia-Pacific economies since the APEC 1994 Bogor declaration, reflecting the priority given to liberalising international trade over foreign investment. Yet given capital's primary role in generating output, increased foreign investment can conceivably play as important a role in economic development as increased international trade in goods and services.

As a general principle, the greater the international trade in assets, the greater are the potential economic welfare gains. It is widely accepted that liberalisation of international trade in goods and services enhances economic welfare, yet similar gains arising from international trade in assets, both financial and real, are under recognised. Disallowed foreign investment in APEC economies is additional investment those economies could otherwise have put to productive use. Hence restrictive foreign-investment policies in the region deprive economies of opportunities to accumulate extra capital, through either the creation of new assets or the acquisition of existing ones.

Makin and Chai examine the scale of FDI in APEC compared to the scale of international trade by comparing the sum of exports and imports of goods and services as a share of GDP (a measure of trade openness)¹², to the sum of FDI inflows and outflows as a share of GDP (a measure of investment openness). They show without exception that trade flows dominate FDI flows by a large margin for every APEC member economy, a key reason being extensive regulatory barriers to foreign investment. This suggests considerable scope exists for liberalising foreign investment policy regimes in Asia-Pacific economies.

In view of extensive behind the border barriers identified above, considerable scope exists for liberalising foreign investment policy regimes in Asia-Pacific economies. Most notably, foreign investment in the financial, manufacturing, media, real estate and transport industries are either heavily regulated or prohibited in most APEC economies, on the grounds that foreign ownership in these sectors contravenes the ‘national interest’, an ill-defined concept that obscures the economic gains foreign investment can bestow.¹³

Major Risks to the Outlook

Protectionism

Anti-globalisation sentiment has intensified in advanced economies since the GFC, most notably in the US. This has provoked retaliatory protectionist measures elsewhere, especially from China against the spirit of APEC's goal of enhancing trade in the region. Over 71 thousand restrictive trade measures have been implemented by APEC economies since 2008.¹⁴

The US' trade deficits with its major trading partners have provided a rationale for higher US tariffs. Yet to the extent that the Trump Administration's fiscal expansion induces capital inflow chasing US government bonds and strengthens the US dollar in real terms, there is likely to be larger external deficit. Ironically, greater damage could occur to American manufacturing due to a stronger exchange rate and lost international competitiveness than from cheap imports.

High Public Debt

Since the 2008-09 GFC the worldwide rise in public debt has contributed significantly to the surge in total debt. Global debt, private plus public debt, stands at a new record high of around 225 per cent of world GDP, some 12 per cent higher than before the crisis. In the wake of the GFC, public debt escalated due to higher budget deficits stemming from falling revenue and increased government spending to counter recession,¹⁵ exacerbating already high debt levels in many economies.

Japan has by far the highest public debt level in the world at 240% of GDP, which significantly biases upward advanced economies' average public debt level. Meanwhile, economies in Asia have accounted for much of the post-crisis increase, China alone being responsible for 43 per cent of the rise.¹⁶ China's public debt level has almost doubled over the past decade from 27% to 51%.

Rising World Interest Rates

Public debt to GDP ratios in emerging Asian economies are lower than in advanced economies, although financing budget deficits via international capital markets has been growing rapidly. Foreign lending to developing Asian economies will continue to grow as Asia-Pacific financial markets become more integrated, with Indonesia, the Philippines, Thailand and Vietnam in particular being major issuers of government bonds that appeal to global investors. This makes servicing public debt more susceptible to rises in world interest rates in the future.

Conclusion

Looking ahead, an economic positive for Australia and the neighbourhood is the increased international trade stemming from the revised Trans Pacific Partnership (TPP11) which has far reaching effects for the region, despite the US withdrawal from the original version. Moreover, progress continues to be made on negotiating the parallel Regional Comprehensive Economic Partnership (RCEP) trade agreement to which Australia is party and which should also deliver real income gains to participants.

Meanwhile, growing protectionism more generally is a major economic negative for the region and a threat to future economic performance. Losers from international trade push for protection and can be highly effective as they tend to be concentrated in particular industries with strong incentives to restrict competition from abroad. Yet this means lower economic growth overall. Although winners from increased international trade, mostly consumers, generally outweigh the losers, the visible benefits of lower prices are diffused over large numbers of consumers who lack the voice of losers.

Further liberalising cross border investment in the Asia Pacific would significantly improve national income and living standards throughout the region via numerous channels. These include productivity gains due to technology transfer, international management practices, imitative behaviour by locally-owned firms and improved domestic competition. At the macroeconomic level, freer foreign investment in APEC subject to security safeguards would unshackle economies with unrealised investment opportunities from the constraint of their own saving levels.

Public debt can slow economic growth if it funds unproductive spending, crowds out private investment and net exports, creates uncertainty about how public debt will be paid down via fiscal repair, and harms business confidence which is inimical to private investment and durable economic growth.¹⁷

Reducing public debt in the region is advisable to minimise the risk from tighter global financial conditions. This main risk is from rising global interest rates reflecting tighter US monetary policy engineered by the US Federal Reserve, which is wary of growing inflationary pressures in the domestic economy. To minimise this risk, more prudent fiscal policy is required.

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3 NEW RULES FOR THE NEIGHBOURHOOD? THE RISE AND RISE OF ASIA'S CITIES

Susan Harris Rimmer and Charuka Ekanayake

Why Focus on Cities?

On 12 March 2013, New York City Mayor Michael Bloomberg, Chair of the Cities Climate Leadership Group (C40), tweeted: 'While nations talk, cities act'.

Bloomberg's tweet is all the more poignant in the face of global urbanisation, whereby cities are not only on the rise, but are evolving into their role as serious global actors. Nowhere is this trend more striking than in Australia's neighbourhood: the Asia Pacific, where many of the world's largest cities are emerging, with significant implications for the evolving policy dynamics of the region.

Sitting on the frontline of political, economic, social, and environmental challenges and innovation, cities today are engaged in global policy agendas. They are increasingly active — negotiating agreements, setting agendas, engaging global networks, and attracting the attention of multilateral actors from the United Nations (UN) to the World Bank.

City leaders and mayors, are more frequently recognised as global figures with expanding political influence, responsibility, and ambition. The micro-territories they govern — which, in some instances, are of a scale rivalling or surpassing many nation-states — not only have the potential, but, as Bloomberg's tweet reminds, are actively challenging the state-centric nature of international law, trade, and diplomacy, and shaping global norms. Take the example of Chicago and Mexico City mayors entering into a path-breaking city-to-city trade agreement (Global Cities Economic Partnership) in 2013. Closer to home, the sports partnership signed in 2018 between Tom Tate, Mayor of the City of Gold Coast, and Prime Minister O'Neill of Papua New Guinea offers another timely example.

Understanding Cities

At first glance most cities project a rather uncomplicated view of urban metropolis that caters to economic, political, and societal needs. And yet, closer examination reveals a deeper, more complicated web of interactions between governments,

individuals, and corporate bodies. The functions carried out by today's cities are more akin to those that are ascribed to states. These functions, while stretching cities in multiple directions, also bring them closer to one another in the larger scheme of affairs.

Central among these is how cities have gradually developed into units that are independent of the nation-state within which they are situated. Some of the most important executive positions within city structures are locally elected, perhaps recognising the important interior relationship inhabitants have with their cities, as opposed to that which they may maintain with the state. This relationship finds voice in the "Right to the City" in terms of the rights of participation envisaged in favour of a city's inhabitants.

Visions of Future Cities

The UN reports that the rapid growth of cities in the developing world, coupled with increasing rural to urban migration, has led to a boom in mega-cities (cities with more than 10 million inhabitants). In 1990, there were ten mega-cities around the world. In 2014, 28 mega-cities provided home to a total 453 million people. By 2030, the UN estimates there could be some 41 mega-cities globally.¹ Most of the global city networks paint a positive picture of the cities of the future: more nimble than states, and more able to drive change. As the C40 website states: 'cities are where the future happens first'.²

Elsewhere, the rise of cities is portrayed in somewhat darker terms. For example, current foreign policy literature and pop culture present the rise of non-Western cities as a security threat to the West. In his 1994 essay *The Coming Anarchy*, Robert Kaplan warned against chaos and instability scattering the globe coming from the dysfunctional (mega-)cities in developing countries. This piece is often criticised by international relations scholars as a Malthusian vision that ignores the role of neo-liberalism and neo-colonialism, but it remains influential.

In 2006, Mike Davis pictured a *Planet of Slums*, using a Marxist lens to show the consequences of the global moment when for the first time earth's urban population outnumbered the rural. He described an urban world built on inequality wherein states and international organisations failed to adequately deal with the transfer of poverty that comes with urban migration. These views are reflected through contemporary pop culture; take the movies *Mad Max*, *Elysium* and *Blade Runner*, for example. Peter Jackson's new movie *Mortal Engines* based on the book by Philip Reeve envisages a post-apocalyptic future of mega-cities on wheels, literally gobbling up smaller cities, based on a theory of "municipal Darwinism".

Yet these functional alterations are not defined solely by the relationship between the city and the inhabitant. On a related note, cities increasingly enact rules, mostly with legal effect, that regulate the conduct of inhabitants and businesses, across issues as diverse as land holding and amenities. They also play a vital role in protecting the environment and regulating climate change, being the primary culprits and the most powerful remedial vehicles at the same time.

Such intricacies have seen the emergence of 'city networks', like the C40, linking cities within and across nations, with the effect of bypassing central governments.³

Not only do city networks introduce to this relationship a welcome measure of flexibility and independence, they also enable new forms of city-diplomacy. Increased interactions prompted through city networks can ultimately lead to a smoother flow of inhabitants, goods, capital, and ideas, which in turn creates a self-enforcing and self-sustaining cycle.

How Do Cities Act on the Global Stage?

Cities around the world have established "Foreign Affairs" or "International Relations" offices to develop their foreign policy initiatives and transnational relations with other cities, non-governmental and inter-governmental organisations, and nation states. The City of New York has gone a step further, appointing a quasi-ambassador, the Commissioner for International Affairs, Penny Abeywardena, to lead its diplomatic engagements.

Mayors often mimic the protocol of heads of state on official overseas visits, and invest in their global profile. The Mayor of Paris, Anne Hidalgo, provides an excellent example. Marc Morial, Mayor of New Orleans, made the point nearly a decade ago: 'You can't be a mayor today without having almost your own foreign policy'.⁴ Sometimes mayors even make global headlines, including in

dispute with state leaders, such as US President Trump and his frequent attacks on Sadiq Khan, the Mayor of London.

The scope of global engagement conducted by city international relations teams is, as Nijman describes, significant and expanding:

These Offices often revitalise and/or revise the old sister-city programs, initiate new transnational trade and economic inter-city relations, organise transnational trade missions and visits of delegations from other cities or even States, work to strengthen a city's pull of foreign investment, and maintain international cultural relations. Depending on the needs of the city, the transnational inter-city cooperation deals with urban mobility, smart energy, transnational crime, health, peace, security, good urban governance, and sustainability. Such inter-city cooperation consists of exchange of knowledge and best practices on these policy issues.⁵

Today's "world cities" are adept at entering into international agreements, including with each other. Memoranda of Understanding (MOU) are the instruments of choice, rather than treaties; declaratory rather than legally binding.

All this activity raises new and pertinent questions about how cities solve disputes with each other in the future as the stakes become higher, and what forums they might choose for dispute settlement. The best guess is private international law with international arbitration rules, but this is yet to be tested. For the moment, declarations, peer monitoring, and voluntary commitments hold sway.

What Makes a World City?

Brisbane City's timely #NewWorldCity branding unveiled in 2014 provided a fresh outlook and upbeat hashtag for Queensland's capital as it sought to build visibility, relationships, and influence on the global stage. While both clever and fitting, the brand itself wasn't so much of a unique statement about Brisbane. Rather it was the reflection of new thinking about a class of "world city" or "global city" that offers a certain scale and key features, including the location of global financial centres and corporate headquarters, the ability to compete in many fields of human endeavour, valuable real estate, and logistical hubs.

The emerging typology identifies three types of "world cities":

- *Established World Cities*: highly globalised and competitive metropolitan economies with the deepest and most settled concentrations of firms, capital, and talent;
- *Emerging World Cities*: business and political capitals of large or medium-sized emerging economies that function as gateways for international firms, trade, and investment; and
- *New World Cities*: small or medium-sized cities that have an attractive infrastructure and liveability platform and deliberately specialise in a number of global markets.

Cities are also making transnational agreements grounded in international law, such as C40, which takes actions to contribute to the aims of the Paris Agreement (2015). They assert: 'C40 cities agree to deliver 14,000 actions by 2020 and reach net zero emissions by 2050 to achieve the Paris Agreement's aspiration for a 1.5-degree world'.⁶

In addition, cities can implement international law independently from the state of which they are an agent. In 1998, San Francisco became the first city in the world to adopt an ordinance reflecting the principles of the UN Convention for the Elimination of Violence Against Women (CEDAW) even though the US was not a signatory to that treaty.

Finally, cities are interacting with intergovernmental organisations, such as the UN Habitat on the New Urban Agenda. This area of global action had a step-

change at the Rio Earth Summit in 1992, when local and municipal governments were given legal standing and written into the communiqué, a document negotiated internationally, which constitutes “soft law”. More recently, the Sustainable Development Goals (SDGs) agreed upon by the UN were drafted to include a specific city focus, which, articulated in Goal 11, aims to make cities inclusive, safe, resilient, and sustainable.

Cities can therefore be sites of resistance, or delivery mechanisms for global norms, or the creator of transnational ideas. The underpinning agenda, as Nijman suggests, appears to be the pursuit of self-empowerment through global interactions, with an emphasis on decentralisation.⁷

Power Hubs of Asia

According to the *2015 State of Asian and Pacific Cities* report, between 1980 and 2010, the cities across the Asia Pacific grew by around one billion people, and are expected to grow a further one billion by 2040. Half of the region’s population will be urban by the end of 2018. Rural areas are entering a period of overall population decline.⁸

By 2050, cities in China and India alone will have grown by an additional 696 million — India by 404 million and China by 292 million. The region is now home to 17 mega-cities, including the world’s three largest: Tokyo, Delhi and Shanghai. Many of these urban areas are expanding at breakneck speeds: in some cases, as the London School of Economics reports, by the hour.⁹ By 2030, the region may have 22 mega-cities, some of these merging into mega-regions.

But what of these rising Asian cities? What do we know about the international ambitions of Asian world cities, and how they might be realised?

Emerging trends suggest that Asia’s rising cities are likely to be less interested in UN processes, and more interested in regional groupings that value quiet diplomacy, formality, and consensus. They may be more likely to be tightly controlled still by national foreign policy, even if they become global financial

centres, as can be seen in Hong Kong. The new grouping of the Silk Road mayors, whose cities will be most affected by China's Belt and Road Initiative, will offer useful insights. And yet, there's no ignoring the propensity of Asian mayors or governors to assume national office, including the recent significant examples of Rodrigo Duterte in the Philippines, Narendra Modi in India, and Joko Widodo in Indonesia.

Asia's cities and their leaders may well come to shape the rules of Australia's neighbourhood. Emerging Asian cities are the focal points for the forces of globalism, urbanisation, and decentralisation in our region. At the same time, they are contributing to regional and global problems and instabilities due to the rapid nature of their growth.

Indeed, the UN stresses that the Asia-Pacific region 'lacks accurate data for effective spatial, economic, environmental and poverty reduction policies. Nothing less than an "urban data revolution" is needed'.¹⁰

Cities and Australian Foreign Policy

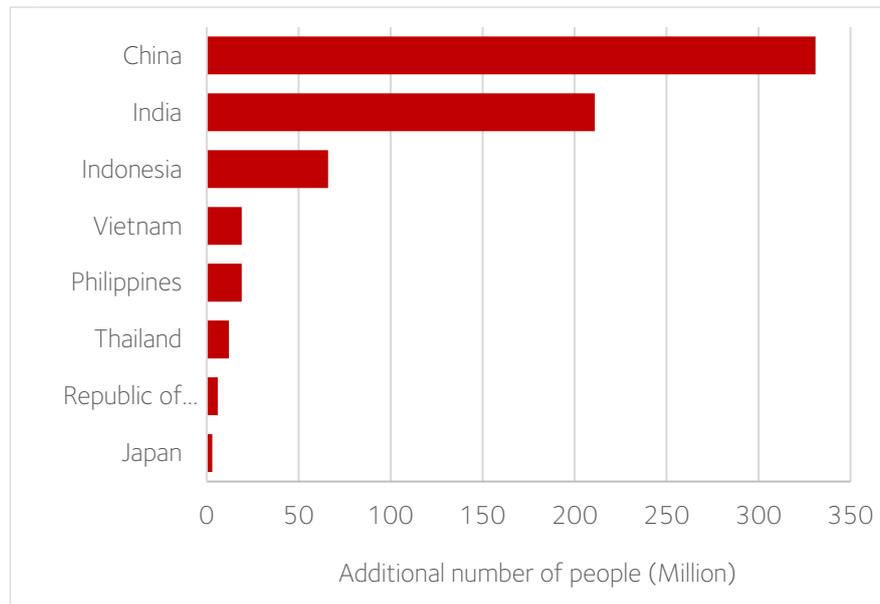
The relentless trend towards urbanisation poses new opportunities for the Australian economy. Growing Asian cities are likely to sustain a need for Australian minerals and energy. Rising middle classes will look to Australia as a source of premium agricultural products, education, tourism, health and aged care, and financial services. People and ideas will be increasingly fluid across the region as they pursue better investment opportunities and education destinations, and new travel experiences. On many levels the outlook for Australia is positive.

But the rise of cities also brings deeper complexity and raises the prospect of new challenges and risks. The increased movement of people, including refugees and those internally displaced, will add to social and economic pressures on cities while raising significant human rights responsibilities. Increasing numbers will seriously test the capacity of city infrastructure and the

delivery of key services — all while the potential for inequality, exploitation, and oppression looms large.

Australia's *Foreign Policy White Paper* released in 2017 takes due notice of the rise of Asian cities as part of the dynamic nature of the region, emphasising the point that by 2030 more than 600 million additional people will live in the region's cities.¹¹

Figure 1: Forecast increase in urban population (2010 – 2030)



Source: United Nations.¹²

The *White Paper* focuses on the transformation of China in particular:

At the region's industrial heart, China has become an urbanised manufacturing hub. Its mega-cities, including Beijing, Chongqing, Guangzhou, Shanghai, Shenzhen and Tianjin, have populations many times larger than those of Sydney or Melbourne, and are the world's leading producers of phones, computers, electronics and petrochemicals.¹³

It also notes the impact of technology on the move towards "smart cities" and the impact of climate change on large cities. The final chapter of the *White Paper*, themed 'Partnerships and Soft Power', acknowledges that Australian

diplomacy must change to engage more actively with cities, as partners in the business of foreign policy:

Many large, globally connected Asian cities and regions are international actors in their own right. Tokyo, Seoul, Beijing, Shanghai, Guangdong, Jiangsu, Shandong and Zhejiang have economies that are larger than some G20 members. These provinces or cities have formal linkages, and extensive commercial and other connections, with Australian states and cities. The Commonwealth Government encourages and supports the states and territories with their own sub-national international relationships.¹⁴

Most of Australia's cities have cultivated "sister city" relationships over many decades. These city-to-city relationships are likely to gain in both significance and meaning. It is then worth taking a closer look to examine the functions, features, and interactions of these cities, and their impact and significance on Australia's interests in the region. Common features also emerge; for example, many of these cities are characterised by:

- A rapidly growing urban middle class that now accounts for almost 2 billion people;
- World's largest urban slum populations and the largest concentrations of people living below the poverty line; and
- Places most vulnerable to disasters, with the most fatalities.

A Closer Analysis of Brisbane's Sister Cities

Cities such as Hyderabad, Brisbane, and Shenzhen are prime examples of how newer industries such as Information Technology flock to city hubs. Not only are they the cause of extensive occupational migration, they also attain "power hub" status through their concentration of large companies that perform a substantial portion of nationally or internationally outsourced IT services, giving them, at least at an abstract level, a considerable degree of power.

Some of these cities are in fact "cities of migrants" whose needs and expectations would necessarily be different to those of natives, which makes it incumbent on administrators to alter city structures appropriately. Other cities such as Chongqing and Kaohsiung, while retaining a significant presence of newer industries, boast a considerable manufacturing and development component as well. Their status is thus differently operationalised.

Natural factors also influence city profiles. This is the case, for instance, for Colombo and Kobe, which benefit from the large commercial ports they house. These cities effectively become regional as well as global shipping hubs, capable of influencing commercial traffic on a global scale. Chongqing, on the other hand, is impacted by its large mineral deposits, making it a centre of local production and of regional pollution.

Cities such as Daejeon have enacted a number of "city statutes" indicating the degree of control they exert over different aspects of life, independent of the central government. Some cities enter into informal alliances with other regional cities to express their urge to be independent. A prime example is Brisbane's sister cities, which is a city level web that links Brisbane with other regional cities. Such liaisons allow cities to "learn" from their counter parts and sometimes, to also replicate them in certain aspects, usually resulting in "city twinning". A few of these cities also have shared issues, for instance both Hyderabad and Colombo have acute local housing problems created by ever increasing internal migration levels.

While it may very well be impossible to have a single blue print for global cities, an analysis of city functions reveals general directions in which modern cities move. New functional areas of speciality create needs for substantive norms or rules in the interests of legitimacy as well as legality. It is thus perhaps time we paid closer attention to the identification and development of these norms.

Conclusion

Australia needs to map and assess the implications of Asian cities as diplomatic actors and their impact on global governance as a matter of urgency. Asian world cities will most likely become cultural and financial hubs and prime sites of nation-branding. Early signs suggest that they will seek to develop a global reach and reputation, and to be attractive and well-connected to the flows of capital, information, business, and labour, and that they will host mega-sporting events and enter the competitive game of being a city ranked high in the Global Cities Index.

But they may also offer sites of more nimble governance that can protect human rights and reduce inequality, or they may undermine the rule of law set by states for the benefit of citizens, or they may be a new species of actor entirely. Cities may determine the content and application of future international human rights law in areas like urban planning, air quality, and disability standards. Urban research has been focused on physical infrastructure, but the future may see more focus on social infrastructure and, undoubtedly, digital infrastructure.

Importantly, it is likely that city leaders and networks, such as the Silk Road mayors, will have the power to influence the direction of Asian infrastructure. Infrastructure development opportunities associated with China's Belt and Road Initiative represent one of the biggest issues in Indo-Pacific foreign policy at present. This initiative is crucial to local communities across the Indo-Pacific who will be positively affected by these changes if included, or adversely if bypassed.

Australia's *Foreign Policy White Paper* recognises the new diplomatic roles of Asian cities, but lacks the roadmap for engaging with them. The Department of Foreign Affairs and Trade may consider a Special Envoy on Cities, as well as a committed taskforce to provide strategic advice to Australian cities and map their interactions. Such efforts would boost Australia's regional "soft power" profile. Australia's own mayors should be taken seriously as diplomatic actors, and should be involved more closely in the diplomatic process. Meanwhile, events such as the Asia Pacific Cities Summit and its associated Mayor's Forum convened by the Brisbane City Council are deserving of greater attention as strategic opportunities for deepening Australia's influence across the emerging power hubs of Asia.

The neighbourhood is changing fast. Will mayors run the hood?

Notes

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4 THE NAIM ARC: SHARED INTERESTS AND COMMON CONCERNS IN A CHANGING CLIMATE



Brendan Mackey

Introduction

Climate change is a critical issue for the global community. Climate threats, including rising sea levels, increasing temperatures and extreme weather events already challenge Australia and its near neighbours. The Australian Government's 2017 *Foreign Policy White Paper* makes the point that: 'Climate change, environmental degradation and the demand for sustainable sources of food, water and energy will be political, economic and security disrupters over the longer-term'.¹

Climate change is more than simply an environmental issue. It encroaches on community wellbeing, economic development and regional security, and is deeply connected to today's global agenda for sustainable development. The significance of these issues could not be more striking for Northern Australia and its near neighbours — Indonesia, Timor Leste, Papua New Guinea, Solomon Islands, Vanuatu and Fiji. Building resilience and adaptive capacity across this neighbourhood, demands a fresh outlook, alongside creative and holistic approaches that bring the diversity of actors, including from across government, business, universities and civil society to the table.

Reimagining the Neighbourhood

One of the unfortunate consequences of the European colonisation era was the promotion of the idea that the planetary globe was properly viewed as orientated with the North Pole as its apex. In reality, Earth can be validly viewed from either the "north" or "south" pole. When we geographically invert this convention (Figure 1), an arc is apparent that spans Northern Australia, Indonesia and Melanesia that, despite jurisdictional boundaries, encompasses a region of growing shared interests and common concerns. Not least of which are those of ensuring sustainable development and addressing climate change as essential components of a holistic approach to both national wellbeing and regional security.²

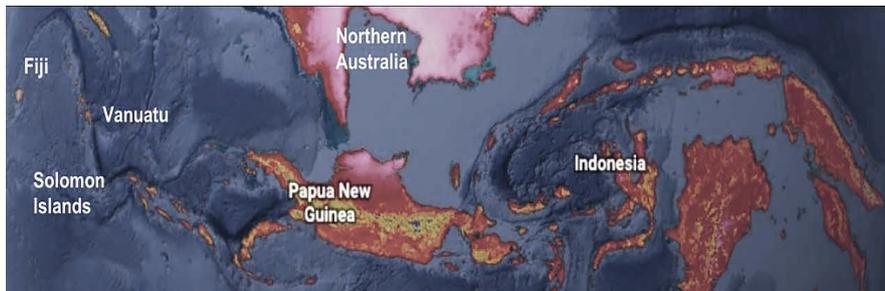
Our neighbouring regions are more typically split into the Pacific Region and South East Asia, with Australia sometimes being lumped with New Zealand into the somewhat oddly named Australasia, or with our Pacific island brothers and sisters

under the chapeau of Oceania. The conventional geographic regionalisations, for example, dictate how Australia’s international aid is reported, with the 2018–19 aid budget documenting the distribution of funds with an allocation of \$1.3 billion to the Pacific and \$1.0 billion to South East and East Asia.³

By comparison, an area which might be described as the Northern Australia–Indonesia–Melanesian (NAIM) Arc alters our conventional regional outlook in useful ways, providing a fresh view of problems and solutions. Looking closely at Australia’s aid budget from the perspective of the NAIM Arc, it becomes clear that these countries receive a significant proportion of Australia’s official development assistance budget. Indeed, close to \$1.3 billion has been allocated across this near neighbourhood (Indonesia \$316.2 million, Timor Leste \$91.8 million, Papua New Guinea \$572.2 million, Solomon Islands \$187 million, Vanuatu \$62.3 million and Fiji \$58.1 million).

Interestingly, some 17% (~\$714 million) of Australia’s total aid budget was spent on “building resilience”, an indicator of the high profile given to, among other things, climate related risks.⁴

Figure 1. The Northern Australia–Indonesia–Melanesian (NAIM) Arc comprising Northern Australia, Indonesia, Timor–Leste, PNG, Solomon Islands, Vanuatu and Fiji.



Source: Google Earth. Background colours show surface temperature on 23 October 2018.

Sustainable Development Goals and Paris Agreement Commitments

In September 2015, the national governments of the world adopted the 17 Sustainable Development Goals (SDGs) as agreed within the United Nations (UN) 2030 Agenda for Sustainable Development. The 2030 Agenda has been described as providing a blueprint for dignity, peace and prosperity for people and the planet, now and in the future with the most recent SDG report details revealing the benefits of having measurable goals and targets, providing a much-needed focus on development gains.⁵ Since the year 2000, the under-five mortality rate in sub-Saharan Africa has dropped by 50% per cent; and in the least developed countries, the proportion of people with access to electricity has more than doubled. However, the report also reveals slow progress for the most disadvantaged and marginalised groups:

- In 2015, 2.3 billion people still lacked even a basic level of sanitation service;
- Close to one billion mostly rural people still lack electricity;
- Nine out of ten people living in cities breathe polluted air; and
- After a long period of decline, the number of undernourished people globally rose from 777 million in 2015 to 815 million in 2016, mainly due to conflicts, drought and disasters linked to climate change.

Sustainable Development Goals

The SDGs are intended to be the blueprint to achieve a better and more sustainable future for all. They address key global challenges including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice. The Goals should be viewed as being interconnected and 'applicable to all' nations in order to 'leave no one behind'. The intention is that they are achieved by 2030. Underpinning each goal is a set of specific targets and indicators that enable progress to be monitored and inform policy and ensure accountability of all stakeholders.⁶

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

While the SDGs reinforce the need for nations to ‘take urgent action to combat climate change and its impacts,’ the international community’s commitments and obligations are entrenched in and specified through the Paris Agreement on Climate Change, agreed at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change in Paris 2015.⁷ The Paris Agreement builds upon the Convention and commits signatory nations to a range of actions designed to mitigate greenhouse gases, adapt to climate change impacts, and assist developing countries in these endeavours. Article 2.1 of the Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:

- (a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels;
- (b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Signatories reaffirmed their commitment to implement the Agreement in ways that reflect ‘equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances’ (Article 2.2).

Furthermore, governments agreed to formally document their mitigation, adaptation and other actions through Nationally Determined Commitments (NDCs), which will be subject to a global stock take and reviewed as necessary to progress the Agreements’ objectives, (i.e., governments are obliged to report regularly on their efforts to implement the NDCs).

The Climate–Development Nexus

It is clear from reviewing the SDGs and Paris Agreement that the international community grasps the complex nature of the climate–development nexus. The global warming target is conditioned by references to food production and climate–

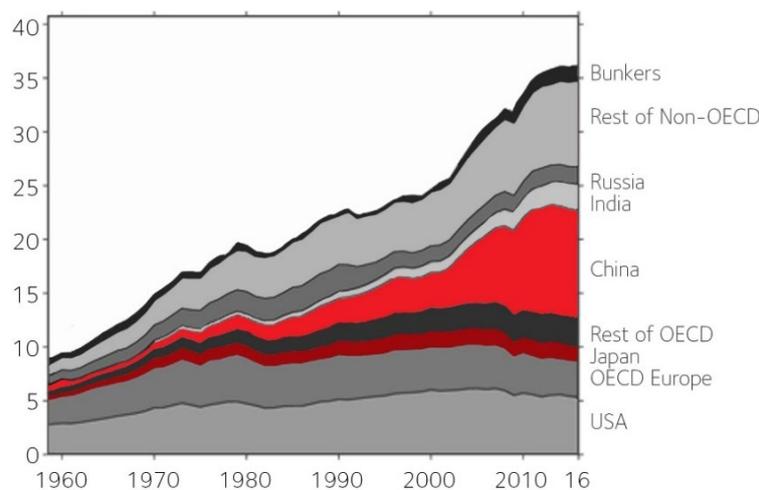
resilient development, along with the overarching commitment to the principle of common but differentiated responsibilities and capabilities. What this means in practice is that countries differ in the priority they assign mitigation and adaptation, and the kinds of actions they undertake to implement them.

The nexus becomes something of a tangle given that anthropogenic emissions (those caused by human activity) must be reduced to zero by mid-this century if global warming is to be limited to well below 2 °C above pre-industrial levels as per the Paris Agreement.⁸

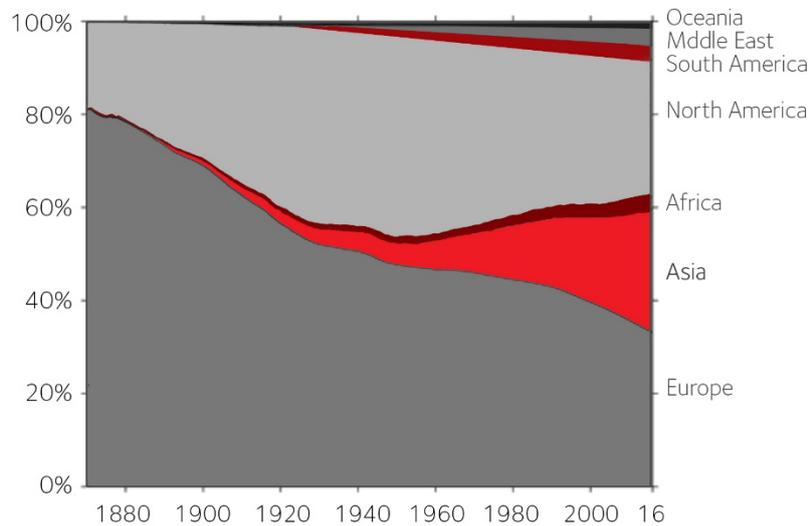
Significant greenhouse gas emissions now arise from countries with the greatest SDG gaps to meet, and thus the most pressing needs for economic growth, equity and the associated increase in demand for energy (Figure 2a). Unfortunately, while Organisation for Economic Cooperation and Development (OECD) countries have to date been most responsible for climate change (Figure 2b), it is developing countries that are the most vulnerable to its impacts and will bear the brunt of future climate hazards.⁹ Furthermore, emissions from deforestation and degradation are ongoing and greatest in developing countries. How can developing countries generate the economic growth needed to meet the SDGs while at the same time avoiding the emissions that will lead to dangerous climate change?

Figure 2:

- a) Timeline of annual emissions per major emitting country and cluster. China and the rest of non-OECD now (and into the future under a business as usual scenario) are dominant emitters.



- b) Accumulated emissions by region. If we consider the aggregate emissions over time, most of the additional anthropogenic greenhouse gases in the atmosphere are from Europe and North America.

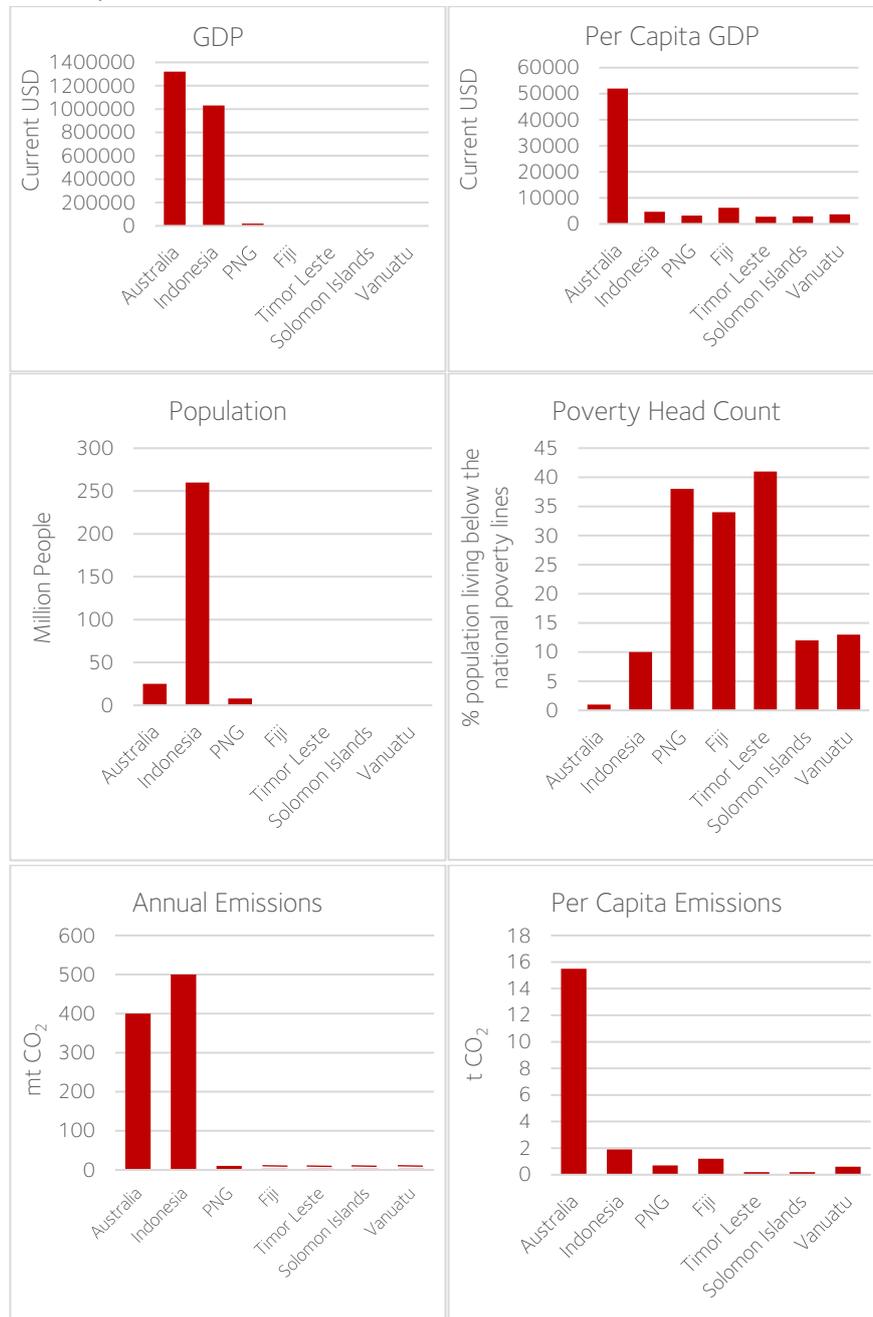


Source: Le Quéré et al. ¹⁰

The NAIM Arc countries provide insight into this tangled nexus (Figure 3). Australia and Indonesia’s GDP and total annual CO₂ emissions are comparable, while their per capita GDP and per capita emissions differ by orders of magnitude. Indonesian’s national circumstances are also defined by being the world’s fourth most populated country.

Indonesia therefore is faced with the dilemma of simultaneously driving economic growth to advance achievement of the SGDs for a huge population and still meet its commitments under the Paris Agreement. By comparison, the other NAIM countries have minimal carbon footprints (though PNG’s carbon footprint is starting to become of concern) but are ranked among the poorest in the world and therefore have considerable development challenges ahead.

Figure 3. Summary statistics of six climate and sustainable development relevant indices for the seven NAIM Arc countries.



Source: World Bank; Le Quéré et al.¹¹

Responses

Australia and Indonesia's greenhouse gas emission profiles further highlight the climate-development nexus and the differentiation in climate responses that arise from national circumstances. About 80% of Australia's emissions are from the energy sector as the result of dependence on coal fired powered stations. For Indonesia, however, about 60% of their emissions are from deforestation and degradation.

These differences are subsequently reflected in their NDCs. The Australian Government has committed to implementing an economy-wide target to reduce greenhouse gas emissions by 26–28% below 2005 levels by 2030 through land based offsets, a national energy plan, improving efficiency of vehicles and via ozone protection laws and the Montreal Protocol.¹² Not surprisingly, Indonesia's NDCs aims to achieve most of its emissions reductions through reducing emissions from deforestation and degradation.¹³ More surprisingly however, given the large population, low per capita GDP, and ongoing development challenges, Indonesia has set an unconditional reduction target of 29% compared to business as usual by 2020 and a conditional reduction target up to 41% of the business as usual scenario by 2030, depending on the level of international support.

While emissions and mitigation commitments are strongly differentiated due to national circumstances, climate risks are more universally spread at least in terms of a country's exposure to them. What is differentiated with respect to adaptation is a country's vulnerability as a function of its national adaptive capacity, i.e., the resources and means it has to make change in different sectors in order to avoid or reduce the harm from climate-related risks. For example, all NAIM Arc countries will be heavily impacted by sea level rise and increased inundation and erosion threatening coastal communities and infrastructure, which in many locations may lead to the displacement of entire settlements. The dire impacts of climate change and rising sea levels for Pacific small island developing states, especially low-lying Polynesian and Micronesian islands, has been established and well publicised for some time,¹⁴ and rightly so given their extremely low levels of adaptive capacity.

Similar impacts and prospects however are also evident for the many thousands of islands in NAIM Arc countries, including the Australia's Torres Strait Islands, and the 2,342 inhabited islands of Indonesia. While similarly exposed, the capacity of countries to respond, and the resources including the human and financial that are available to address coastal risks through planned relocation, ecosystem-based adaptations, or capital works such as sea walls, varies enormously.

Adaptation commitments under the Paris Agreement are clearly aligned to national interest (notwithstanding that mitigating emissions is also in everyone's long term interest) and the Paris Agreement also commits signatories to developing, implementing and reporting on national adaptation plans. Indonesia has a comprehensive adaptation plan with risks and actions identified in key sectors.

Indonesia's NDCs note that climate change presents significant risks for Indonesia's natural resources that will, in turn, impact the production and distribution of food, water, and energy. Significant efforts have been made towards developing and implementing a *National Action Plan on Climate Change Adaptation*, which provides a framework for adaptation initiatives that has been mainstreamed into the National Development Plan. The medium-term goal of Indonesia's climate change adaptation strategy is to reduce risks on all development sectors (agriculture, water, energy security, forestry, maritime and fisheries, health, public service, infrastructure, and urban system) by 2030 through local capacity strengthening, improved knowledge management, convergent policy on climate change adaptation and disaster risk reduction, and application of adaptive technology.

The Australian Government, by comparison, offers a more muted response as articulated in the *National Resilience and Adaptation Strategy 2015*. This strategy advances a set of principles to guide effective adaptation practice and resilience-building, and outlines the Australian Government's vision for a climate-resilient future.¹⁵ Some areas of national leadership under the strategy are evident such as a range of codes, standards, and rating schemes to help ensure that new building stock will be robust to a changing climate. The strategy also recognises the risks climate change brings to each sector including those arising from the increased frequency of drought conditions in southern Australia on agricultural yields.¹⁶

Another national initiative of note highlighted in the Strategy is the Murray–Darling Basin Plan (2012) that established a whole-of-Basin approach to water planning and management across five jurisdictions and sets a sustainable limit on the use of Basin water resources. Nonetheless, the overriding narrative of the strategy is that adaptation is mainly a problem requiring responses from local jurisdictions and the private sector, with the national government’s responsibilities limited primarily to setting certain national standards and improving the scientific information needed to support decision-making. More action-orientated adaptation planning is evident at the state government level as exemplified by the Queensland Government’s *Climate Adaptation Strategy*.¹⁷

From Tangled Nexus to a Gordian Knot

This brief overview of some of the mitigation and adaptation challenges facing the NAIM Arc countries highlights the all-pervasive reach of climate change impacts. From a public policy perspective, comprehensive, whole-of-government responses are needed, with joint planning, along with adaptive management, and engagement with civil society and the private sector. In addition to the direct and indirect impacts on human settlements, community health and wellbeing, agricultural productivity and ecosystem integrity, climate change also brings financial risks.

Businesses are increasingly being required to disclose climate risks as part of due diligence reporting by listed companies to stock exchanges and by the emerging assessment protocols of insurance and credit rating companies.¹⁸ These risks include the exposure of their assets to climate change impacts as well as their carbon footprint. Alas, there is no escape, no safe haven, from the consequences of a rapidly changing climate.

With risks also come opportunities, and synergies are possible whereby climate change responses can proceed hand-in-glove with actions to advance the SDGs. The concept of the green economy — economies that are low carbon, resilient, resource efficient and socially inclusive¹⁹ — provides one frame for seeing how

climate change mitigation and adaptation can serve as a vehicle to promote sustainable development, rather than being viewed as competing social needs that can only be resolved through unhelpful and ineffective trade-offs. Doing so can turn the climate-development nexus from a tangled into a Gordian knot.

Conclusion

Addressing the challenges arising from the climate-development nexus will continue to exercise the minds of governments, civil society and business for many decades to come. We are already locked into long-term climate change, with the extent of change being dependent on our success or failure to mitigate greenhouse gases in the coming decades. Climate change promises to be a highly disruptive force everywhere, including the NAIM Arc region, impacting on food security, increasing health burdens, threatening infrastructure, reducing the benefits to sustainable livelihoods from ecosystem services, and leading to further displacements and migration of people and entire communities, among other things.²⁰

Considering the long time-scales involved in responding to the challenges of both climate change and sustainable development, there are enormous benefits to be gained from recognising the key role of universities in the region as they are enduring institutions and the principle reservoirs of knowledge. They have a fundamental responsibility for capacity building, and are a major source of innovation.²¹ Noting again SDG Goal 17, which commits governments to ‘Strengthen the means of implementation and revitalize the global partnership for sustainable development’, and given the potential for climate change to be both nationally and regionally disruptive, there is much to be gained from building strong collaborative programs for knowledge sharing, technology transfer, and capacity building. The region’s universities can and should be at the centre of these much-needed partnerships.

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5 WHY HEALTH DIPLOMACY IN THE ASIA PACIFIC MATTERS

Sara E. Davies

Why Health Diplomacy?

Contemporary pandemics and the outbreak of serious infectious diseases have seen global health security rise to the forefront of Asia-Pacific domestic and foreign policy over the past two decades. Global health risks such as a novel influenza extend beyond national borders, presenting challenges to our regional security environment, humanitarian access, and to economic and trade dynamics. Awareness of the importance of addressing health risks also presents an opportunity for greater regional cooperation and focus on reducing health inequalities. This health-security nexus is particularly important for Australia's positioning in the region not simply because of impacts on development, but because of wider impacts on the movement of people, goods and services. Health diplomacy — where foreign policy and global health governance intersect — relates to the coordination of solutions to improve standards of universal health and health security, and mitigate the risks associated with the spread of disease. Health diplomacy is increasingly about good governance, and requires attention and input from government, business and community leadership alike.

Australia is seen as the promotor of good governance norms within the Asia-Pacific region. Health diplomacy, as a feature of Australia's good governance program has typically fallen into the overseas development assistance agenda – aimed at promoting the economic development and welfare of developing countries. Yet, Australia's aid budget has been the casualty of various government budget savings measures over time, especially the health aid sector.

Despite Australia's record economic growth, it is not one of the top ten Official Development Assistance (ODA) donors.¹ Australia's spending currently ranks 12th within the OECD countries. The United States, Germany and the United Kingdom are considered the most "generous" spenders, both in total and as a percentage of gross national income. Since 2012, federal budgets have delivered recurring cuts to Australia's aid program. Australia is currently at a historical low in terms of its aid generosity, yet it remains an important donor in the Asia-Pacific region.

The distribution of Australia's aid programs is strongly directed towards the Asia and Pacific regions. In the Oceania region, Australia is the top donor in dollar spend

and only New Zealand beats Australia to top place for percentage investment of aid in the Oceania region — 72% of New Zealand's aid program goes to the Pacific compared to Australia's 37%. In the Asian region, Australia does not rank in the top ten for aid distribution by dollar spend, however its share of total aid investment in the region (56%) places it third, after Japan (60%) and Korea (59%).² There is no doubt that the Asia and Pacific regions have been identified by successive Australian governments as a priority region for development investment.

The *2017 Foreign Policy White Paper* affirms this, noting that, 'Australia's development assistance is focused on the Indo-Pacific and promotes the national interest by contributing to sustainable economic growth and poverty reduction'.³ More specifically, 'Guarding Against Global Health Risks' is identified as a key strategic area in the *White Paper*, with the Australian Government recognising that global health crises have the potential to threaten economic and human development, and that good public health systems support productive societies and fiscal growth.

Despite recognition of its developmental and strategic value, in the last five years Australia's aid sector spending in health and education has been cut by 38%; whilst humanitarian and environmental aid has been cut by 40%.⁴ The cuts to health sector spending have been particularly evident in the Asia and Pacific regions. A corrective to these cuts was the October 2017 announcement by (then) Foreign Minister Julie Bishop on the government's largest strategic health funding investment to date — a \$300 million investment over five years in the Health Security Initiative for the Indo-Pacific.⁵

How should we make sense of this funding investment given that the spend on the Health Security Initiative fund will come from the existing (small) health aid budget? This report analyses the priorities, to date, of Australia's health spending in the aid sector and what investments should be prioritised in this diminished pool of vital funds to strengthen the "health security" initiative.

Australia Aid Sector Investment

The investment priority of the Australian government in the Asian and Pacific regions is best illustrated in the figures below. Figure 1 demonstrates Australia’s overall investment priorities in the Pacific region. These are consistent with governance and education being the top investments, followed by infrastructure and trade coming in as a close third.

Figure 1: Australian ODA Investment by Priority in the Pacific



Source: OECD.⁶

As illustrated in Figure 2, Australia’s aid spend in the Asian region prioritises education, with governance then infrastructure and trade coming in second and third.

Figure 2: Australian ODA Investment by Priority in South East and East Asia



Source: OECD.⁷

Delving further into the country programs, variations emerge, with some countries receiving more in one area, i.e. the majority of aid to Vanuatu is in infrastructure and trade, in Fiji it is education, in Cambodia it is agriculture, fisheries and water, and in Myanmar it is education.

Financial investment in Australia's commitment to gender equality is also evident across Australia's total aid sector spending. The 2017 *White Paper* identified the promotion of gender equality and the participation of women, girls and those living with a disability in society and the economy as foundations for success. Gender inequality undermines the participation of women and girls in social, economic and political life. Eliminating gender disparities is seen as key to increasing per capita incomes in Australia's neighbourhood.

In 2016, 72% of Australia's bilateral aid included programs that referred to gender equality and women's empowerment within the spend — this is a 24% increase from the previous year and double the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee's commitment average, which is 36.5%.⁸

As illustrative in Figures 1 and 2 above, the area where Australia's aid spend is consistently low is in the health sector.

Why Health Diplomacy Matters

Health diplomacy is the intersection between foreign policy and global health governance. It is concerned with the coordination of global policy solutions to improve universal health. Former United Nations Secretary General Ban Ki Moon saw health as a pillar of foreign policy — 'Global health interacts with the core functions of foreign policy: achieving security, creating economic wealth, supporting development in low-income countries, and protecting human dignity'. At the core of health diplomacy is the recognition that health is a human right and a common public good.

Global health issues are increasingly more politically relevant in domestic and foreign policy. Global health has become a strategic foreign policy concern due to shifts in the international political environment and the emergence of serious global health concerns and pandemics (e.g. SARS, Zika, Ebola, and the growing threat of antimicrobial resistance). Health diplomacy is concerned with health issues that cross national boundaries and require global agreements to address them. Health diplomacy impacts the security environment, the humanitarian arenas and the world economy.

Australia's Health Aid Sector Strategy 2015–2020

Australia's investment in health is guided by the Department of Foreign Affairs and Trade's *Health for Development Strategy 2015–2020*. The strategy outlines three priority areas for Australia's health aid investment — programs that engage the private sector, reduce poverty, and reduce gender inequality.⁹ These three priority areas are explicitly stated as being intimately linked to the health care burdens of Australia's Asia-Pacific neighbourhood.

The private sector provides the majority of health care in the Asia Pacific. The high dependence on private sector health care in the region dramatically increases the out-of-pocket expenses for families. In Asia and the Pacific, serious illness can significantly alter the course of life and income opportunities for individuals and families, leading to inter-generational poverty.¹⁰ The relationship between poverty, private sector care, and gender in the Asia and Pacific region becomes clear when we consider women's opportunity to gain income equivalent to men.

Health gains for men and women have dramatically improved in the last twenty years in the region; along with women's access to education and employment.¹¹ Access to health care services is determined by gender, especially when distribution of income and responsibility for domestic care roles is taken into account.¹² More women than men are employed in low paid and low skilled jobs, and the majority of women are responsible for care roles and domestic responsibilities. This is especially the case for poor women.¹³ High levels of unpaid labour and the priority of care roles affects women's access to education, formal income, land, and resources. In this common situation, a family member with a chronic illness or disability can be devastating for a woman's already fragile economic security.

The Australian government's *Health for Development Strategy 2015–2020* identified five 'investment pathways' to 'collectively address the region's health security challenges'.¹⁴ Here it is possible to observe that each sector recognises the macro-determinants of health on individuals in the Asia and Pacific regions. Poverty,

gender, and high health care costs all contribute to ill-health, disability and the continuations of cyclical poverty.

The Health-Development Nexus and the Role of Business

Australia is regarded as a responsible international citizen and the promotor of good governance norms. Australia has a responsibility to contribute to global efforts to reduce poverty and promote development in accordance with the United Nations (UN) Sustainable Development Goals (SDGs). Investment in the health sector is required to strengthen governance, promote sustainable economic development and to expand Australia's trade and investment opportunities in the region.

The health-development nexus expands beyond the physical wellbeing of a community — it is also focused on capacity building with local institutional and governance structures to help foster social, economic and political stability. Bilateral and regional partnerships help to advance human rights, improve governance and support health and education in Australia's neighbourhood, particularly the Pacific. Given Australia's extensive international travel and trade arrangements within the Asia Pacific, a strong interest in regional health affairs is vital.

The strategy's first program, 'Core public health systems and capacities in key partner countries', concentrates on funding health system strengthening, both the public and private sectors in-country. This program has an explicit human rights focus and is reflective of Australia's commitment to support both regions meeting their SDGs. The program also seeks to address the financial, social, and cultural barriers for women, children, poor people, and people with a disability, to access essential health services.¹⁵ There is also mention of strengthening civil society organisations to be active partners in health care advocacy, with attention to women's voices and participation. Finally, there is mention of capacity development and training — which crosses over with the education sector investment spend of the Australian government.¹⁶

The second investment priority program, 'Combatting health threats that cross national borders', is explicitly engaged with regional health "risks" and "threats", namely, the spread of infectious disease outbreaks due to a combination of factors

associated with weak governance and health system capacity. In 2015, this program was not presented as a priority for Australia's health sector strategy, but within two years had become the largest component of health aid sector spending.¹⁷ Specific mention is given to the factors that are increasing pressure on weak public health systems in our region. These include: 'rapid urbanisation, the movement of people across and within borders, conflict, sub-standard medicines, unregulated health markets, and natural disasters'.¹⁸

The disease threats of highest priority are those that extend national borders and potentially affect whole populations. They include preventable infectious diseases such as 'measles, TB, malaria, HIV, and human and animal-to-human influenzas'.¹⁹ Drug resistance to malaria and TB also pose major health threats in Australia's region. The outbreak of the Ebola virus in West Africa during 2014–2015 is raised in the document, with specific mention of the fact that the combined total of humanitarian assistance provided to Guinea, Liberia, and Sierra Leone to end the Ebola outbreak was three times more than if donors had prioritised investment in health system strengthening in the first place. Notably in this program, there is no mention of mainstreaming the SDGs, gender equality, opportunities for education and training despite this program's focus on 'harnessing political leadership, technical support, and financing mechanisms needed to address regional and cross-border infectious disease threats'.²⁰

The third program, 'A more effective global health response', is dedicated to funding health programs within the UN system, its development banks, and private-public partnership health funds, including the Global Alliance for Vaccination and Immunisation (GAVI). These programs receive untied Australian funding, which means they can be funded to deliver where there is greatest need. Programs include halving infant mortality with under 5-year-old vaccine delivery programs, reducing maternal mortality programs, and delivering Assisted Development Technology (ARTs) to HIV infected populations. Both Asia and the Pacific benefit from these global UN programs, as does Sub-Saharan Africa and, increasingly, the Middle East. However, this program has been cut significantly by successive Australian governments since 2012.²¹

The fourth program, 'Access to clean water, sanitation, hygiene, and good nutrition as pre-conditions for good health' is dedicated to improving investment in water,

sanitation and hygiene (WASH), and nutrition. Similar to the first program, this one also has an explicit focus on addressing gender inequality. The lack of safe water as a prenatal and postnatal risk, risk of infection and personal violence due to lack of access to sanitation, and high care burden due to no access to water and sanitation is highlighted.

The relationship between WASH and gender inequality is a core focus in this program.²² In the 2017–2018 budget the Australian government announced that \$100 million of the health sector aid budget, will be directed towards a “Water for Women” initiative over the next five years. With particular focus on disabled women, the initiative will work with Non-Governmental Organisations (NGOs) on ‘innovative ways to improve water, sanitation and hygiene services, focusing on women, girls and people with disabilities in the poorest communities’.²³

The final program focuses on ‘health innovation, and new approaches and solutions that benefit our region’. This program includes a \$100 million investment over four years in a public–private partnership with the Bloomberg Philanthropy Data for Health initiative. This program is focused on improving public health data collection processes in developing countries in order to link cause of morbidity and mortality to service delivery and resourcing.

In addition to these programs, since 2007, the Australian government has been delivering the Sexual and Reproductive Health Program in Crisis and Post Crisis Situations (SPRINT) in partnership with the International Planned Parenthood Federation. To date, this program has assisted ‘over 890,000 people with sexual and reproductive health services in crisis-affected places — preventing avoidable maternal deaths, reducing unplanned pregnancies, preventing illness and deaths of newborns and reducing rates of Human Immunodeficiency Virus (HIV) and other diseases’.²⁴ The program has received \$26 million since its inception, and the 2016–2019 pledge provides for a further \$9.6 million.

Conclusion

Of the five health sector programs in the *Health for Development Strategy 2015-2020*, plus the SPRINT program, the Regional Health Security Initiative is the most well-funded, and well placed to receive the highest level of diplomatic and programmatic support. Prevention programs that are focused on reducing health insecurity are vital. Vulnerable populations are rendered more so during infectious disease outbreak emergencies. Their health and livelihoods do not fair better during infectious disease outbreaks, and are often affected long afterwards by the economic and social shocks, as the Ebola outbreak in West Africa showed.²⁵

However, there is a need to rebalance the focus of funding within health sector spending and to identify opportunities to better coordinate the delivery of the five health program pathways. Overall, there is a relatively low prioritisation of investment in the health sector program, and in health sector delivery in the Pacific and South East Asia, which contradicts the “health security” initiative. If the economic, political, and human security of the region is threatened by “regional health risks” and “threats” — namely, the spread of infectious disease outbreaks’ — then prevention is always better than the cure.

Ideally, Australia’s health aid sector investment in both regions needs to increase. Failing that, there needs to be innovation in how aid investment can be coordinated in partnerships with Australia’s private sector, the University sector, civil society, and philanthropy, to coordinate the delivery of a sustainable health aid investment that assists the Pacific and Asian region in addressing the three stated objectives of Australia’s health aid strategy: reduce poverty, reduce gender inequality, and reduce household expenditure on private health.

Notes

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About Griffith University

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GRIFFITH ASIA INSTITUTE

Griffith University Nathan campus
Nathan Queensland 4111, Australia

Phone: +61 7 3735 3730

Email: gai@griffith.edu.au

griffith.edu.au/asiainstitute