STATE OF THE NEIGHBOURHOOD

2019

Griffith UNIVERSITY

Queensland, Australia

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About the Griffith Asia Institute

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.

At GAI, 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.

We do this by: i) conducting and supporting excellent and relevant research on the politics, security, economies and development of the Asia-Pacific region; ii) facilitating high level dialogues and partnerships for policy impact in the region; iii) leading and informing public debate on Australia's place in the Asia Pacific; and iv) shaping the next generation of Asia-Pacific leaders through positive learning experiences in the region.

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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.

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FOREWORD

What a great privilege it is to launch our 2019 State of the Neighbourhood report, once again with the Committee for Economic Development of Australia (CEDA).

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?

There is no single roadmap. Making sense of the political, economic and social issues that leaders in business, government and community sectors have to contend with—particularly as they engage with Australia's Asia-Pacific neighbourhood—can be challenging.

Furthermore, discussion of these fundamental issues rarely happens outside Canberra, so it can be difficult for Australia's cities, states and regions to engage in the conversation in a meaningful way.

The *State of the Neighbourhood* report is a step towards addressing this gap, recasting some of Australia's key foreign, economic and development issues from a distinctly Queensland perspective.

Drawing on a wealth of knowledge and expertise from Griffith Asia Institute's industry and academic partners, we hone in on the topics that hold significance for Queensland and its neighbourhood.

This year the report offers broad insights across the transforming geopolitical dynamics of a changing region, the shifting economic and trade patterns, Australia's "stepped-up" engagement with Pacific island partners, private sector leadership on climate change, rule of law challenges in South East Asia, and the importance of sustainable water management in the region.

All of these issues have significant implications for decision makers, leaders and influencers operating in, and doing business with, the nations of the Asia Pacific.

Through this report our aim is to offer fresh perspectives on the neighbourhood and generate deeper conversations about Queensland's place in the region.

It is not an altruistic endeavour, but rather one that we hope will inspire better policy and inform good practice so that we might all respond positively to key developments and new opportunities emerging close to home, in our Asia-Pacific neighbourhood.

Caitlin Byrne

Director
Griffith Asia Institute

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, becoming general manager of a locally owned publishing, printing and retail group. He has 20 years' experience as Hong Kong-based China Correspondent for The Australian Financial Review and 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.

Professor Stuart Bunn is the Director of the Australian Rivers Institute at Griffith University in Brisbane, Australia. His major research interests are in the ecology of river and wetland systems with a particular focus on the science to underpin river management. This work has resulted in over 200 technical publications, most of which are refereed journal papers and conference proceedings. Stuart has extensive experience working with international and Australian government agencies on water resource management issues. From 2008-2012, he was appointed as an Australian National Water Commissioner and has previously served as Chair of the Scientific Advisory Panel for the Lake Eyre Basin Ministerial Forum and as a Director of Land and Water Australia. He is currently Chair of the Executive Scientific Advisory Committee for the Healthy Waterways Partnership and is a member of the Advisory Committee for Social, Economic and Environment Science for the Murray-Darling Basin Authority, and the Threatened Species Scientific Committee for the Australian Department of Environment.

Professor Caitlin Byrne is Director of the Griffith Asia Institute. She is also a Faculty Fellow of the University of Southern California's Centre for Public Diplomacy (CPD). Caitlin's research is focused on Australian diplomacy with a special interest in Australia's engagement in the Asia–Pacific region. Most recent research projects explore the role of leadership, soft power and public diplomacy—including people-to-people connections developed through international education, culture and sport—in developing Australia's regional influence, relationships and reputation. Her research is published in a range of journals including the Australian Journal of International Affairs, the Australian Journal of Politics and History, Politics & Policy, and The Hague Journal on Diplomacy. Caitlin is deeply engaged in Queensland's international policy community, including as a member of the Australian Institute of International Affairs (AIIA) Queensland Executive, the Fulbright Scholarship Selection Committee for Queensland, and the National Reference Board of ACICIS.

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Dr Johanna Nalau is an adaptation scientist with a PhD in climate change adaptation at School of Environment and Science at Grifth University based on the Gold Coast, Australia. Johanna's research is focused on understanding how, why and when people make decisions to adapt to climate change, and what role science can and should play in that process. She is a Lead Author for the Intergovernmental Panel on Climate Change (IPCC) 6th Assessment report in Working Group II Chapter 15 Small Islands, an Australian Research Council DECRA Fellow (2019-2021), and Managing Editor for the Journal of Climate Risk Management. Johanna also leads the Adaptation Science Research Theme at Cities Research Institute. All of her roles focus on understanding the core principles of climate change adaptation, and how adaptation science can play a positive role in evidence-based decision-making.

Dr Tess Newton Cain is a dual citizen of Vanuatu and the UK. She is a former lecturer in Law at the University of the South Pacific and has more than 20 years of experience working in the Pacific Islands region, with the majority of them spent living in Vanuatu. She is the principal of TNC Pacific Consulting and her clients have included the Office of the President of Vanuatu, the government of Vanuatu, the Pacific Islands Forum Secretariat, the UN, the World Bank, and the Asian Development Bank, as well as the governments of Australia and New Zealand. Tess maintains an academic profile by way of research, publications and participation in conferences, workshops, and other forums and provides informal briefings to policy makers in Australia and the Pacific islands region and also contributes to public debate on policy in and for the Pacific islands region by way of op-eds, blog posts and media commentary for, among others, SBS News, ABC News, Radio Australia, and Radio New Zealand International.

Professor Tony Makin is the Director of the APEC Study Centre at Griffith University. He 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, and 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.

Dr Lucy West is a senior research assistant with the Griffith Asia Institute and a sessional lecturer with the School of Government and International Relations, Griffith University. Lucy's research interests include the rule of law and legal reform in South East Asia, with a focus on Cambodia, and international relations of the Asia Pacific. Lucy has published on judicial independence in Cambodia and is currently working on her book manuscript which explores the challenges to rule of law reform in contemporary Cambodia. She is also a regular contributor to *The Interpreter* (Lowy Institute) on Cambodian foreign policy.

EXECUTIVE SUMMARY

The 2019 *State of the Neighbourhood* report draws on a wealth of knowledge and expertise from the Griffith Asia Institute's industry and academic partners. This year our authors hone in on topics of significance for Australia and its neighbourhood, to provide an overview of the region's key foreign, economic and development issues to inform government, industry and community leaders.

Rowan Callick, Industry Fellow Griffith Asia Institute, again sets the tone for the report in his overview of the major political developments that have gripped the region. Callick argues that many of last year's key challenges remain powerfully present, including economic nationalism, creeping authoritarianism and the People's Republic of China's global ambitions, clearly playing out through Beijing's Belt and Road Initiative. In addition to these issues, 2019 has seen the United States and some Asian corporations pursue a policy of decoupling from China, a renewed interest in Pacific island countries, in particular from Australian politicians, and Beijing's economic diplomacy used to test the loyalty of partnerships in the region. 'One Belt, One Road, Many Tests' draws our attention to the strategic trends playing out in the neighbourhood to inform Australian government and industry leaders.

The 'Asia Pacific 2020 Economic Outlook' takes stock of the neighbourhood's economic forecast in response to protectionist trade measures and a China slowdown. Tony Makin notes that Australia's economic growth remains heavily dependent on international trade and investment links with the rest of the world, making Australia vulnerable to external shifts in the global market. Forecasting events, Australian policy makers and industry leaders are likely to witness significant developments in the economic landscape. Makin notes that predictions India is on track to out-perform China by 2020 have reinvigorated calls for India's accession into the Asia-Pacific Economic Cooperation (APEC) grouping. This year the neighbourhood is also likely to see the finalisation of the long awaited Regional Comprehensive Economic Partnership (RCEP) free trade agreement, confirming what would be the economic architecture of the Indo-Pacific. Once in effect it will be the world's largest trading bloc and the economic outcomes for Australian exporters are expected to be substantial.

Caitlin Byrne in 'The State in the Neighbourhood' provides a snapshot of Queensland's engagement in the Asia Pacific. As the strategic dynamics of the neighbourhood change shape, Byrne notes that the case for deepening Queensland's Asia-Pacific engagement has never been more vital. Drawing on discussions with Trade and Investment Queensland Commissioners to the Association of Southeast Asian Nations (ASEAN) and Indonesia, we are provided with a view of the state's global presence, key successes and some gaps that persist when it comes to Queensland's Asia-Pacific engagement. Byrne provides practical steps for government and industry leaders to move forward in deepening Queensland's engagement with its Asia-Pacific neighbourhood, including through soft power initiatives and sustained investment in cultural and gender diversity to better navigate the region's nuanced business and political landscapes.

The "Pacific step-up" has become something of an article of faith when it comes to Australian foreign policy, particularly in terms of the way it has been embraced on a very personal basis by Scott Morrison as Prime Minister. Tess Newton Cain interrogates the flurry of activity, including the various announcements and visits made by Australian politicians, and argues that there is no denying the quantity of engagement points between Australia and Pacific island partner countries has increased exponentially in recent times. 'The State of the Step-Up' examines whether quantity has translated to quality and identifies some ways in which the Australian government and private sector can enhance their engagement with Pacific island countries going forward through practical measures such as enhancing business linkages.

Climate change adaptation is often described as a local issue and therefore the responsibility of local governments and communities. But as Johanna Nalau argues, the private sector has an increasingly important role to play in delivering effective and robust climate adaption strategies. Nalau brings our attention to how changing climate conditions will disrupt existing supply chains, but also create new opportunities for innovative product development and delivery. Thinking ahead in this space will see many businesses working in partnership with governments and the public to develop stronger more resilient and equal communities and economies. Nalau shows us how the Australian private sector can demonstrate leadership in the delivery of social and environmental benefits to communities while also ensuring business continuity in a changing climate.

The rule of law is often labelled as the closest thing operating to a universal political ideal, yet it has by no means been accompanied by a universal application. Lucy West, and Leong Tsu Quin of ASEAN Parliamentarians for Human Rights, partner to assess the current state of the rule of law in South East Asia. Together West and Leong Tsu present an overview of the region's rule of law landscape and highlight concerning trends including the rise of authoritarian politics, human rights violations and the suppression of activist voices. They write that a richer understanding of South East Asia's rule of law landscape will help Australian businesses to better navigate commercial and regulatory environments. With the Australian business community eager to increase investments in the region, it will only become increasingly important for the Australian private sector to actively support a more robust rule of law in the region for long-term corporate success.

Nowhere else in the world is there a greater need for investment to address environmental water issues than the Asia-Pacific region, and especially South East Asia. Stuart Bunn, Mark Kennard and Sue Jackson of the Australian Rivers Institute at Griffith University, highlight the need to invest in environmentally sustainable water management in the Asia Pacific for environmental and economic security. By 2050 it is estimated that up to 3.4 billion people could be living in water-stressed areas given the projected increases in water demand for food production, domestic supply, manufacturing and electricity production. Bunn, Kennard and Jackson present how water will become a constraint on economic growth in a number of countries unless significant effort is directed toward improved water management. Growing concerns about the environmental and social costs of water pollution and over-allocation will undoubtedly stimulate further demand for Australian expertise over the coming decade and open up new opportunities for private-sector investment in on-ground water governance projects.

1 ONE BELT, ONE ROAD, MANY TESTS

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Rowan Callick

Introduction

The eyes of the world are on Asia and the Pacific islands as never before. This is where the world's main dramas are being played out that will set its course for decades to come. The key challenges that emerged last year remain powerfully present: economic nationalism, the contest between democratic and autocratic systems of governance, and the pressing global ambitions of the People's Republic of China (PRC) incorporated in its Belt and Road Initiative (BRI).

Augmenting these issues, three more have become prominent in 2019:

- Asian and other corporations are reviewing and already, in some manufacturing sectors, rebuilding their production chains to lessen their reliance on China as its rivalry with the US extends from skirmish to trade-war towards "decoupling".

- The Pacific islands, effectively forgotten by the rest of the world since the wave of independence washed over the region in the 1970s, have been brought into play in the great global United States-China rivalry.

- Beijing, weaponising its economic heft, is setting countries a series of tests or choices to demonstrate their preparedness to behave as true partners—to which Washington is also responding to a degree, as national values and interests start to elide, and as technology platforms take on central roles in this competitive climate, as proxies for alliances that were formerly based only on trade or security.

Two forthcoming events in our region promise to play substantially into this framework:

- Japan's hosting of the Rugby World Cup and next year the Olympic Games, amplifying its already rising tourism popularity and cultural clout, which, with the massive new Japanese corporate regional investments and the growing détente with China, augur a re-emergence of its influence.

- Taiwan's elections on 11 January 2020 of its new president and legislative yuan (parliament), which will be watched especially closely in Beijing—with many analysts anticipating that bringing Taiwan in to the PRC is President Xi Jinping's greatest ambition, guaranteeing his permanent place as a "great" in the country's history. Taiwan has also been watching closely the protests in Hong Kong and the durability there of the "one country, two systems" formula. The program to "re-educate" the Muslim Uighur population of Xinjiang has also aroused growing international concern.

The neighbourhood, attentive to this mounting list of challenges, has been preparing itself to meet them by maintaining or placing in leadership politicians and parties that appear best equipped to provide stability, and also to guide their countries and economies through the difficult elision of values and interests.

Australia is among these states. The distinguished sinologist John Fitzgerald stressed this latter thrust toward values in the evolution of the country's foreign policy, in a July lecture for Griffith University's Asia Institute. He noted that Australia's *2017 Foreign Policy White Paper* marked a shift from formerly dominant folkloric values such as mateship and the fair go towards universal liberal values. 'The earlier approach', he said, 'left Australia disarmed in dealing with foreign interference on Australian soil' …

> We misled our friends in China by signalling in earlier foreign policy statements that Australians care less for human dignity, freedom, and rule of law than we do for jobs and growth. Leaving values at the door was always a values statement in itself … Australia has every reason to continue engaging closely with China, across as many fronts as possible, partly to sustain trade and investment and people to people ties, but also to keep lines of communication open and to facilitate push-back when China's actions impinge on Australian values and interests.[1]

The mid-year election result in Australia, while surprising many local commentators, was consonant with regional trends. It cemented in office a centre-right government led by a prime minister accorded greater political capital than any predecessor since Labor's Kevin Rudd, and thus in a strong position to instil effective Cabinet discipline, including over rhetoric potentially affecting international relations. This will be important as the investment-hungry country—consumption-dominated but dependent on commodity and, to a degree, service exports for growth—faces an economic slowdown following a 27-year expansion.

Australia's closest neighbour Papua New Guinea (PNG) turned over prime ministers, also in mid-year, with James Marape replacing Peter O'Neill, who had hosted the world's leaders to an Asia-Pacific Economic Cooperation (APEC) summit in Port Moresby in 2018. But Marape—like O'Neill representing a Southern Highlands constituency—started shakily, within weeks replacing key Ministers after restructuring his coalition, seeking direct funding from Australia and from China to relieve PNG's growing debt, and risking losing massive new gas investments by insisting on renegotiating recent agreements with Total and Exxon.

New Zealand's prime minister Jacinda Ardern cemented her own position with her global celebrity soaring following her solicitous response to the Christchurch mosque massacre, although her Labour party slipped in polling below the opposition Nationals as economic challenges increased and the delivery of government promises was postponed.

Indonesia's President Joko Widodo—centrist but now also accommodating a vice-president closer to fundamentalist Islam—was comfortably returned in April's elections, but with a considerably less ambitious program than he took to the polls in 2015. Growth has been stuck at around 5 per cent, reasonable but disappointing for an aspirational population. The Philippines President Rodrigo Duterte continues to strengthen his domestic position despite international condemnation for human rights abuses. Wins in the May mid-term elections will ensure he can complete most of his legislative agenda including slashing the corporate tax rate from 30 per cent to 20 per cent.

The army-led government that seized power in a 2014 coup cemented its control in Thailand, with former army head Prayut winning the March election despite questions about its fairness. Vietnam's communist party chief Nguyen Phu Trong, although now aged 74, has finally stepped clearly in front of former rivals—some of whom have been removed by corruption charges—as the country's paramount leader. Narendra Modi swept to an unexpected landslide win in India's May elections, with voters hoping that he will now move to implement delayed reforms and boost jobs and productivity.

Looking through the rest of 2019 to the next couple of years, Richard Martin, Singapore-based managing director of business analysts IMA Asia, anticipates:

> Those countries capable of political stability, modestly good policies, and a capacity for domestic demand growth will do well. Exporter-driven economies will struggle. Those who score two out of three won't do well either. Fortunately, quite a lot of Asia has a chance at pulling off all three, so we retain our outlook for sustained growth for Asia in a more difficult global environment.[2]

Asia's growth engine shape-shifts

Back in 1993, a World Bank report hailed the East Asian Miracle through which the Four Tigers—South Korea, Taiwan, Hong Kong and Singapore—had achieved a rare leap out of the "middle-income trap". Just 12 of the 101 countries, including China, that have reached World Bank-credentialled middle income status since 1990 have progressed further, into prosperity. But those within the region aspiring to follow the Four Tigers have been helping each other edge upwards in a team effort, as companies have called on the comparative advantages of many countries to build the great supply chains, based on cutting-edge infrastructure and logistics, that has reduced inflation in the international economy while boosting global consumption.

In most cases, the logic of wage costs, of the clustering of sectoral businesses, and of the spread of trade deals, has led to the assembly of products in China since it joined the World Trade Organisation in December 2001. But this is now starting to unravel. This was already under way in the diminishing areas of high labour-intensive industry, as the cost of wages and of other mandated employee benefits began to climb in China, and as regulations—some environmentally-driven—toughened. But now the owners of some assembly plants that had already switched to greater automation, including robotics, are also considering relocation.

This is chiefly because of the US-China "trade war" that has featured mutual tariff raising—a major blow to those many companies that have based their success on gaining market share, almost regardless of the profit margin. In some cases, tiny profit margins have turned net negative as a result of the new import costs. Hoping the war would prove short-lived, many firms at first opted to internalise the new costs rather than impose them on the consumer. But it began to look, as 2019 wore on, and especially after the G20

Susan Walsh | AAP Image

summit in Osaka, that rather than a skirmish, a battle, or even a war, a de-coupling is now under way—with American (and possibly other Western) tech companies providing, for instance, one internet platform while Chinese firms offer another.

This is creating a massive challenge for China, for which continued economic success is perceived as inevitable by more outside the country than within. At present, its GDP per capita ranks just under 70th in the world. It is on course for success in its Xi Jinping-assigned task of doubling its economy in the decade to the end of 2020, but that would still only set it up for what it labels "moderate prosperity". Xi and his communist party colleagues are well aware of every Chinese family's ambition "to get rich before we grow old".

John Scannapieco, co-leader of the global business team at major American law firm Baker Donelson, told Forbes magazine that at the end of 2018 only a single company, among his clients, was preparing to source from outside China. But in late June 2019, he said: 'they are all thinking about it now. Unless you're in China to sell to China, why be there? It's becoming too much of a risk'.[3]

Production costs may be cheaper in alternatives—led by Vietnam, with Thailand, Myanmar, Cambodia and India also in the mix. Few are thinking of re-establishing plants in the US itself. Is Vietnam becoming "the new China"? Japanese and Korean investors have been active there since it joined the World Trade Organization (WTO) in 2007, and those from Hong Kong and Taiwan—the chief drivers of China's own original industrialisation wave—have been following, especially since the US trade war gained momentum.

But as Gavekal's Tom Miller pointed out in July, Vietnam 'has limited ability to absorb new manufacturing capacity', already having become the most export-intensive economy in the world except for entrepots like Hong Kong and Singapore.[4] And the danger lurks that the US will respond to the already discernible jumps in exports from Vietnam and elsewhere in the region as the equivalent of tariff-dodging, even if the goods have been transformed or assembled there rather than merely trans-shipped from China. Vietnam can move up the value chain—but, Miller said, it will 'never be able to steal more than a sliver of China's export cake'.[5]

The PRC itself, however, risks a gradual export death comprising a thousand such slivers. This cannot easily be countered by shrugging off the importance of exports, or by stressing instead the growing role of domestic consumption in the economy. Miller's colleague Andrew Batson says that the way that incomes and technological prowess in Japan, Korea and Taiwan have risen shows that exports are not important simply as a source of aggregate demand. Rather, exports are a way to apply market discipline and pressure for technological upgrading on domestic economies whose institutions would otherwise struggle to generate the same results:

> Selling into the global market forces local companies to compete against the best the world has to offer. They have to continuously upgrade their products or be left behind. Export discipline generates the technological progress and productivity gains that boost national incomes. In the Chinese context, exports are particularly important as a way for the private sector to compete and grow away from the influence of state-owned enterprises and local protectionism. About 90 per cent of China's goods exports come from non-state companies, so it is these firms that will suffer the most from the trade conflict with the US. And damaging the private sector cannot be good for China's long-term prospects, since it drives most of the country's productivity growth.[6]

If China had dismantled domestic barriers to competition and restrictions on foreign investment, refocusing on its own market might counter damage inflicted by a trade war. But, Batson says, 'it's not true of China today'.[7] And even if a trade deal gets done—perhaps unlikely until after the 3 November 2020 US presidential election—lurking behind it is the prospect of a far more enduring US-China tech war, providing an even greater challenge for the great Asian supply chains and powerhouse global corporations that have come to depend heavily on common platforms smoothing the path to collaboration and best-practice business.

Taiwan chooses

The voters of Taiwan—which has about the same population as Australia—will on 11 January 2020 choose a new president and Legislative Yuan or parliament. Beijing's leadership will be hoping that Han Kuo-yu, the candidate chosen in July by the Kuomintang (Nationalist) Party, which was during their own communist party's early years its "big sister", can pull off another surprise win following his remarkable November 2018 victory to become mayor of the second city, Kaohsiung, long a "green" (Democratic Progressive Party) stronghold.

The populist, media savvy Han comfortably defeated Terry Gou, the globally famous founder of Foxconn, the manufacturer of most Apple products, in the Kuomintang primary. But his prospects are now complicated by the events in Hong Kong, which has long been held out by Beijing as a model for the way Taiwan can also be brought into the People's Republic of China, under the "one country two systems" formula.

The apparent distaste of China's Xi Jinping for this "old era" settlement negotiated by Deng Xiaoping with Margaret Thatcher (Xi's key philosophy being his 'Thought on Socialism with Chinese Characteristics for a New Era') has seen a steady tightening of Beijing's influence in Hong Kong. This has culminated in the Hong Kong protests, bringing millions into the streets, at first against legislation to permit extradition to China and then for broader goals including more accountable government. In Taiwan, Han's opponent will be the starkly contrasting, rather intellectual incumbent, DPP leader Tsai Ing-wen, the first woman president.

Beijing wants to see Hong Kong quieten before the Taiwan vote, and has disciplined itself to avoid stoking the fires of those it views as opponents, not only in Hong Kong but also in Taiwan, especially the ruling Democratic Progressive Party (DPP).

The PRC believes that the DPP at heart seeks to progress from Taiwan's present de facto independence to a formally declared independence, a red line against which it has constantly warned. The Kuomintang struggled in national contests after Ma Ying-jeou completed his two presidential terms in early 2016, and lost control of the parliament too. But the party regained control of 15 of Taiwan's cities and counties last November and now has ambitions to win the parliament as well as the presidency—as long as Hong Kong's turmoil does not push undecided voters into the DPP's arms.

Pacific islands rediscovered

The Pacific islands have suffered since their "discovery" by European scientists, opportunists and explorers in the late 18th Century: the dubious distinction of being branded a "paradise", whose inhabitants were said to live out the philosophical dreams of French writer Jean-Jacques Rousseau. That template remains extant, indeed reinforced, by post-colonial discourse that this ideal world was destroyed by the islands becoming swept up in the 19th Century imperialist drive to establish national sovereignty and delineate borders throughout the world.

A suite of European powers—and also Japan and the US—gathered colonies in the Pacific, investing little in what were mostly afterthoughts, reluctantly acquired following merchant lobbying. They were largely given their independence in the 1970s, in a wave that followed the African decolonisation era, and have attracted scant global attention since, except among those working in the development sector. The island states' "tyranny of distance", their small populations scattered around a great ocean, and their lack of infrastructure or, for the most part, adequate educational inputs, swiftly led them to rely significantly on aid for their modernisation. The Pacific region is the most aid dependent in the world on a per capita basis.

Despite the best efforts of the Pacific Islands Forum that represents all the island countries and Australia and New Zealand, these nations have been reluctant to cooperate closely to enhance economic opportunity—except in seeking to maximise fisheries revenues, where they have enjoyed some success, especially with tuna, which is abundant in the region. A trade treaty that would allow the free flow of goods and, to a degree, services and investment within the Pacific, the Pacific Agreement on Closer Economic Relations (PACER) Plus has remained under negotiation for a decade without resolution.

Japan has retained a strong connection with the region, inviting Pacific leaders to a regular summit chaired by its prime ministers. France has declined to relinquish its colonies, as it has done in most of the rest of the

Mick Tsikas | AAP Image

world, and has maintained three island groups as "overseas territories"—although step by step, it appears likely to "lose" New Caledonia in time. Australia and New Zealand have nowhere else to go, but the former in particular had lost interest; while many businesses, church groups and sporting organisations maintained their links, Canberra, including its political, diplomatic and military establishments, has largely let the islands slip as insignificant, with ambitious members of those establishments determining that a focus on the Pacific would lead nowhere in career terms.

Enter the People's Republic. From a standing start, in the 21st Century China has swiftly become the second biggest aid donor to the Pacific, after Australia. Many senior Chinese political and corporate figures, such as the Guangdong party secretary Li Xi, have visited the region in the last couple of years—led by President Xi Jinping, who attended the APEC leaders' summit in Port Moresby in 2018, following a state visit to Papua New Guinea.

All of China's eight diplomatic allies in the Pacific—Papua New Guinea, Fiji, Cook Islands, the Federated States of Micronesia, Niue, Samoa, Tonga and Vanuatu—as well as New Zealand, and the Australian state of Victoria, have signed China's memorandum of understanding that pledges support for the BRI. The six other island states recognise Taiwan. Illustrating the extent of the new rivalry for influence in the region, the Port Moresby APEC summit failed to conclude with a communique, principally because China and the US could not agree on wording over the future for global trade.

Since then, Australia, New Zealand, the US and France have each pledged a new commitment towards Pacific island states, underpinned by a range of development support programs. Australia has further stressed its desire to invest in security in the region, including by helping Fiji and Papua New Guinea enhance naval bases—although island governments continue to state publicly that their chief security challenge comprises combatting climate change. Islands politicians have in past decades proved adept at fostering otherwise lacklustre international interest by playing off rival powers against each other. In this context, it remains to be seen how effective the fresh interest will prove in leveraging political rhetoric and increased high-level visits into a genuine boost for regional prosperity. Concerns are already being raised about the risk of the resulting rising debts exposing key assets to foreign ownership and economies to burdensome repayments.

Peter Parks | AAP Image

Japan hosts the world

Japan is by a long way the fastest growing tourist destination in the world—the numbers rose by 334 per cent between 2010 and 2017 to 28.7 million, and are now soaring again, through 31 million in 2018 and beyond, boosted in 2019 by the Rugby World Cup followed by the Summer Olympics in Tokyo in 2020.

Japanese corporations continue to invest heavily in South East Asia, in China and in India—and have overtaken Britain to become the second largest investors in Australia after the US. They are doing so through mergers and acquisitions and through greenfield projects, in comparison with Australian investments in Asia, which remain overwhelmingly through hands-off portfolio placements rather than direct engagement.

Reflecting this embrace by and of the world, which is now beset by protectionism, Japan has emerged as Asia's champion for freer trade and investment, including leading the survival of the TPP after Trump walked away from it. Analyst Walter Russell Meade wrote in the Wall Street Journal that Tokyo is taking this step, however, in a rather special way:

> Japan is a major trading nation that lacks America's unique leverage in the international system, so its decision to mix politics with trade marks a dramatic shift in national strategy. The clear presumption is that Japan expects a continued weakening in the rules-based international system and it is looking to maximise its advantages in what can only be called a Trumpian way.[8]

Shinzo Abe—who becomes on November 20 the longest serving prime minister since parliaments were instituted in Japan during the Meiji Restoration—hosted at the end of June the G20 summit, where China's Xi Jinping accepted his invitation for a state visit next northern spring, in 2020, capping a slow thaw in the long-frozen relationship between the countries.

This thaw has been triggered in part by the need to recalibrate relationships in the light of the possibly extended Trump presidency. The widely held sense of a lack of White House commitment to the region with its complex histories has also seen scarcely-suppressed animosities start to peak once more, with relations between Japan and South Korea sinking to 21st Century lows—leading Tokyo to impose economic sanctions after South Korean courts ordered Japanese firms to pay compensation for forced World War II labour.

Tobias Harris, senior vice president at Teneo Intelligence and a fellow at the Sasakawa Peace Foundation, describes the dominant features of Japanese democracy during Abe's tenure—despite his political success—as 'voter apathy and the moribund state of inter-party competition' resulting in 'a kind of managerial democracy': one that, however, much of the world finds especially attractive right now.

Tests of loyalty

The countries of Asia and the Pacific are starting to reassess their core interests and values, as they come under increasingly intense scrutiny from the great powers to confirm their loyalty. This is driving growth in diplomatic traffic as other countries seek to participate in coalitions of either interests or values, or both, that can reinforce their own capacity to meet the growing challenges resulting from the great China-US rivalry. The "Make the US Great Again" priority of the Trump White House, and the determination of the PRC to ensure its international respect reflects its unquestionable domestic authority and its economic heft, are destabilising decades of assumptions about the broadly enduring, beneficial results of globalisation.

Beijing, weaponising its role as the top trader with most of the world, especially through its BRI, is setting countries a series of tests or choices to demonstrate their preparedness to behave as true partners in a broader sense. In its restless search for friends, including to help shelter it from criticism, in July it obtained the signatures of 37 governments supporting its controversial "re-education" measures in Xinjiang, in response to a letter signed by 27 countries expressing concern. Those worried about China's policies towards the Muslim Uighurs of Xinjiang included, from the Asia-Pacific region, Australia, Japan and New Zealand, while those expressing support for Beijing included Myanmar, North Korea, Cambodia, Laos, the Philippines, Pakistan, Tajikistan and Russia.

China's bothersome borderlands

The International Campaign for Tibet (ICT) has expressed concerns that 'the teachings, values and practices of Tibetan Buddhism, which are integral to Tibetan identity, are facing an unprecedented attack in Tibet due to a five-year plan announced by China at the beginning of this year to sinicise Buddhism'.[9] This new political direction is supported by what the ICT calls 'a dystopian system of high-tech surveillance and policing of monasteries and nunneries'.[10]

And in the largest of the Chinese borderlands, Xinjiang in the north-west, more than a million Muslim Uighurs have been taken to "re-education camps" to immerse them in Han Chinese culture. It has been reported that 'China is deliberately separating Muslim children from their families, faith and language' in the region, with 'a rapid, large-scale campaign to build boarding schools under way'.[11]

Beijing, determined to exercise central control and affirm its sovereignty over its troublesome borderlands, not only in Tibet and Xinjiang in the west, but also Hong Kong and Taiwan in the south, aiming steadily to reel the latter in, is adding huge new confrontations to its myriad of other challenges at home and internationally. But President Xi Jinping has yet to take a backward step.

Debates about such international concerns were formerly confined chiefly within academic and diplomatic circles. Some said that nations should in a *realpolitik* manner seek primarily to pursue their interests, others that they should be prepared to risk economic cost in championing their values—especially those perceived through the United Nations and elsewhere as universal values—wherever they appeared under attack. Now, an argument is growing that as disagreements become fiercer between liberal democracies and autocracies, affecting their economies as well as their security, national values and interests are starting to elide, and that both should be weighed in measuring where, how and when to engage internationally.

Singapore's Prime Minister Lee Hsien Loong—one of the few leaders in the region in 2019 with a capacity to develop this discussion—made an important contribution in his speech opening the Shangri La Dialogue on 31 May 2019. He said:

> Our world is at a turning point. Globalisation is under siege. Tensions between the US and China are growing. Like everyone else, we in Singapore are anxious. We wonder what the future holds, and how countries can collectively find a way forward to maintain peace and prosperity in the world.[12]

International frameworks like the WTO and the United Nations Convention on the Law of the Sea (UNCLOS) had, he said, 'established rules, managed conflict, balanced competing interests, and fostered cooperation between countries'.[13] As China's economy took off, it became a growing partner of the Association of Southeast Asian Nations (ASEAN) countries. How it and the US now work out their tensions and frictions will define the international environment for decades to come:

> China must now convince other countries through its actions that it does not take a transactional and mercantilist approach, but rather an enlightened and inclusive view of its long-term interests … and implement timely changes that bring about greater reciprocity and parity with its trading partners … Similarly, in security it is natural that China would want to become not just a continental power but also a maritime power.[14]

But 'to grow its international influence beyond hard power, China needs to wield this strength with restraint and legitimacy, and the rest of the world too has to adjust to a larger role for China'.[15] The US, as the preeminent power, has the most difficult adjustment to make. But it should nevertheless seek to integrate China's aspirations within the current system of rules and norms. This is made harder because US businesses feel let down that, despite rhetorical promises, China has not adjusted its policies on trade and investments, and in fact systematically disadvantages foreign businesses operating in China, while Chinese businesses operate uninhibited in the US.

In China, views are hardening too, with some seeing the 'US as trying to thwart China's legitimate ambitions'.[16] Prime Minister Lee identifies the fundamental problem as the mutual strategic distrust between both powers. But, since all of US allies in Asia also have China as their largest trading partner, every strategic option faces challenges, though opportunities do also present themselves:

> They want to be friends with both: to nurture security and economic ties with the US, as they grow their business links with China … There are many opportunities for smaller countries to work together to deepen economic cooperation, strengthen regional integration, and build up multilateral institutions.[17]

One of those institutional channels is the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the high-end economic agreement that pushed on past the US withdrawal, under the leadership of Japan and, to an extent, Australia, and which Lee notes may soon also include South Korea, Thailand and a Brexited Britain. China is also watching closely, Lee added, hoping that it will consider joining— and that a US administration might re-think playing a role. The Regional Comprehensive Economic Partnership (RCEP), which never contained the US from the start, appears unlikely to overcome its innate hurdles led by India's reluctance to dismantle agricultural protections. Lee urged China to make the BRI— which is backed by Singapore—'open and inclusive', to prevent the region becoming 'a closed bloc centred on a single major economy'.[18] He concluded that 'to expect every country to adopt the same cultural values and political system is neither reasonable nor realistic' and that 'there is much we can learn from one another', including from the differences in values and systems.[19]

Lai-Ha Chan, an academic at the University of Technology, Sydney, in an April 2019 paper for the university's Australia-China Relations Institute, suggests 'strategic hedging' as an option for Australia: 'a combination of engagement and indirect/soft balancing strategy, to insure itself against the potential of China's regional domination amid uncertainty about US strategic commitment to the Asia-Pacific region'.[20] Insofar as this might encompass the concept of building "a free and open Indo-Pacific" (a regional descriptor at last starting to gather a life of its own), it is liable to meet implacable opposition, however, from Beijing. Vice Foreign Minister Le Yucheng told the Financial Times in an interview in September 2018:

> We are firmly against attempts to use the Indo-Pacific strategy as a tool to counter the BRI or even contain China. We hope to see parties working in concert rather than pursuing their own agenda and undercutting each other's efforts. If that's the case, instead of one plus one equals more than two, the result will be one minus one is less than zero.[21]

Yang Wenjing, director of the American Studies Centre at the China Institute of Contemporary International Relations, said at a seminar in Beijing in July that China had long developed strong economic interdependency with America's allies: 'So even if the US wants to isolate China and decouple from it, those countries can hardly bear the cost, and will restrain such moves'.[22] This challenge has only just begun, however, and is set to spread into a great array of economic and social activities. Formerly, disagreements played out only in trade or security arenas, but are now already extending into other core elements of contemporary life such as technology platforms, with Huawei, Tencent and Alibaba effectively licensed to advance Chinese interests globally, along with their own corporate interests.

The Economist listed the fractious problems plaguing South East Asia as 'slowing growth, ageing populations, wobbly democracies, inadequate social safety-nets, endemic corruption and the ever-present shadow of China'.[23] Euan Graham, executive director of La Trobe Asia, summarised: 'Squeezed by US-China rivalry, smaller countries are bemoaning their constricted room for manoeuvre. They worry that the open and inclusive regional architecture that has long prevailed is looking more like rival encampments under construction'.[24]

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2 ASIA PACIFIC 2020 ECONOMIC OUTLOOK

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Tony Makin

Asia Pacific economic outlook

Australia's Asia-Pacific neighbourhood has remained the main growth engine of the world economy this year, which also marks the thirtieth anniversary of the founding of the Asia Pacific Economic Co-operation (APEC) forum. The 2.9 billion people living in the APEC region represent 40 per cent of the world's population and produce 60 per cent of global GDP.

Over the past three decades the region's economy has almost trebled, and average incomes more than doubled. Extreme poverty has been drastically reduced, due mainly to hundreds of millions of Chinese benefiting from astounding economic growth rates. Trade in goods and services has contributed strongly to economic growth over this time, expanding (at 7.1 per cent) nearly twice as fast as GDP growth (at 3.7 per cent). However, since 2012 international trade growth in the region has slowed, corresponding more closely with GDP growth.[1]

As an open economy, Australia's economic growth depends heavily on international trade and investment links with the rest of the world. Close to three quarters of Australia's trade is with APEC members, measured on a two-way trade basis.

Economic growth

The Asia-Pacific region is expected to record 5.5 per cent economic growth in 2019, slightly more than in 2018, and above the latest International Monetary Fund (IMF) forecast for the world economy as a whole of 3.2 per cent.[2] Amongst the advanced Asia-Pacific economies, the United States (US) is forecast to grow 2.6 per cent this year, down from 2.9 per cent last year, as the positive effect of US company tax cuts diminishes while the negative effect of rising protectionism takes hold. Japan's growth remains subdued at 0.9 per cent, close to last year's 0.8 per cent outcome.

Amongst emerging APEC members, China's growth is expected to fall from 6.6 per cent in 2018 to 6.0 per cent in 2019, reflecting the impact of trade tensions with the US. The ASEAN-5, comprised of Indonesia, Malaysia, the Philippines, Thailand and Vietnam, are forecast to grow slightly less as a group at 5.0 per cent this year, compared to 5.2 per cent last year.

Meanwhile, (non-APEC) India continues to be the strongest performing economy in the broader Indo-Pacific region, with growth expected to rise slightly from 6.8 per cent in 2018 to 7.0 per cent in 2019. India now joins China, Japan, the US and South Korea as one of Australia's top 5 trading partners. See Table 1.

## Table 1: Australia's top 5 trading partners in 2018

Rank	Country	Share of Australia's Trade %
1	China	24.4
2	Japan	9.7
3	United States	8.8
4	South Korea	6.5
5	India	3.6

Source: Department of Foreign Affairs and Trade.[3]

Figure 1 below compares Australia's forecast growth with predicted growth in our top five trading partners according to the latest IMF forecasts. Australia's economic growth improves in 2020, although growth is expected to be lower for China, Japan, the US and South Korea. The exception is India, again expected to outperform China, with growth rising slightly above its current 7 per cent rate to 7.2 per cent in 2020. The looming risks to growth for Australia and its trading partners are canvassed subsequently.

Figure 1: 2020 forecast economic growth in Australia's top 5 trading partners (%)
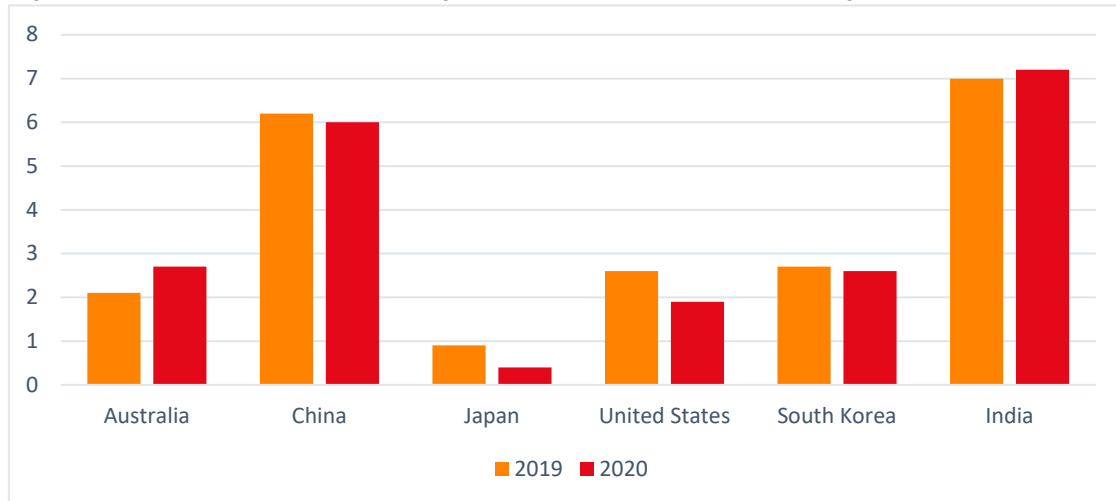
Source: Based on 2019 IMF data.[4]

Inflation

Inflation across the APEC region remains between 2–3 per cent on average (see Figure 2), slightly above Australia's inflation, which since 2015 has been under the Reserve Bank of Australia's 2–3 per cent target band. Major central banks have continued to maintain broadly neutral monetary policies, except Japan, which has pursued quantitative easing involving asset purchases and experienced the lowest official interest rates of any economy in the Asia–Pacific region.

Figure 2: Average inflation in APEC economies
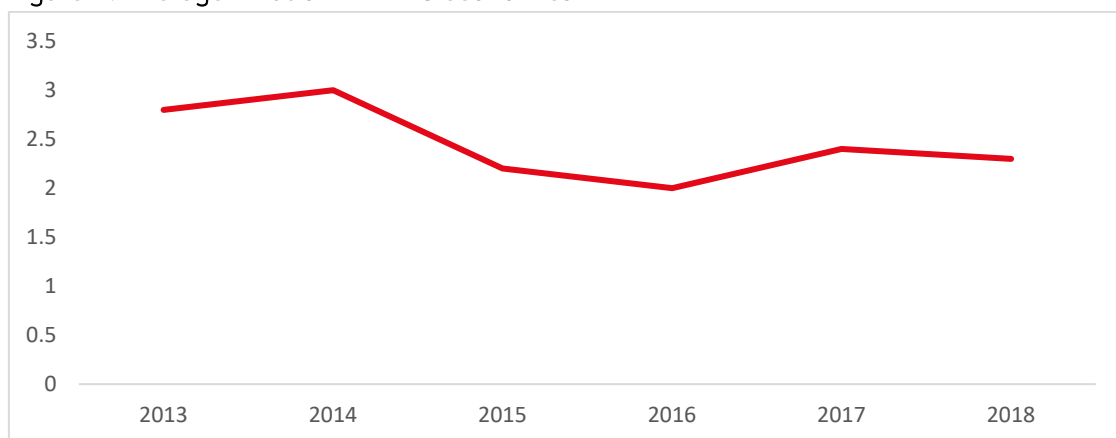
Source: Based on data in APEC.[5]

International trade

Australia is the world's twenty third largest exporter, with the nation's exports growing 8 per cent last year. Australia is the world's largest exporter of iron ore, coal and wool, and the second biggest exporter of alumina, beef, lentils and cotton. Other major merchandise exports are liquified natural gas and wine. Meanwhile, the major services exports are international education services and tourism. Some nine million international tourists visited in 2018, the largest number coming from China (some 1.7 million).[6]

China remains by far Australia's largest overall trading partner, accounting for close to a quarter of total two-way trade (exports plus imports), well ahead of two-way trade with the next two most important, Japan (9.7 per cent) and the US (8.8 per cent). See Table 1. The United Kingdom and Germany are the only European economies in the top 10, although they account for just 6 per cent of Australia's total goods and services trade. Of Australia's top 10 trading partners, seven are APEC members, with India, a non-APEC member, rising from seventh to fifth most important partner.

India and APEC

2019 marks APEC's 30th year as the Asia Pacific's most comprehensive forum for trade liberalisation and regional integration. Three decades on from Prime Minister Bob Hawke's initiative to establish an institution to facilitate trade and investment between Asia-Pacific countries, India, one of the world's biggest emerging economies, is not a member. Many now argue that having India in APEC is in the strategic and economic interests of a broader Indo-Pacific sphere.

Historical reasons for India's exclusion in 1989 were its weak economic integration in the Asia Pacific and resistance to trade liberalisation. India's trade as a proportion of GDP was also much lower than the economies of most other members. India is now on track to become the second largest economy in the world by 2050 and is a key player in regional affairs, with a seat at the East Asia Summit and G20.

India has been aspiring for APEC membership since 1994. A moratorium on new membership ended in 2010, but India has yet to gain entry. India's accession challenges APEC's traditional geographical remit with some concerned that Indian membership would make APEC too tilted towards Asia, while others point to India's protectionist tendencies as a barrier to achieving deeper economic integration.

India would also have to comply with APEC standards on gender parity and social equity across rural and regional areas. But with India being a negotiating party to the Regional Comprehensive Economic Partnership (RCEP) trade deal, it is working towards eliminating trade barriers as part of those requirements.

Proponents of India's accession into APEC argue that it would keep the grouping relevant in a time of increasing strategic and economic challenges. Indian membership would also allow APEC to mature as an Indo-Pacific institution, in light of India's participation in the Regional Comprehensive Economic Partnership (RCEP) negotiations.

Commodity prices

The value of Australia's mineral and agricultural exports depends heavily on world commodity prices. Commodity prices in Australian dollar terms improved further in 2019 and have been comparable with pre-GFC levels according to the Reserve Bank's index measure. After declining from peak value in 2011, they have been recovering since early 2016, and remain high by the standards of previous decades. See Figure 3.

Figure 3: World commodity prices (2008–09 = 100)
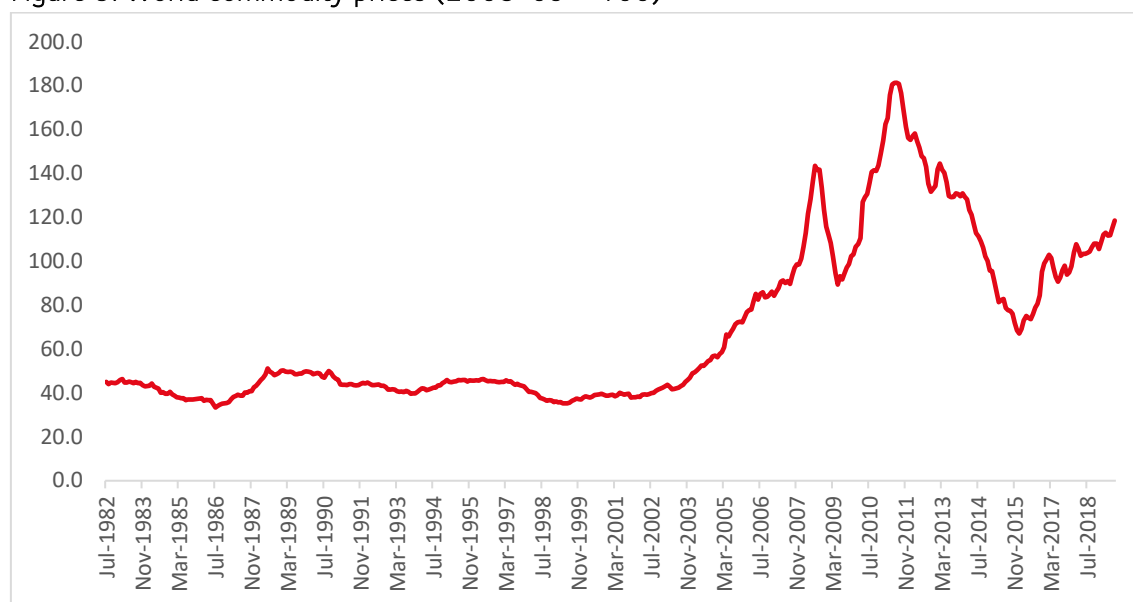
Source: Reserve Bank of Australia.[7]

Foreign investment

Economists generally agree that increasing international trade in goods and services improves an economy's performance. Less well recognised, however, is that enhancing foreign investment flows can bolster economic development by at least as much, perhaps more, as increased international trade in goods and services. In essence, the macroeconomic benefits of foreign investment stem from capital moving to places where it can be used most productively.[8]

Figure 4 illustrates the different forms foreign investment can take. There is an important distinction between foreign *direct* investment (FDI), which includes real estate acquisitions, and foreign *portfolio* investment that reflects foreign purchases of locally issued equities and debt instruments for portfolio investment purposes.[9]

Figure 4: Forms of foreign investment
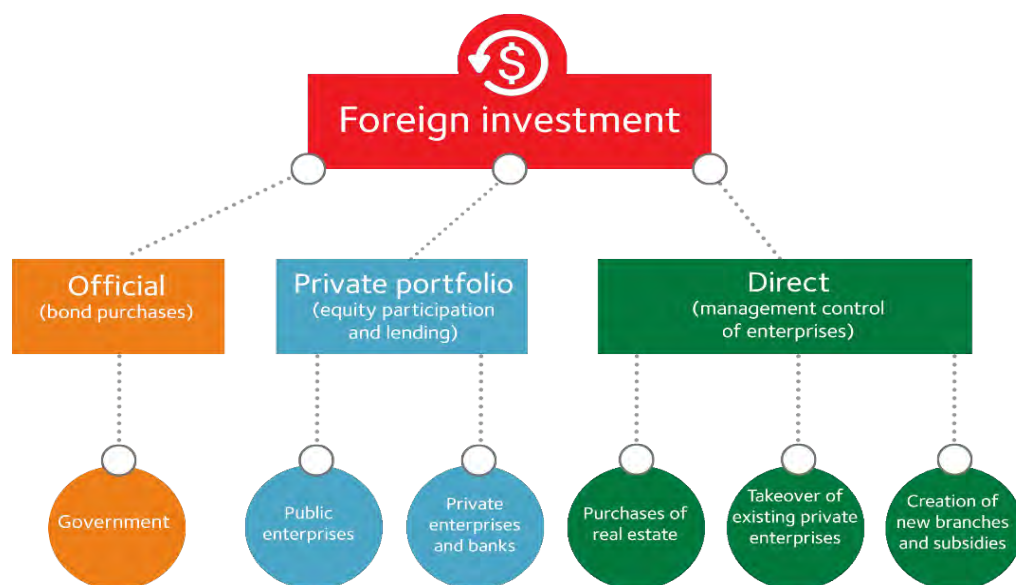
Source: Makin.[10]

FDI, which entails the takeover of domestic firms or establishment of subsidiaries of foreign multinationals, can generate the largest economic benefits through the transfer of technology and product development. Furthermore, domestic employees of foreign-owned firms are exposed to international management practices and the presence of new entrants in domestic markets stimulates imitative behaviour and acts as a spur to greater competition. In turn, higher labour productivity allows domestic wages to be higher than they would be with a smaller capital stock.

As a general rule, the greater the international trade in assets, the greater the potential economic gains. Yet, if the sum of exports and imports as a share of GDP (a measure of trade openness) is compared to the sum of FDI inflows and outflows as a share of GDP (a measure of investment openness), without exception, trade flows continue to dominate FDI flows in all Asia-Pacific economies by a large margin.[11]

The bulk of foreign investment flows into and out of Australia are portfolio flows. Inward portfolio investment was 1.8 trillion dollars in 2017, nearly twice as high as inward direct investment of almost 850 billion in 2017. Outward direct foreign investment was under 300 billion dollars that year. Whereas China is Australia's top two-way trading partner, the US is Australia's top two-way investment partner, followed by the United Kingdom, Japan, Belgium and China. Table 2 shows the top five investment partners ranked according to total two-way investment flows.

Table 2: Australia's top 5 foreign investment partners, 2017

Rank	Country	Foreign investment $ billion
1	United States	1,561
2	United Kingdom	815
3	Japan	344
4	Belgium	310
5	Hong Kong, China	164

Source: Department of Foreign Affairs and Trade.[12]

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The main industries attracting inward foreign direct investment in recent years have been mining, easily commanding the biggest share, manufacturing, real estate, financial and insurance and wholesale and retail trade and construction. See Figure 5.

Figure 5: Inward foreign direct investment by industry, 2017 ($ billion)
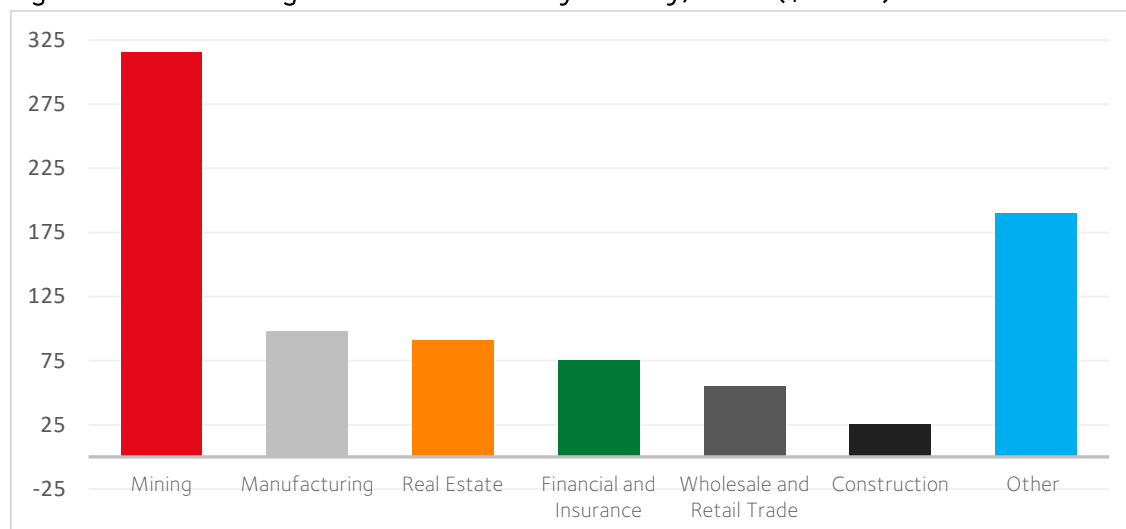
Source: Based on data from the Department of Foreign Affairs and Trade.[13]

Meanwhile, the value of Australia's foreign investment abroad is considerably less than its inward investment and has recently been directed mainly to the finance and insurance sector, followed by manufacturing, mining, real estate and construction in a diverse set of overseas countries.

Major risks to the outlook

The biggest risks to the economic outlook for the region are rising protectionism, further economic slowdown in China, and high debt levels.

Rising protectionism

The tariffs levied by the US on Chinese goods and the retaliatory tariffs China has imposed on US goods in response, have contributed to slower merchandise trade growth in the Asia-Pacific region. Total export growth fell from around 6 per cent in 2017 to near 4 per cent last year, while import growth fell from near 8 per cent to around 5 per cent. Meanwhile, there was only a slight improvement in services trade.

Across the region, new policy measures that have restricted international trade have outweighed measures that have facilitated trade every year for the past three years, as illustrated in Figure 6.

While rising protectionism is dampening multilateral trade, dispute resolution and multilateral negotiations under the auspices of the World Trade Organization (WTO) have been slow. FTAs involving much fewer country participants have provided a faster way of opening up new commercial opportunities. The big question is whether proliferating FTAs are delivering sufficient economic benefits to offset the costs arising from increasing protectionism more broadly.

The China-US "Trade War"

The China-US dispute over their trade imbalance has soured economic relations between the two economic superpowers for more than a decade. The CNY/$US exchange rate has also been a major point of contention given the strong influence exchange rates have on international competitiveness and trade flows. The demise of US manufacturing firms unable to compete against low-priced Chinese imports has repeatedly sparked calls for retaliatory action by Washington against Beijing, stretching back to concerns raised by the Bush and Obama administrations.

President Trump has been the first US president to take direct action and has justified imposing tariffs up to 25 per cent on a wide range of imports from China—with more possibly to come— as a means of reducing the persistent China-US trade imbalance and in turn provoking retaliatory tariffs by China on US imports. Economic questions that arise about China-US trade tensions are: is the bilateral trade imbalance per se a problem? And what should be done about unfair trade practices?

Trade imbalances are not necessarily harmful, although important assumptions that underpin a benign view of them are violated in the China-US case. For instance, China has not moved to full capital account convertibility, so capital mobility is not as high as in OECD economies. In addition, China has over recent decades significantly undervalued its exchange rate, distorting capital flows from China to the US.[14]

By running sizeable trade and current account surpluses since the turn of the century, China's undervalued exchange rate against the US dollar enabled its central bank, the People's Bank of China, to accumulate huge foreign exchange reserves. These peaked at close to $4 trillion in 2014, falling to around $3.0 trillion more recently, the highest $US reserves of any economy in the world. China's $US foreign exchange reserves have been used to buy US government bonds issued to fund large US budget deficits, and to acquire other foreign assets.

Bilateral trade in goods dominates trade in services and attracts the most attention. US merchandise imports from China, mainly in the form of computers, phones, electronics, other electrical equipment, machinery, metals, furniture, apparel and footwear, are over three times the value of US merchandise exports to China, mainly commercial aircraft, electronics, chemicals, oil and gas, soybeans and motor vehicles.

By increasing the cost of consumer goods and of inputs to production, this ongoing trade war has worsened economic welfare in both countries and is the most noteworthy feature of rising trade protectionism globally.

Protectionist measures are ineffective in reducing the bilateral trade imbalance and negatively affect macroeconomic welfare, broadly defined, in both countries. Meanwhile, real exchange rate adjustment, increased Chinese private consumption and relaxation by China of restrictions on US foreign investment would all contribute to balancing the external accounts.

Higher Chinese private consumption of US goods and services, and lower Chinese savings, would reduce the trade imbalance and unambiguously improve macroeconomic welfare in both countries as a win-win outcome. As would more US FDI in China, subject to improved safeguards to protect intellectual property rights.

Figure 6: Trade-related policy measures in APEC economies, 2016-18
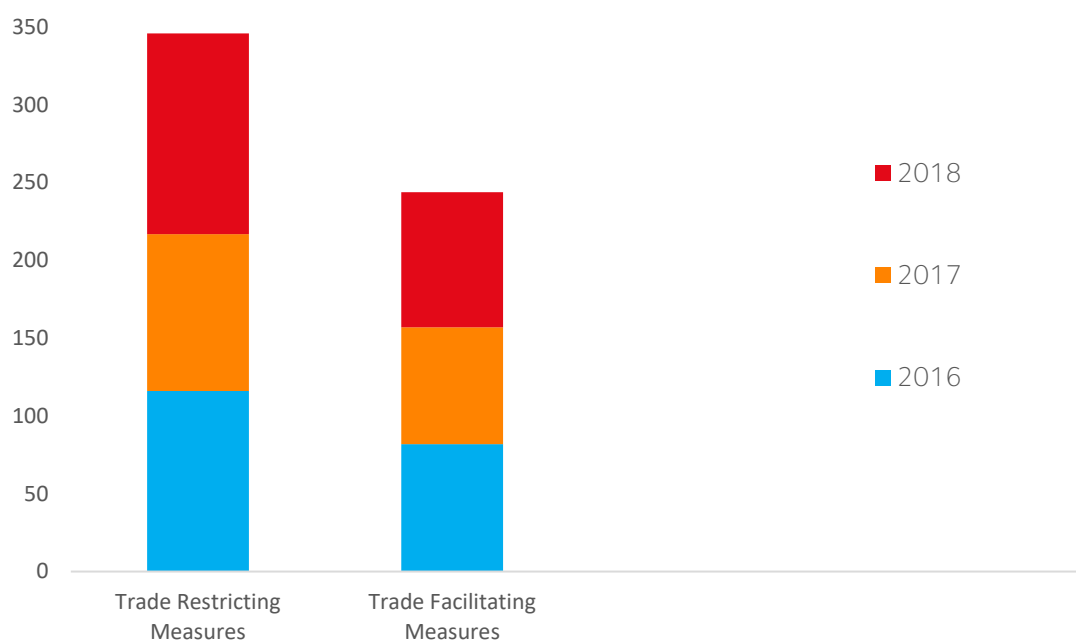
Source: APEC [15] *and WTO.* [16]

Australia currently has eleven FTAs in operation that have lowered tariffs, behind the border restrictions on Australian exports, expanded markets for services, and improved rules governing foreign investment. The *Indonesia-Australia Comprehensive Economic Partnership Agreement* that was finalised in March 2019 is not yet in force and several other FTAs are under negotiation. Indonesia is expected by some to be the world's fifth largest economy by 2030, suggesting significant future potential for Australian goods and services producers.

The largest agreed regional FTA to date, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as the TP11, between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam, was signed by the 11 countries in March 2018 in Santiago, Chile. It aims to deliver lasting benefits to small and medium-sized enterprises (SMEs) trying to tap into new export markets in partner countries.

Meanwhile, negotiations are progressing on the RCEP trade agreement which is likely to have less rules affecting intellectual property, the environment and state-owned enterprises compared to the CPTPP. Whether the macroeconomic gains accruing to Asia-Pacific economies from these FTAs exceed the losses arising from a broader creeping protectionism worldwide is ultimately an empirical question yet to be answered. Nonetheless, given the scale and reach of the FTAs in place and in prospect, there are grounds for optimism that they will.

The Regional Comprehensive Economic Partnership (RCEP)

RCEP is an ASEAN centred regional free trade agreement (FTA) that emerged from the sidelines of the November 2012 East Asia Summit in Phnom Penh. RCEP negotiators consist of the 10 ASEAN members and ASEAN's FTA partners India, China, Australia, New Zealand, South Korea and Japan. Negotiations first began in 2013 but have accelerated this year in response to the US-China "trade war". The 16 leaders have committed to 'conclude a modern, comprehensive, high quality, and mutually beneficial' RCEP by the end of 2019.[17]

Market access remains a sensitive issue for developing countries. India for example has long been resistant to removing agricultural tariffs, citing the detrimental impact it would have on domestic industries and the country's poorer workers. Some analysts have also noted that RCEP could further worsen India's large and growing trade deficit with China—however, India remains keen to offer its pool of information technology talent to the region's labour markets. Market access, intellectual property protection and environmental and labour clauses remain the thorniest issues still under negotiation.

RCEP, once formed, will be the world's largest trading bloc with the participating countries accounting for almost half of the world's population, over 30 percent of global GDP and over a quarter of world exports. The economic outcomes are expected to be substantial.

Figure 7: Frameworks of major Asia-Pacific trade deals
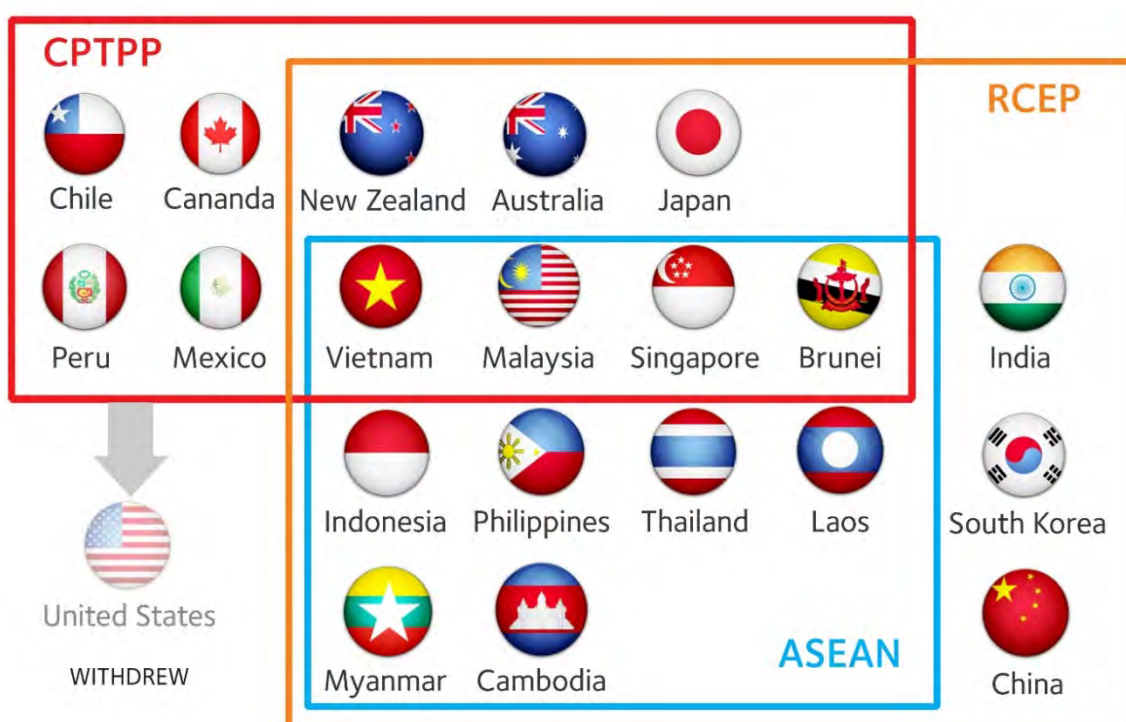
Source: Adapted from Nikkei Asian Review.[18]

A China slowdown

Over the past four decades China's economic growth and the legacy of economic reforms begun by leader Deng Xiaoping was more than three times higher than its Western trading partners. This greatly benefited commodity exporters like Australia that ship huge volumes of mineral and agricultural commodities to fuel its urbanisation and infrastructure needs and satisfy China's growing middle class.

Flourishing private and sizeable state-owned enterprises, whose role in the economy has been more strongly promoted under President Xi, substantially increased their production. In recent years, the state's role in China's economy has intensified and manifests in several ways, including acquisition of intellectual property and technology by various means and provision of subsidies to corporations.

Government subsidies to state-owned enterprises obviously tilt the playing field against China's foreign competitors, and like tariffs on imports, are undesirable from an economic welfare perspective. These subsidies, along with dissatisfaction with China's behavior towards US intellectual property, have fueled China-US trade tensions. The resultant US tariffs have dented China's growth, with the IMF estimating that tariffs could lower China's growth by 1.6 per cent, and lower growth in the Asia Pacific by 0.9 per cent, over a two-year period.[19]

Bad loans and company debt also began to escalate during the 2008-09 Global Financial Crisis. Dealing with the consequences of state-directed spending on unproductive projects funded through a heavily controlled banking system could further slow the economy.

High public debt

Since the 2008–09 Global Financial Crisis the worldwide rise in public debt has contributed significantly to the surge in total debt. Global debt, private plus public debt, stands at a record high of over 225 per cent of world GDP, some 12 per cent higher than before the crisis. Global debt is mostly owed by advanced economies that went into the GFC with already high public debt levels.

However, economies in Asia have accounted for most of the post-crisis increase, China alone being responsible for 43 per cent of the rise.[20] High public debt remains a risk as it can harm business and household confidence and create uncertainty about how it will be paid down via fiscal repair, which, if oriented more to higher taxes than cutting unproductive public spending, is inimical to private investment and durable economic growth.

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3 THE STATE IN THE NEIGHBOURHOOD

A snapshot of Queensland's engagement in the Asia Pacific

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Caitlin Byrne

Introduction

Significant transformation in Australia's neighbourhood—the rise of Asian economies, cities and middle classes, unprecedented digital disruption, and near insatiable demands for knowledge, innovation and infrastructure—offers enormous potential to business and industry for Northern Australia. Queensland in particular is well placed to take advantage of these trends, a fact highlighted through the state's ambitious AUD$35 million *Trade and Investment Strategy 2017-2022*, and reflected in its growing international presence.

Recent steps taken to reimagine the state's natural and emerging economic assets provide positive signals, but there is some way to go before Queensland's aspiration to become 'the nation's most innovative and dynamic trading economy and magnet for global investment' is likely to be fully realised.[1] Resistance to a coherent strategy, persistent gaps in Asia engagement, and the potential inertia of a forthcoming state election may well work against Queensland's wider goals in the near to medium term. Maintaining positive momentum becomes even more challenging set against the backdrop of great power rivalry, trade tensions and the spread of nationalist tendencies both in the region and globally, not to forget the ever-looming threats from a changing climate. Complacency is not an option. As Queensland Premier Palaszcuk suggests, 'in a changing world, standing still is to fall behind'.[2]

In delivering the 2019 Budget Speech, Queensland Treasurer, Jackie Trad, emphasised the point that 'Queensland is the most decentralised state in the federation'.[3] Queensland, she notes, 'is a state that relies—more than any other—on the strength of its regional cities and towns'.[4] On the face of it, Trad's assessment is indeed accurate. Queensland regions have powered, literally and metaphorically, much of the state's economic success to date, and will continue to do so. And just as the 2019 federal election outcome demonstrated, political leaders will neglect the significance of the state's regions at their peril. But Trad's assessment provides only part of the picture. Queensland today also relies more than ever on engaging with the outside world—the world that exists beyond its borders and shores—for its ongoing prosperity and even perhaps for its broader identity and sense of place. Connecting regional Queensland to opportunities in the Asia-Pacific region is the critical task ahead.

It is a reasonable aspiration. The natural assets of the "sunshine state" have lured global tourists and travelers in their thousands for decades. Major events, from World Expo 88 to the 2019 Gold Coast Commonwealth Games, continue to reinvigorate local precincts and draw the gaze and interest of global audiences. Meanwhile, recent investments in advanced manufacturing, infrastructure, health, education and service delivery initiatives build on the state's traditional strengths while growing industry capabilities and maximising geographic positioning.

As the strategic dynamics of the Asia Pacific change shape, maintaining Queensland's global outlook and connections, especially in the near neighbourhood, has never been more vital. It is especially so for regional areas that sit outside the Southeast corner. This report makes the case for deepening Queensland's Asia-Pacific engagement. In doing so, it provides a snapshot of the state's global presence, highlights key successes alongside the gaps that persist, and suggests practical measures that might go some way to bringing further coherence to Queensland's Asia-Pacific presence.

Longstanding connections to the wider world

Queensland's ties to the wider region stretch back to pre-federation times, borne primarily out of the commercial and trade interests of the former colony. This legacy is not without issue. Indeed, it was during this period that the practice of "blackbirding"—the enslavement of Pacific Islanders as labour for the state's sugar cane farms—emerged: a scheme that was formalised under the Pacific Labourers Act 1880 (Queensland). Though short-lived, acknowledging the experience of Pacific Island labourers through this period, while recognising the early connections made, holds significance today.

The federation of the nation in 1901 saw authority for foreign and defence matters 'unambiguously' vested in the Commonwealth Government by virtue of section 51 of the Constitution.[5] But Queensland, along with the other newly federated states, continued to maintain its connections to the wider neighbourhood. Ensuring these state-based constituencies stayed onside and within the ambit of federal policy, localised external affairs' offices were established in the capital cities of Sydney, Melbourne and Brisbane in 1949, and in Adelaide in 1965. Similar officers were later established in Perth, Hobart and Darwin.

With a mandate to support and inform Australia's domestic business and trade outreach and interests, these State and Territory offices (STOs), administered now from within the Department of Foreign Affairs and Trade (DFAT), continue to operate today as a unique and important, though sometimes overlooked, feature of Australia's foreign policy landscape. The Torres Strait Liaison Office established on Thursday Island for the purpose of overseeing the implementation of the 1985 Torres Strait Treaty between Australia and Papua New Guinea extends this domestic mandate even further, and today provides a unique gateway from Queensland to the Pacific neighbourhood.

Just as Australia's international diplomatic and trade network has expanded in recent years, so too has Queensland's global trade presence. Today the state boasts one of the largest international networks of state representation with 15 Trade and Investment offices and a further 13 Tourism and Events Queensland offices based largely in the nations of Asia. This network is strengthened further by the myriad of sister city relationships established by cities across Queensland with their counterparts, mainly in Asia. These city-to-city connections have evolved from symbolic gestures of global friendship to connections that offer strategic potential for innovative collaborations and partnership, linking in particular to Asia's expanding smart cities agenda. Highlighted through initiatives like the Brisbane City's Asia Pacific Cities Summit, these connections give cause for optimism, but remain largely underutilised as Queensland moves into the 21st Century.

Figure 1: Queensland's international presence

Source: Queensland Prospectus.[6]

Queensland trade and investment imperatives

As an outward facing economy, Queensland relies on the free flow of goods, services, investment and talent in order to maintain current levels of stability, growth and prosperity. It is already a positive story. The Queensland economy continues to outperform the rest of Australia, including in the face of external challenges and weakening trade conditions. Trade statistics released in June 2019 by the Australian Bureau of Statistics (ABS)[7] show that the value of Queensland exports increased $12.7 billion to $87.0 billion (representing an increase of 17.1%) over the previous year, putting the state well on track to meet its strategic target of lifting Queensland's overall share of national exports to 22% or more by 2022.[8]

Strong trade performance speaks to an underlying natural advantage in resource and agricultural assets, alongside recent investments in infrastructure and the benefit of a growing population, albeit concentrated in the Southeast corner. Yet change and uncertainty in the external environment demand that business leaders, policy makers and influencers continue to reimagine Queensland's trade, economic and investment priorities.

When viewed through the lens of trade and investment, the economies of Asia are of critical significance to Queensland. China is Queensland's largest export destination by a significant margin, with export demand continuing to grow. Meanwhile, Japan, India, South Korea and Taiwan continue to be important export destinations, underpinned by longstanding relationships with Queensland businesses.

Shifts in recent trade data point to the potential of fast growing consumer-based economies within South East Asia, including Indonesia, Malaysia, Vietnam and the Philippines. Foreign direct investment-led growth within these economies offers potential for Australian businesses to increase their investment footprint in the region, particularly in emerging digital infrastructure and smart city innovations (see Market Insights box). Without overstating the opportunity, it is worth noting DFAT's 'Market Insights' commentary on South East Asia: 'Australian companies risk missing out if they are not alert to trade and investment opportunities, as North Asian and European companies are already well-established in the market'.[9]

Trade and Investment Queensland

Table 1: Queensland exports by country

Rank (change)	Country	June 2019 $	Annual Change $	Annual Change %
1 (—)	China	28,658.3	6,074.6	26.9
2 (—)	Japan	12,180.8	441.7	3.8
3 (—)	India	10,693.7	860.4	8.7
4 (—)	Korea, Republic of	9,481.7	1,574.8	19.9
5 (—)	Taiwan	3,278.7	307.3	10.3
6 (↑3)	Vietnam	2,141.2	923.7	75.9
7 (↑4)	Malaysia	2,047.3	1,017.0	98.7
8 (↓1)	USA	1,871.1	323.4	20.9
9 (↓3)	Netherlands	1,748.9	-35.0	-2.0
10 (—)	Indonesia	1,561.9	405.2	35
	Other countries	13,317.6	826.0	6.6
	Total all countries	86,981.2	12,719.2	17.1

Source: Queensland Government.[10]

The nations of South East Asia working together through the architecture of ASEAN represent a combined population of 647.5 million people, a combined GDP of US$ 3.1 trillion, and an average economic growth rate of 4.8 per cent.[11] In 2010 the Australian Government concluded the Australia-ASEAN-NZ Free Trade Agreement (FTA). The AANZFTA has expanded market access and provided a framework for improved transparency and cooperation over time, although it's fair to say that the extent to which Australian businesses feel the direct benefits of the FTA is, as yet, unclear. Negotiations are currently underway to improve the outcomes that might be achieved within the terms of the FTA going forward.

Market insights – engaging ASEAN[12]

While the ASEAN framework provides a useful reference point for economic engagement, it appears that bilateral trading relationships remain a priority. Trade and Investment Queensland (TIQ) Trade Commissioner to ASEAN, Tom Calder, provides an important reminder on this point:

> While ASEAN aspires to be an integrated single market there are still a multitude of political, cultural and economic differences among ASEAN's individual member countries. Each of these markets need a unique strategy when considering opportunities. Returns generally take longer than expected due to challenges encompassing lower abilities to adopt advanced technology, poor infrastructure, lower incomes and consumer purchasing power. Relationship development is key in ASEAN and time must be spent with potential business partners, so you understand whether they are a good fit (and vice versa).

TIQ Trade Commissioner in Jakarta, Ben Giles, makes a further assessment about the Indonesian market:

> A huge consumption-driven economy with opportunities across the board for Queensland businesses provided they are prepared to operate locally. We always hear about the growth projections for Indonesia but that doesn't mean an arm's length approach from Queensland will work. There are complexities and challenges but in many cases business conditions here have improved. Indonesia can still be a fruitful market for Queensland companies that are committed and have a separate and specific Indonesia strategy (just as they would for China or India).

A scan of economic performance and market insights from across the region suggests that the South East Asian economies to watch include Indonesia, Malaysia and Vietnam—each growing at an average rate of between 5-8 per cent each year. For these fast growing consumer economies, the demand for high-end goods and services is on the rise, including in food and beverages, health and aged care, international education (higher education and vocational), and advanced manufacturing (aviation, automotive, packaging and processing equipment). Furthermore, impressive investments in digital infrastructure coupled with high mobile device penetration and the emergence of digital free trade zones underscore an emerging appetite for digital economy expertise (across fintech, agritech, cybersecurity, and e-commerce) and smart city solutions (road safety, intelligent transport).

These are all areas where Queensland businesses can make a genuine contribution to and learn from developments in the wider neighbourhood. Yet, as Calder observes, challenges remain: 'Queensland is perhaps better known as a tourist destination than a provider of innovative business solutions'.[13] In his view, the key is to 'highlight areas where Queensland has credible competitive advantage and leverage these with governments and corporates as potential partners'.[14] TIQ Commissioner to Japan, Tak Adachi, makes the point that even in established markets like Japan, greater effort is required to present a more sophisticated Queensland image. Investing in and sustaining long-term partnerships on the ground, promoting positive collaborations and mobilising key networks—from business councils to alumni—may go some way to addressing reputational gaps.[15]

Queensland's soft power in the Asia Pacific

Creative engagement also requires a consideration of "soft power". Providing a useful counterpoint to hard power, which relies on military force or economic strength to coerce or compel others to do what you want, soft power is about persuading 'others to want what you want'.[16] It trades in the currencies of values, culture, institutions, policies and ideas. There's nothing particularly new in soft power, and even the scholar who coined the term in the 1980s, Joseph Nye, would argue that soft power reflects the fundamentals of human interactions and relationships.

The *2017 Foreign Policy White Paper* put soft power officially on Australia's foreign policy agenda. Defined as the 'ability to influence the thinking or behaviour of others through the power of attraction or ideas', the White Paper affirmed the value of soft power as an 'enabler' of foreign policy outcomes.[17] More specifically, it articulates the significance of soft power as a reflection of Australian values: reaching beyond negotiations between officials or the transactions of traders to tell a story about 'who we are and how we approach the world'.[18] The recognition of soft power holds significance for national and state-based approaches to the world.

Firstly, it reflects a new reality that Australia must engage more strategically through official and public forms of diplomacy if it is to remain a "persuasive voice" in its own region. Coming at a time when the competition to influence narratives, set political agendas, and frame the rules of a changing regional order is intense, the stakes couldn't be higher. Secondly, it challenges, albeit in a subtle way, the deeply entrenched idea that Australia approaches the world from a position of vulnerability or powerlessness. Indeed, as former foreign minister Julie Bishop observes, 'Australia starts from a position of strength in global surveys of soft power', but there is always more to be done to improve Australia's relationships, standing and influence in the world.[19] Although as Jonathan McClory, author of *Soft Power 30*, suggests, it takes more than a cuddly koala to really build soft power.[20] Thirdly, it brings attention to the fact that partnerships between all levels of government, and with business and civil society, cities and educational institutions, are essential to Australia's wider influence.

While soft power doesn't necessarily feature in state economic policy, each of these points is relevant to Queensland's global engagement. Queensland boasts natural and environmental assets that generate global appeal and draw audiences towards it—from the Great Barrier Reef to the beaches of the Sunshine and Gold Coasts. Queensland's educational and cultural institutions and active civil society organisations speak to other ideational dimensions of the state's soft power. Cultural diplomacy initiatives including the Queensland Art Gallery and Gallery of Modern Art's (QAGOMA's) Asia Pacific Triennial, the Asia Pacific Screen Awards (APSA), and the Brisbane City Council's Asia Pacific Cities Summit (APCS) all work to deepen awareness and understanding of the diverse Asia-Pacific region, promote cultural cohesion at home, and further enhance Queensland's reputation and standing abroad. The strength of the state's education, community and sporting institutions, supported by strong volunteering cultures, adds to the texture of Queensland's soft power

narrative. Building on these strengths to reflect a more sophisticated story of Queensland to the world will underpin the state's credibility and competitiveness in the crowded Asia Pacific going forward.

The soft power of sport

Sports Diplomacy 2030: the Australian Government's Sports Diplomacy Strategy highlights the role and relevance of sport as a vehicle for strengthening relationships, enhancing influence, and unlocking new opportunities for trade, tourism and investment—especially in our neighbourhood. Across any number of sports—football, basketball, rugby, badminton, athletics or triathlon—the demand for competition within the Asia-Pacific region is high. A new emphasis on the hosting of major sporting events—from the Winter and Summer Olympics, to the Asian and Pacific Games—demands expertise across all aspects of sport and the sports industry. Queensland's love of playing, watching and delivering sport, alongside a commitment to strong performance—backed up by the state's recent success in delivering the 2018 Gold Coast Commonwealth Games—offers new opportunities to develop and promote the state's wider sporting capabilities into the region.

The value of the sporting industry, including in terms of innovation and infrastructure, not to mention broader health and educational outcomes, is significant.[21] Sport contributes $83 billion in combined economic, health and educational benefits for the nation each year, with an estimated return of $7 for every $1 spent.[22] The sports diplomacy agenda offers potential for Queensland's broader international trade and investment profile. The demand for services associated with sporting performance, participation and spectating—including stadium design and construction, media and broadcasting, high performance training and technologies, and professional services—will only grow as the sport industry expands globally. These are areas where Queensland already boasts strong credentials.

Aaron Kearry | AKS Media

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Moving forward

The Queensland Government has in recent years lifted its emphasis on the state's closer engagement in Asia and the Pacific. Steps taken to i) strengthen trade representation in key posts, including Jakarta and Singapore; ii) invest in forward-thinking projects like the Sunshine Coast undersea broadband cable and landing station, the Cairns marine precinct, and regional manufacturing hubs in Townsville, Cairns and Rockhampton; and iii) reinvigorate key strategies, including for international education, all bode well for enhancing the state's capacity to engage with the dynamic region. Yet challenges remain.

The first of these relates to a lack of strategic coherence underpinning Queensland's international policy and positioning, particularly in light of recent major federal initiatives relating to the region. For example, the Australian Government's "Pacific Step-Up" strategy launched by Prime Minister Morrison in late 2018 has significant implications for Queensland's role in the neighbourhood. The opportunity to leverage the competitive edge that Queensland offers by virtue of its geographic proximity, sector alignments and existing connections should not be missed. Speaking at the inaugural 2019 South Pacific Defence Industry Forum in Cairns, Queensland's Minister for State Development, Manufacturing, Infrastructure and Planning, Cameron Dick, confirmed Queensland's commitment to grow industry capability in priority areas—including defence and maritime industries, aviation and aerospace technologies, and biosecurity—in partnership with regional Pacific neighbours over the long term.

To be fair, the emerging signals are positive. But they remain patchy and limited. Scope exists for strategic reshaping of the scale and scope of Queensland's global priorities and presence to better reflect and maximise areas of policy alignment and competitive advantage.

Other states are already thinking about their own positions. For example, having recently launched an "Asia Engagement Strategy" which included the appointment of a new Minister for Asian Engagement, the WA Government makes a clear case for boosting its Asia focus—providing proactive leadership and clear direction,

particularly to the state's business, industry and educational sectors. Queensland's perspective towards the nations of Asia and the Pacific will be distinct, but no less compelling. Understanding the interests, needs and trajectories of our neighbours is central to this outlook. Building on Queensland's strengths with an emphasis on innovative, green, smart technologies, high-end commodities and produce, and services that contribute to a more resilient, prosperous neighbourhood will be key. Expanding and strengthening Queensland's representation across the Asia Pacific, while promoting the state's soft power assets, would be welcomed as part of such a strategic approach.

Secondly, business capacity to engage in Asia, particularly at the small and medium enterprise level, and including across Queensland's regional and rural areas, remains weak. There are a number of reasons for this. Anecdotal evidence suggests that successful business engagement in Asia demands sustained investment and on-the-ground expertise to navigate the complex political, business and regulatory landscapes. Additionally, many Australian companies lack the cultural competencies, confidence and wider networks to engage effectively and confidently in the diverse markets of Asia and the Pacific. This is an issue of workforce and boardroom diversity, and businesses today should consider the impact of diversity—cultural and gender—in their outward looking business strategies.[23] In addition to government, Queensland's bilateral business councils—already active in supporting the development of skills, knowledge and networks—play an ongoing and important role to this end. They bring deep knowledge of cultural and political landscapes, far-reaching networks alongside an awareness of sector nuances in-country. Taking this line of thinking one step further, the role that schools, universities and other education providers play to ensure Queensland students—as the next generation of state leaders—understand, experience and embrace opportunities in the Asia Pacific also remains critical to Queensland's longer-term outlook.

The final challenge is to ensure that the Asia Pacific remains on the radar during what is likely to be a tough state election year. Clearly, the 2019 federal election outcome refocused the gaze of state political leaders and policy-makers towards the domestic agenda, a trend that is likely to intensify over the next twelve months. But Queensland businesses, producers and industries do not have the luxury of naval gazing when it comes to taking up opportunities in the fast-moving economies of Asia. Deeper geostrategic shifts and dynamics will demand more, not less, attention towards the region. Engaging in the Asia Pacific is a long game, one that extends well beyond the short-term electoral cycles of Australian federal and state governments.

Ensuring that Queensland remains attuned and attentive to opportunities in the Asia Pacific through the next twelve months will underpin longer-term success. Additionally, the ability to engage creatively, drawing on soft power assets to build long-term relationships with key partners at multiple levels—people-to-people, institution-to-institution and city-to-city—will become ever more critical as Queensland navigates the opportunities and uncertainties that lie ahead.

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4 THE STATE OF THE STEP-UP

Australia's engagement with the Pacific

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Tess Newton Cain

Introduction

Since winning the election in May 2019, Scott Morrison has maintained his categorical statement that the Pacific islands region is 'front and centre of Australia's strategic outlook, our foreign policy, our personal connections, including at the highest levels of government'.[1] Based on what we heard from Labor during the 2019 campaign period, it is safe to assume that this is essentially a bipartisan approach.[2] The "Pacific step-up" is now embedded in political and bureaucratic rhetoric and its prominence is rightly associated with the leadership of Morrison. But its position in the policy ecosystem predates him becoming Prime Minister in August of 2018, dating back to a 2016 announcement by then Prime Minister Malcolm Turnbull[3] followed by its inclusion in the Foreign Policy White Paper that was released in November of 2017.[4]

So, in terms of assessing how the "Pacific step-up" is progressing, we can look back over a period of 18 months or so. Late last year, as we neared the first anniversary of the release of the White Paper, I framed my assessment in terms of whether Australia's engagement with the Pacific islands region was a 'step up' or a 'stumble'.[5] But a lot has happened since then. Now is a good time to reflect on what has happened, what informs what is happening now and what this might mean for the future.

In the Australian political, economic and media landscapes, foreign policy does not merit a great deal of bandwidth. And within the very narrow scope of mainstream foreign policy discussion and analysis, the Pacific struggles to maintain even a toehold at times. But at this particular moment, there seems to be more appetite for thinking and talking about Australia's relationships with her nearest neighbours than we have seen for many years. Whilst this is no doubt a significant national conversation, there is much to explore in terms of what this means for Queensland, described by PM Morrison as 'our gateway to the Pacific'.[6] Drawing on many and various threads of geographic proximity, economic linkages, cultural affinities, a complex and contentious history, vibrant diaspora communities, and future opportunities, now is the time for Queensland to (re)establish itself as Australia's Pacific state. This report provides an assessment of the state of the "Pacific step-up" to inform decisions by policy makers, the business sector, and others to take that forward.

The various aspects of what constitutes the "Pacific step-up" are listed in Figure 1. They touch on a range of sectors and aspects of Australia's relationships with the Pacific islands region: security, economic linkages, diplomacy, and people-to-people links. They have been articulated via the *2017 Foreign Policy White Paper*, ministerial speeches and announcements.

Dan McGarry, Media Director | Vanuatu Daily Post

Figure 1: The components of the Pacific step-up

The Department of Foreign Affairs and Trade (DFAT) website identifies the following as manifestations of Australia's stepped-up engagement with the Pacific Islands region. Some (e.g. the establishment of the Australia Pacific Security College) originated in the Foreign Policy White Paper of 2017. Others (e.g. the Pacific Maritime Security Program) were already underway when the step-up was "announced" by Prime Minister Scott Morrison in November, 2018. Many of them have been launched further to ministerial announcements, including by the Prime Minister.

- Pacific Labour Scheme
- Opening of five new diplomatic missions (Cook Islands, French Polynesia, Niue, Palau, Tuvalu)
- Establishment of the Office of the Pacific within DFAT
- Australian Infrastructure Financing Facility for the Pacific
- Coral Sea Cable (providing high speed internet to PNG and Solomon Islands)
- Increased callable capital to the Export Finance and Insurance Corporation (Efic)
- Australia/Japan/USA trilateral partnership for infrastructure in the Indo-Pacific
- Australia/PNG/Japan/New Zealand/USA Papua New Guinea Electrification Partnership
- PACER Plus
- Australia Pacific Security College
- Pacific Fusion Centre
- Dedicated vessel to provide support including Pacific humanitarian & disaster relief
- Joint Heads of Pacific Security Forces event hosted in Australia
- Australian Defence Force Mobile Training Team
- Pacific Faculty of Policing at the Australian Institute of Police Management
- Expansion of the Cyber Cooperation Partnership with the Pacific
- Pacific Maritime Security Program
- Pacific Transnational Crime Network
- Support to the Forum Fisheries Agency
- Pacific Medicine Testing Program (pilot)
- Secondary School Scholarships
- APTC scholarships
- Expansion of the Australia-Pacific Schools Partnerships
- Church Partnerships Program with the Pacific
- Australia Pacific Sports Linkages Program
- Pacific-Australia Card
- Pacific Research Program
- Pacific Connect Program

Source: Adapted from the Department of Foreign Affairs and Trade.

The next section of this report examines the increased levels of engagement in the Pacific islands region by Australian politicians and senior officials. Whilst it is undeniable that the quantity of engagements has increased, it is important to look at whether this is having a meaningful impact on the quality of relationships between Australia and her Pacific island partners. It also includes an examination of the rhetoric that is used by the Australian leadership when talking about the Pacific islands region, whether delivered in the domestic sphere or when overseas.

The final section of the report looks at what we might expect for the future of the "Pacific step-up". This takes a Pacific perspective on what are likely to be the key issues in the next few years and provides some important context within which the progress of the "Pacific step-up" can be assessed. It includes some recommendations for how the "Pacific step-up" can be developed or refined to make it more meaningful and effective.

'You've got to show up to step up'

In my 2018 *Walking the Talk* paper,[7] I noted with concern that when it came to the major meetings of the Pacific Islands Forum that year, Australia was three for three: the Treasurer had not attended the Forum Economic Ministers' Meeting, the Foreign Minister skipped the Forum Foreign Ministers' Meeting and the Prime Minister was absent from the meeting of Pacific Islands Forum leaders. It is noteworthy that this has not been repeated this year, with Senator Marise Payne having attended the meeting of Forum Foreign Ministers and Prime Minister Scott Morrison taking part in the Pacific Islands Forum Leaders' Meeting for the first time. The Treasurer did not attend the Special Forum Economic Ministers meeting, which was held during the campaign period of the Australian general election.

One of the most visible aspects of the "Pacific step-up" has been the sheer number of times that Australian politicians and senior officials have been in Pacific island countries. The number of visits to countries in the northern Pacific is particularly notable, reflecting an increased focus on this part of the region, which has not previously been as significant in terms of Australian engagement as other parts of the Pacific. Figure 2 documents the visits to Pacific island countries and territories by Australian Prime Ministers, Foreign Ministers and other ministers, assistant ministers and parliamentary secretaries of the Ministry of Foreign Affairs.

Figure 2: Ministerial visits December 2017 – June 2019
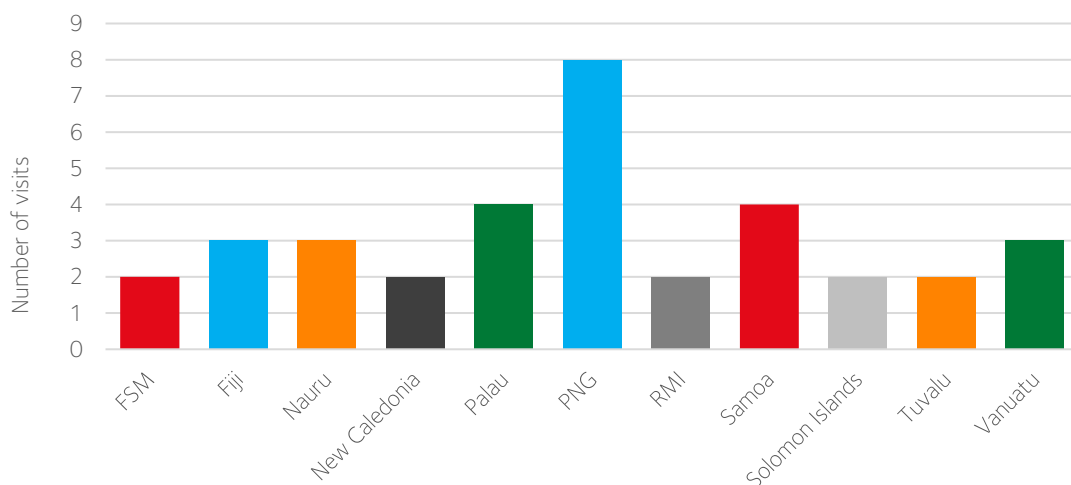
Source: Data sourced from the Department of Foreign Affairs and Trade.

As we can see, these visits are averaging at two *per* month (as at June 2019). This raises a number of questions about whether this level of engagement is something that we can expect to see continued into the future. Whether these visits have any positive domestic political impact is questionable, and they are sometimes perceived as being politically risky given the lack of interest in the region across the Australian community more generally. These visits also come with significant transaction costs for host countries and there are certainly signs that some senior people in the region are starting to feel a degree of visit fatigue. However, this increased level of engagement does appear to indicate a recognition on the part of the Australian leadership of the importance of establishing and maintaining personal relationships in working with Pacific partners.

In July of this year we saw the first participation in the regional meeting of sports ministers held in the lead-up to the Pacific Games in Samoa by an Australian Minister for Sport. At around the same time the Australian Health Minister attended the meeting of Pacific Health Ministers in French Polynesia, marking a significant shift in the way Australia participates in regional convocations of this sort. This is notable and to be welcomed. It appears to acknowledge a longstanding complaint of Pacific leaders and senior officials: that Australia wants (or possibly expects) to be invited to important regional meetings and then does not send a sufficiently senior representative to participate. In some instances, we have seen Australia send a public servant to sit alongside ministers of Pacific island countries. This approach is disrespectful and counter-productive. If the "Pacific step-up" means that we have seen the end of this practice, this is something to celebrate.

There is no denying that the quantity of "showing up" has increased dramatically since November 2017, when the "Pacific step-up" was instigated. And this quantitative uptick is evident elsewhere, including in terms of the number of DFAT positions (including senior ones) that now have "Pacific" in their job titles and the amount of attention paid to what is going on in the region by the mainstream Australian media.

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However, the extent to which this increased quantity translates to quality of engagement and of relationships between Australia and Pacific states remains open to question. As one seasoned Canberra observer pointed out to me, 'increasing the number of public servants working on an issue is no guarantee of improved public policy'.[8] And when it comes to increased media coverage, the narrowness of the lens and the dominance of the debate by a small number of voices whose need to view the Pacific as some sort of strategic theatre makes for a significant nuance deficit. Not only is this frustrating, it is potentially counter-productive, given that it is at odds with an avowed wish on the part of Australian policy makers to develop meaningful and sustained relationships with their "Pacific family".

The "Pacific step-up" rationale

The "Pacific step-up" originated with a pledge made by then Prime Minister Malcolm Turnbull at the 2016 meeting of Pacific Islands Forum Leaders in The Federated States of Micronesia. The following year Turnbull sought to follow through on that pledge with a number of key announcements. This presaged the appearance of the language of "step-up" in the Foreign Policy White Paper later that year.

A number of these early announcements have been continued and indeed enlarged upon under the leadership of Scott Morrison. A very clear example of this is the Pacific Labour Scheme which has expanded very rapidly to now include nine Pacific island countries and Timor Leste.

A distinct turning point for the "Pacific step-up" came with Morrison's speech at Lavarack Barracks in late 2018. Much of what we have seen in terms of increased engagement has materialised since then. Whilst the public rhetoric of Morrison and others within the Australian government is at pains to stress the importance of Pacific relationships in their own right, it is clear to all that a significant driver for this change is anxiety in Canberra around China's growing influence in the Pacific islands region.

A particular perception that drives this anxiety is that Pacific island countries are taking on too much debt from China, which they will not be able to repay. Some leading strategists have argued (and continue to do so) that this means China will use the debt as leverage to convince the leadership of one or more Pacific island countries to allow them to establish a military base in country.

This concern about debt is what drives the centre piece of the "Pacific step-up": the Australian Infrastructure Investment Facility for the Pacific. This facility constitutes $2billion of infrastructure financing in grants and concessional loans with the bulk being loans. This Facility was announced as operational on 1 July 2019 and is yet to announce any projects it is funding in the region.

Although geostrategic anxiety about increasing Chinese influence may have triggered the "Pacific step-up", it has catalysed a re-engagement with the region across numerous platforms and modalities that has largely been welcomed. Particular focus has been placed on developing and enhancing people-to-people links, including through sporting linkages and cultural exchanges.

In my *Walking the Talk* paper, I advocated that Australia needed to do a lot more listening to the leaders and the peoples of the Pacific than had been the case previously. As the "Pacific step-up" has progressed we have certainly heard plenty of references to how people are listening. In a recent interview with Radio Australia's *Pacific Beat,* the head of DFAT's newly established Office of the Pacific said that about 50% of his time would be devoted to building relationships in the region and 'listening'.[9] His reference to the importance of listening is well noted. However, the quality and consistency of listening on the part of Australian policy makers shows some significant gaps.

In January 2019, during a visit to Vanuatu, Prime Minister Morrison certainly demonstrated a lack of real listening on the question of visas for Pacific islanders to visit Australia.[10] The financial costs and administrative burdens that most Pacific islanders face in order to visit Australia is a cause of frustration and, at times, resentment across the region. The Pacific-Australia card that was announced late last year[11] is too limited to address the needs and aspirations of the majority of people in the Pacific islands region.

It is not lost on my Pacific colleagues and friends that there is a very distinct disconnect between the rhetoric of '*vuvale*' or '*tru wantok*'[12] employed by smiling Australian politicians when they visit the region, and the lived experience of Pacific islanders when they want to visit family members and others in the "big place" to their south or west. This issue is one that is particularly acute in relation to Papua New Guinea and most recently, it has come up at the 27th ministerial dialogue held in Port Moresby. The result of this is the establishment of a joint technical working group to address border issues. However, this presumes that the obstacles are technical rather than political, which is largely misguided.[13]

The most telling and obvious example of non-listening when it comes to Pacific policy relates to climate change. Pacific leaders have been vocal on the significance of climate change for their countries' future for many years. Leaders of some of the smallest countries in the region and the world have taken on the mantle of global leadership to highlight the existential threat that they face and to lead on ambition in countering the threat.

More recently, the vocalisation of their concerns has included explicit criticism of policies of the Australian government, including a lack of ambition when it comes to setting targets for carbon emissions and progressing new coalmines, including in the Galilee basin.

In a speech during the visit of the Australian Prime Minister to Fiji in January 2019, Prime Minister Voreqe (Frank) Bainimarama said:

> From where we are sitting, we cannot imagine how the interests of any single industry can be placed above the welfare of Pacific peoples—vulnerable people in the world over.[14]

This followed comments made by the Prime Minister of Tuvalu, Enele Sonese Sopoaga, during a visit to Australia in late 2018, in which he called on the government of Australia to block the Adani coalmine and warned that the "Pacific step-up" was at risk of being seriously undermined:

> We cannot be regional partners under this step-up initiative—genuine and durable partners—unless the Government of Australia takes a more progressive response to climate change.[15]

It is not new for Pacific leaders to grumble about Australia's lack of support when it comes to climate change. This is particularly the case when it concerns Australia attempting to water down the impact of climate change in collective statements, such as the communiqués of the Pacific Islands Forum Leaders' meetings. What is new and noteworthy is that increasingly the leaders of the region are making their feelings known publicly and are often using quite blunt terms to do so. We saw more of this most recently during and after the 50th meeting of Pacific Islands Forum Leaders in Tuvalu[16]. In anticipation of next year's meeting of leaders in Vanuatu, the Foreign Minister of that country has already made it clear that he expects Australia to come prepared to make an improved contribution in 2020.[17]

What next for the step-up?

I have already touched on the issue of whether the current levels of attention and political energy that are being expended on Pacific engagement can be meaningfully sustained. Taking a historical lens, it is evident that there has been a pattern of reactive strategic flurries interspersed with periods of what Jonathan Schultz and others have characterised as, at best, benign neglect.[18]

Conversations with colleagues in the region indicate that there is a degree of healthy scepticism as to whether Australian policy makers can sustain this level of policy focus, let alone the financial commitments that may be required to deliver on announcements made in various capitals.

The shortness of the electoral cycle in Australia and the recent levels of political instability do not help with engendering a belief that Australia is ready or able to sustain a long-term relationship with the Pacific.

Figure 3: Direct flight routes from Queensland international airports to Pacific island countries

Source: Griffith Asia Institute.

Engaging Queensland government and industry in the Pacific

Among the Australian states, Queensland is the one best placed to take the lead on expanding and deepening links with Pacific island countries. Queensland's historical connections with the Pacific are problematised as a result of blackbirding, the legacy of which remains and requires further attention. However, the existing links between Queensland and countries in the Pacific islands region are many and varied. They provide a strong basis for future engagement and there are many opportunities to be explored and capitalised upon.

One of the biggest assets that Queensland has is the number of Pacific islanders (and those who claim Pacific islander heritage) who live in the state. Within this broad and diverse community are individuals and groups who are maintaining important links with their countries of birth and heritage. This takes many forms, including:

- remittances to support family members in Pacific island countries;
- collective action to provide support to disaster response efforts;
- developing businesses that procure primary and value-added products from home countries; and
- providing support to people from their countries who are visiting for education, work, or other purposes.

At a governmental level, the Queensland Parliament has strong partnerships with the parliaments of Papua New Guinea and Vanuatu. These form the basis of visits, study tours and mutual exchanges. All of these activities provide a good introduction for Queensland parliamentarians to countries that are as easy to get to as many places in Australia (or easier). The establishment of a Queensland Parliamentary Friends of the Pacific association will go a long way to enhancing these relationships and making them richer.

There are several business councils that work to promote business linkages with Pacific island countries, and they all have their secretariat in Brisbane making them particularly accessible to businesses in Queensland. It is no secret that the Federal government sees the Australian private sector as having a significant role to play in taking forward relationships with Pacific island countries. From a Pacific perspective, this needs to be increasingly structured around how Australian businesses can include Pacific products in their value chains. Agriculture is particularly significant in this regard, with a particular focus on low-yield, high value crops such as coffee, cocoa, vanilla, and spices. In his recent visit to Australia, the Prime Minister of PNG, James Marape, signalled very clearly that investment in agri-business will be warmly welcomed by the government he leads.

A significant component of the "Pacific step-up" is the role of labour mobility via the Seasonal Worker Program (SWP) and the Pacific Labour Scheme (PLS). In the 2018/19 financial year more than 60% of the visas awarded under the SWP were for workers who had been approved to take up roles in Queensland. Although the PLS is still in its infancy, almost 70% of the visas that have been granted are to people from the Pacific islands region who have worked or are currently working in Queensland. Whilst it is reasonable to expect that the benefits of these programs will spread to other states over time, it is likely that Queensland will remain at the forefront of labour mobility for the foreseeable future.

Conclusion and recommendations

Nonetheless, there are certainly some opportunities to capitalise on what has been achieved so far in order to provide reassurance to Pacific partners and to grow the footprint of the "Pacific step-up" beyond the personal commitment of the prime minister.

Recommendation 1 is to do more and better listening. Whilst we have heard a lot about how much listening everyone is doing, it remains the case that there is still a long way to go on this. In particular, there are some serious concerns about how the Australian policy community, especially DFAT, is engaging with members of Pacific diaspora communities in order to listen and learn. I am particularly disappointed to hear from leaders in these communities that they feel they are treated with disrespect by those who seek their input, with a lack of cultural capacity featuring highly on their list of concerns.

Recommendation 2 is to join up some dots. There needs to be a lot more attention paid to the intersection between domestic policy/politics and foreign policy when it comes to engaging honestly and meaningfully with Pacific partners. For example, if Australia remains serious about wanting to progress economic integration via the Pacific Agreement on Closer Economic Relations (PACER) Plus[19] (a regional free trade agreement signed by Australia, New Zealand and nine Pacific island countries), discussions that do not acknowledge the huge political clout of Australia's domestic farming lobby[20] are disingenuous and may well prove counterproductive.

Recommendation 3 is a practical way in which recommendations 1 and 2 might be progressed. A key role of the newly established Office of the Pacific is to promote a "whole of government" approach to Pacific engagement and policy.[21] From within that office I have been informed that there is a desire to 'amplify Pacific voices' but this will be hard to do given there are so few Pacific islanders who work in the Australian public service.[22] A programme of secondment arrangements between the Office of the Pacific and key ministries in Pacific island countries would be an excellent way to achieve mutually beneficial outcomes and build some very important relationships that will survive electoral cycles in this country and elsewhere.

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5 CLIMATE ADAPTATION AND BUSINESSES

The case for private sector leadership
in the Asia Pacific

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Johanna Nalau

Why climate risk management matters for businesses

Climate change adaptation is often described as a local issue and therefore the responsibility of local governments and communities. But the private sector has an increasingly important role in delivering effective and robust climate adaptation strategies and policies.[1] Changing climatic conditions disrupt supply chains, but also provide space for new thinking and innovation in product development, delivery and the range of services people need. Thinking ahead in this space provides new opportunities for many businesses that can work jointly with governments and communities to develop stronger more resilient and equitable communities and economies. Australian businesses can show clear leadership in this space by demonstrating how their actions can deliver social and environmental benefits to communities while also ensuring business profitability in a changing climate.

Risk management is one of the core issues for any business. Today businesses have to understand and cope with a range of issues. For example, issues around technological disruption, such as how artificial intelligence is changing the way customers can engage with particular services, which new competitors and brands are entering the market, what kind of big data is available to analyse changing consumer behaviour that can be used to drive growth, and what emerging risks are likely to impact company's services and product markets. While all of these areas are important to consider, increasingly there are also risks related to climate change, which can negatively impact key business operations across a range of sectors and markets.

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For example, the *2018 World Risk Report* identifies extreme weather events, natural disasters, and failure of climate-change mitigation and adaptation as the three top key risks with the most likely impact on the business community.[2] While we have mastered our understanding around singular risks and effectively developed strategies to deal with these, the world we are moving towards is better described as a set of systemic risks, which are complex and increasingly interconnected.[3]

These concerns and issues are not unfamiliar to those companies already working and investing in both Queensland and the broader Asia-Pacific region. In fact, one could argue that climate change often just raises the stakes and magnifies many of the existing challenges that relate to transregional trade and investments. Thinking in this way, many companies have already significant expertise and experience in how to invest and operate in a vast region that is full of diverse challenges and opportunities. So, the questions for Australian businesses operating in the region are what to do with the information and how to move forward in a changing climate.

From climate mitigation to adaptation

The concepts of mitigation and adaptation can seem confusing as these are often badged together to explain how we can respond to climate change. Mitigation was a core focus of the United Nations Framework Convention on Climate Change from the early 1990s when the early scientific evidence showed that the world's climate had been warming. Adaptation was not talked about as there was a strong belief that greenhouse gases could be controlled effectively and adaptation would not be necessary. It has only been a rather recent shift that adaptation has been understood as something that we have to do, and will continue to do even more, now and in the future given the drastic changes in the climate system as we have not been able to reduce emissions.

This means for example that bushfires in Australia are getting more dangerous given changes in the Australian climate, and extreme weather events such as floods are occurring more frequently and on a larger scale. Emergency management professionals are already seeing clear changes in the conditions that they have to operate under.[4] Adaptation to climate change therefore needs to be at the core of business thinking now. Businesses need to pay specific attention to how particular trends are changing, how these are impacting the company, its services and operations, and how the business needs to change so that it stays competitive in a new operational environment in the Asia Pacific.

QFES Media | PR Handout Image

How climate change became an issue for financial disclosure

Globally, climate change risk disclosures have been a growing trend as our understanding of these risks has increased and how these might impact on core businesses. Climate risks can be divided into two distinct categories: i) transition risks, which are factors impacting company performance in transitioning towards low carbon economy; and ii) physical risks, which are direct risks stemming from climate change impacts.

The global movement and dialogue facilitated by the Task Force on Climate-Related Financial Disclosures (TCFD) focuses on encouraging companies to disclose their climate related risks so that these can inform company policy but also help investors, insurers, lenders and other stakeholders to understand the extent of these risks and risk management strategies in place.[5] This has also prompted the Australian Securities and Investments Commission to examine more closely how Australian companies are disclosing the risks to their operations stemming from climate change.[6] For example, 48% of Australian CEOs do consider climate change and environmental risks as one of the top 3 key risks for company growth.[7] This signals a significant change in the business community and also the growing awareness that we need to re-evaluate the risk landscapes that we operate in.

Globally, investors are showing interest in understanding these risks better in the business environment. The Moody's Corporation for example bought a significant part of a company that measures and models physical risks emerging from climate change.[8] This step is significant for a number of reasons. Given that Moody provides credit ratings to governments, this purchase in particular signals how seriously they are taking emerging climate risks. For example, climate change impacts such as the increase in extreme events (flooding, heatwaves, hail) can reduce the tax revenue for particular areas if outmigration occurs due to increasingly unfavourable living conditions. This naturally also has consequences to the private sector for product demand and also the extent that they can deliver services in particular places and sectors.

For businesses this means that they need to monitor the changing conditions but also the changing demands on their products and services. For example, in the Pacific islands, there are increasing efforts to provide more availability of insurance products for governments, households and private sector companies operating in these countries given extreme events such as Tropical Cyclone Pam in 2015 (Vanuatu) and Cyclone Winston in 2016 (Fiji). These cause significant damages nationally and impacted in particular tourism related services and products.

Understanding particular risks to supply chains and also core business products will be increasingly important in particular in regions like the Asia Pacific where large-scale changes in the operational environment are likely to stem from climate change. These changes are also likely to increase potential security risks in the region, if for example, some coastal locations become uninhabitable and communities are forced to relocate. Such a situation can bring with it complex issues concerning sovereignty, state boundaries, citizenship and changing rights to exclusive economic zones.

Practical examples of understanding climate risks and adaptation

Despite these overwhelmingly negative projections, there are ways that businesses can take leadership in the climate change space. They can firstly understand risks, what to look for, and then determine and develop strategies to deal with and manage these. Better risk management can result in stronger capacity to foresee negative trends and shield business operations from harm, while also ensuring that the products and services provided to the community continue to be available.

A recent project funded by the US State Department for example looks at climate resilience in the private sector and the ways that the private sector can contribute to climate change adaptation efforts. This project implemented by Winrock International works across Bangladesh, Ghana, Guyana, Indonesia, Mozambique, Peru, Tanzania and Vietnam with specific focus on for-profit companies to enable more strategic thinking and investments into how they can reduce risks stemming from climate change impacts to their products, services and infrastructure.[9]

This means that they have to think for example about how supply chains could be disrupted and impacted by extreme events and higher temperatures but also the changing conditions within which their produce is produced. This also includes issues such as potentially increased water insecurity in terms of its availability, quality and access in particular locations.

An Australian example of forward-oriented thinking and strategic planning is the Informed.City tool that has been developed to assist governments, agencies and businesses to gain a more robust understanding of where they are at in considering climate risks and climate adaptation.[10] The tool enables critical reviews of how climate risks are being considered inside a government or company, and how this plays out across such sectors and indicators as public risk register, asset management, and corporate plans.

The tool uses publicly available data to enable the development of a baseline with 10 key indicators that provide the necessary information on the current situation with recommendations on how to improve corporate governance of climate risks and adaptation. The tool enables tracking corporate performance on adaptation and climate risk considerations over time and can effectively pinpoint areas that need more focus and strategic decisions.

Understanding these climate-related challenges to business operations and also the opportunities that support better integration of these issues, will remain crucial for the private sector that aims to maintain the viability of its operations in a changing climate.

Figure 1: Indicators to improve corporate governance of climate risks and adaptation

Strategic Plan	The corporate plan directs how decision-makers in local government must discharge their responsibility under various Local Government Acts. Including considerations of climate change here will likely result in better likelihood for mainstreaming the issue in the council's operations and financial structures.
Financial Management	If ignored, the effects of climate change are likely to have a considerable impact on a council's financial performance. This includes costs associated with asset management, service delivery, legal risk and insurance. Climate change may also affect rateable property value and therefore have the potential to affect council's primary income stream.
Public Risk Disclosure	There is an increasing demand in the private sector for a transparent approach to addressing climate-related risk. A transparent approach means public disclosure of risks. Over time councils can expect insurers and finance providers, amongst others, to request councils to disclose how they are addressing climate-related risk.
Asset Management	Local governments have hundreds of millions (and in some cases billions) of dollars invested in assets. Some of the assets that councils maintain have a long life expectancy and as such may be exposed to direct and indirect climate change risks. This generates a potentially unexplored or under-quantified financial risk for local governments.
Land Use Planning	Land use planning can play a critical role in climate change adaptation. Strategic and local planning decisions can both increase or decrease the exposure of human settlements to climate change impacts. If done well effective land use planning can support climate-resilient and low energy development.
Emergency Management	There are significant opportunities to drive climate change adaptation decision making through emergency management planning. Adaptation has numerous supporting benefits for emergency management including the implementation of risk planning for disaster mitigation and preparedness, response capacity and minimising exposure to reoccurring situations.
Greenhouse Gas Emissions Reduction	Climate change mitigation actions allow for an exploration and promotion of resilient energy systems and passive solar design that may reduce human health-related issues as well as considerable energy savings. Furthermore, it is very likely that climate change adaptation will need to occur in a carbon-constrained economy.
Climate Risk Management	Climate change is a complex issue that will exacerbate existing risks and present new ones. Often climate change risk management is undertaken in an ad hoc way—resulting in inconsistent approaches within an organisation. Some direction that defines how climate change risk is identified and disclosed will greatly improve council's adaptation planning.
Adaptation Planning	Best practice adaptation plans identify the actions required to mitigate specific risks and have mechanisms in place to respond to physical, transitional and liability risks. Adaptation planning helps to set key performance indicators and establish roles and responsibilities across council and more broadly.
Climate Change Policy	An internal Climate Change Policy (or corporate standard/statement of intent) allows the organisation to place a climate change lens over all of council's activities and use the existing system to drive adaptation, risk minimisation and transition to a lower-carbon economy. It can allow for the agreed use of information sources and specific triggers for change.

Source: Informed City.[11]

Climate leadership as an opportunity

As the world is slowly but surely moving towards low carbon economy and where there is more demand for environmentally friendly brands and companies, Australian companies will increasingly need to think how they position themselves. This includes taking clear leadership on climate change action, integrating climate risk disclosure measures into their corporate plans and processes, but also looking for new opportunities that can potentially emerge from green technologies, building designs, or products that can fill a gap in the existing market.

Robust responses to climate change require two significant areas of action: i) mitigation (reducing greenhouse gases); and ii) adaptation (putting proactive plans in place to deal with climate impacts). Both of these are integral especially in the light of forward-thinking approaches that can help companies to foresee how they can reduce climate change problem while also dealing with the impacts.

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For many communities, social and environmental benefits are becoming increasingly important. Companies and services that can show clear benefits to society, for example through social impact investments, will be far better placed in the new economy that we are moving towards. If companies can combine social and environmental benefits and clearly articulate their impact, they can signal significant leadership that both addresses climate change while also delivering benefits to communities.

For example, businesses could partner with social enterprises that have already identified a business need and developed indicators to measure the social and/or environmental impacts that can be traced back to a service or product. From this there is the opportunity to also establish how many greenhouse gases were not released because of low carbon technology choices. In Queensland this also relates to the kind of energy options that companies choose to use: renewable energy options are increasingly becoming cheaper, with most new jobs also found in these sectors when it comes to energy. There are also ways to for example cut inefficiency in production lines, use materials such as recycled construction waste, and be early adopters of new emerging technologies that are environmentally friendly and at the same time reduce costs for businesses.

Given many citizens are increasingly choosing more products that have a smaller environmental impact, the markets are also expanding to new innovative products that use new and different materials and technologies. So rather than seeing climate change related issues as major constraints, there are new opportunities in changing practices and operations so that they deliver higher value with less climate impact. Looking for more unconventional partners, such as innovative start-ups, can enable businesses to develop new markets and products, that as said carry more believability in making change while delivering returns on investment.

Leadership as transparency

Climate change risk disclosure measures and corporate adaptation governance signals a new way of thinking regarding transparency. This also links to increasing pressure and opportunity for businesses to be more open as to how they are considering risks, what they are doing about those, and how all of this is driving new growth and more responsible investment that has the ability to produce benefits at broader scales.

Companies are now expected to address these environmental issues while also not being "climate laggards" in this space. Insurers, lenders, re-insurers and investors are increasingly aware of the kinds of changing conditions and operational environments that we face, and are changing the way they think and invest. Being transparent about the emerging risks and also the actions that are taken in response is a key indicator of climate leadership, while at the same time it is and should be seen as prudent risk management.

The reality is that our world is changing: Greenland is melting faster than ever before, we are consistently breaking most temperature records across nations and cities and are experiencing a range of unprecedented weather events. For the businesses operating both in Australia and the broader Asia Pacific, this should signal a significant shift in mindset that moves from short-term thinking into longer-term planning.

There are a range of opportunities for how to proceed that include more rigorous understanding of risks and adaptation in corporate governance, partnering with innovative start-ups that are already working to deliver social impact projects and programs, and embedding long-term thinking into corporate plans. In this process, companies that embrace both the "doing good" (reducing environmental impacts and increasing social impact) and the notion of transparency, will continue to do well in a changing climate. This is where the global adaptation science community can also make a significant contribution by working together with businesses to develop and enable evidence-based adaptation.

Dave Hunt | AAP Image

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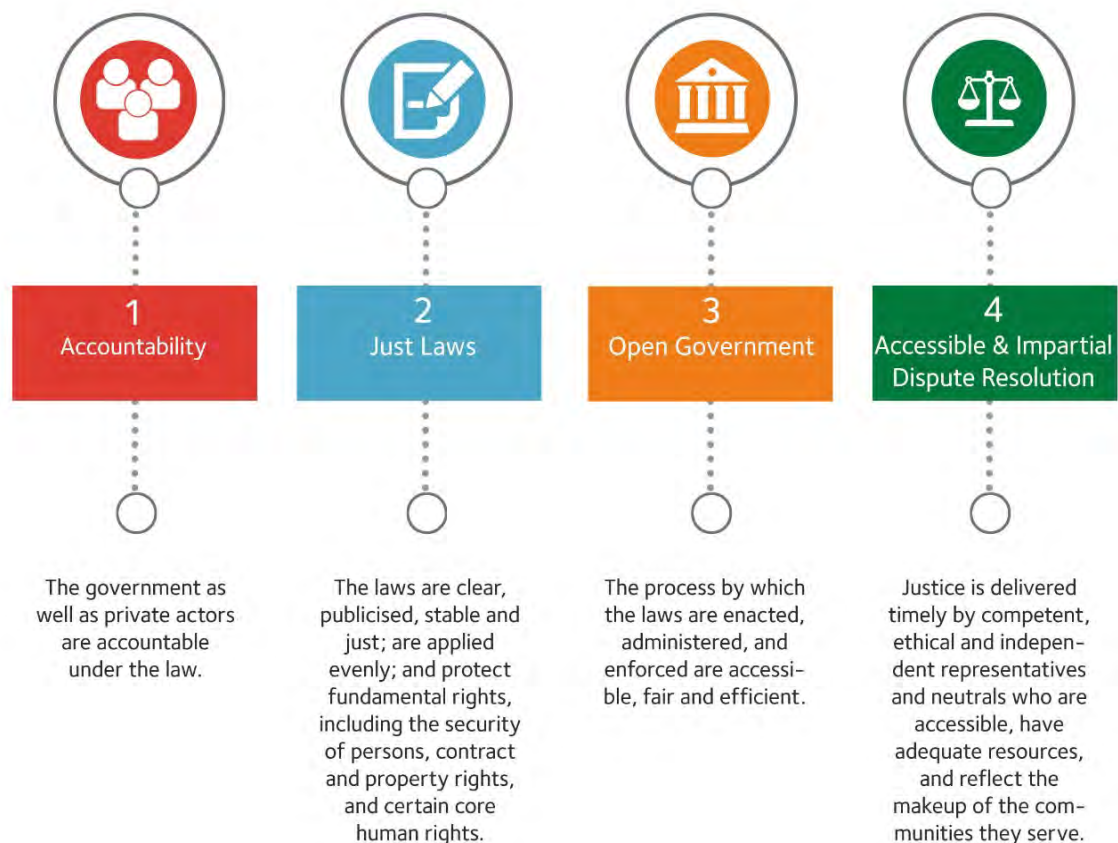11   Climate Planning, 'About Informed.City'.

6 ASSESSING THE STATE OF THE RULE OF LAW IN SOUTH EAST ASIA

—

Lucy West and Leong Tsu Quin

Why the rule of law matters

The rule of law is a principle concerning the relationship between a government and its citizens. At the core of the rule of law is the capacity of the law and the legal system to impose meaningful restraints on arbitrary actions by the state and powerful individuals. It implies that the law binds both the state and other societal actors and protects people from injustices. The World Justice Project articulates the rule of law as embodying four universal principles:

Figure 1: Universal principles of the rule of law

1 Accountability	2 Just Laws	3 Open Government	4 Accessible & Impartial Dispute Resolution
The government as well as private actors are accountable under the law.	The laws are clear, publicised, stable and just; are applied evenly; and protect fundamental rights, including the security of persons, contract and property rights, and certain core human rights.	The process by which the laws are enacted, administered, and enforced are accessible, fair and efficient.	Justice is delivered timely by competent, ethical and independent representatives and neutrals who are accessible, have adequate resources, and reflect the makeup of the communities they serve.

Source: Adapted from The World Justice Project.[1]

A robust rule of law based on the above principles supports the following objectives:

- Helping to combat corruption and poverty;
- Ensuring that individuals, organisations and governments are subject and accountable to the law;
- Ensuring that the law is transparent and applied consistently and impartially; and
- Ensuring that there is fairness and certainty in the legal system.

Australia's commitment to the rule of law is articulated in the *2017 Foreign Policy White Paper*. 'Our adherence to the rule of law extends beyond our borders … We do not seek to impose values on others. We are however a determined advocate of liberal institutions, universal values and human rights'.[2] Efforts to cultivate a robust rule of law culture have been a key feature of bilateral foreign aid programs, and in

the agendas of multilateral organisations such as the World Bank. For countries emerging from periods of political conflict, strengthening the rule of law and relevant institutions is regarded as integral to securing peace and the democratic transition. In business environments, the rule of law provides a framework of predictable rules and accountability, resulting in greater economic participation and improved productivity.

The rule of law, while for many serving as a universal political ideal, has by no means been accompanied by a universal commitment. The World Justice Project reports that globally we are seeing countries' rule of law performance in the areas of human rights, checks on government powers, and civil and criminal justice decline.[3] Even mature democracies like the United States and Australia are displaying declining trends in fundamental aspects of the rule of law. Rising authoritarian trends, populist political figures, disregard for minority rights and retreat from international obligations pose the gravest challenges to the rule of law.

As a region, South East Asia has legacies of authoritarian rule, political interference in the judiciary and human rights violations sanctioned by state actors. The silencing of critics, attacks on the press and the legislating of draconian laws have sometimes been justified with reference to upholding or enforcing "the rule of law".[4] Such moves have eroded institutional safeguards, such as constitutional courts and anti-corruption and human rights commissions and led to the weakening of the rule of law in the region.[5]

South East Asian states often rank poorly in global rule of law indices. For example, the World Justice Project *Rule of Law Index 2019* ranked the following South East Asia countries out of 126 countries surveyed globally on public perceptions of the rule of law: Singapore (13), Malaysia (51), Indonesia (62), Thailand (76), Vietnam (81), Philippines (90), Myanmar (110) and Cambodia (125).[6] But poor rule of law performance in South East Asia is not an isolated case, with regional trends appearing to mirror global ones.

Given Australia's extensive economic relationships and people-to-people links with South East Asia, it is important that Australian businesses recognise and understand the rule of law variations operating in the region. This is especially crucial in considering investment opportunities, the facilitation of trade, and in understanding and mitigating political risk when dealing with the countries of the region. A deeper understanding of each individual country's socio-political culture and legal institutional framework will ensure a richer comprehension of social, legal, and business landscapes, and identify opportunities to explore some the region's key rule of law challenges.

Unpacking the "rule of law"

Rule of law vs rule by law

In contrast to the "rule of law", the notion of "rule by law", which is sometimes used to characterise political regimes in South East Asia, relies on the law to govern but rejects the fundamental requirement that law binds both the state and other state actors. "Rule by law" is often invoked when referring to a government manipulating laws for political purposes and refusing to subject itself to be accountable before the law. In short, "rule by law" implies the use of a 'legitimate legal order to serve illegitimate goals'.[7]

Common and civil law traditions

Recognising how the rule of law is understood across the civil and common law legal traditions is important for understanding the rule of law nuances operating in South East Asia and more broadly. Around 90 per cent of the countries in the world follow a civilian legal code, as a result of French colonial encounters. In contrast, the common law tradition which originated in England was transplanted to North America and other British colonies, including New Zealand and Australia.

The common law tradition developed to protect the property rights of individuals and to limit the authority of the state to expropriate private resources. Within the common law tradition, the law is considered to be above the government because the government is subject to it. Civil law systems on the other hand served more as an instrument for the state to expand its power and regulate its citizens. The civil law tradition holds the idea that the state is supreme, and the role of the individual is to submit to it. Where the common law places law as sovereign above the government, the civil law tradition holds that the lawmaker is sovereign.[8]

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What this means is that in civil law jurisdictions, there is a much greater onus on the legislature to make "good" laws, which in turn, requires a supporting political culture. In civil law systems, constitutional review occurs either during or just after the legislative process. There is little scope for supreme or high courts to later strike down laws as unconstitutional in particular cases, as is the case in common law jurisdictions.[9]

Other than the former British colonies of Singapore, Malaysia and Myanmar and the mixed-systems operating in countries such as the Philippines and Thailand, South East Asia is also home to countries with civil law traditions, namely Cambodia and Indonesia.[10] Because in a civil law system there is less capacity for the judiciary to check executive power, there is evidence to suggest that illiberal and authoritarian regimes can more readily justify their actions under the label of the "rule of law".[11] Consequently, we see notable distinctions in how the rule of law is defined, understood and applied in the region.

"Thin" versus "thick" rule of law definitions

Despite the universal value ascribed to the rule of law there is by no means a universal definition. The rule of law can be distinguished as having either "thin" (procedural) or "thick" (substantive) characteristics.[12] A thin rule of law is understood as the formal or procedural aspects of the legal process, which emphasises restraints on arbitrary interference from political or other actors, as well as the promotion of transparency, stability and equity in the application and enforcement of law.

Thicker definitions tend to build on these minimal or procedural elements of a "thin" rule of law and attribute it as a principle of governance, adding democratic values, civil liberties, or citizenship rights. The United Nations for example, defines the rule of law in these substantive terms, adding that the content of law and its application must be consistent with international human rights norms and standards.[13] "Thick" or substantive rule of law definitions are largely based on the view that civil liberties and human rights are underpinning values of the democratic political system.

"Thick" understandings of the rule of law—i.e., to protect and maximise individual liberty— have typically seen discourses being intimately connected to democracy and good governance initiatives. Such definitions and conceptualisations can become highly sensitive when dealing with countries that have a legal tradition and a political culture not underpinned by liberal democratic values.

Rule of law trends in South East Asia

South East Asia is currently home to a diverse range of governance systems: from an absolute monarchy in Brunei, to one-party communist systems in Laos and Vietnam, to periodic military regimes in Thailand, to quasi-democracies in Singapore, Indonesia, Malaysia, and the Philippines.[14] The region has a complex political history of varying commitment to democracy and the rule of law.

While many countries hold elections, the other aspects of a liberal democracy, such as adherence to the rule of law and the protection of minority rights are not guaranteed. Despite some positive developments in Malaysia and Timor-Leste following their 2018 polls, the region continues to experience governments increasingly relying on repressive tools to crack down on the political opposition, journalists, activists and human rights defenders. Various challenges, including the lack of accountability, have also contributed to the systematic dismantling of the rule of law and a growing climate of impunity for rights violations. The following sub-sections provide an overview of the current trends concerning the rule of law and human rights in South East Asia that should be on the radar of Australian businesses operating in the region.

The rise of authoritarian governments

Political developments in the region have seen a concerning acceleration towards authoritarian regimes that threaten the rule of law and human rights. Through the manipulation of laws and democratic processes, many South East Asian governments have been able to eliminate the political opposition, justify their repressive counter-measures and tighten their grip on political institutions, notably the judiciary. Much of this has been carried out with the state justification of "enforcing the rule of law".

Since taking office in June 2016, Philippine President Rodrigo Duterte's "war on drugs" has claimed thousands of lives. Other than the conviction of three police officers for the extrajudicial killing of a 17-year-old boy, there remains a complete lack of accountability for other killings during the war.[15] Soon after the International Criminal Court announced a preliminary enquiry into crimes related to the Philippine's "war on drugs", President Duterte announced the country's withdrawal from the Rome Statute[16]—a move that officially took effect in mid-March 2019. Those who have been vocal and worked to shed light on the country's human rights situation have become targets of intimidation, including journalists, lawmakers and human rights defenders. The removal of Supreme Court Chief Justice Maria Lourdes Sereno in 2018—another outspoken critic of President Duterte's policies—marked a 'worrying signal of the decay of democracy' and undermined the critical separation of powers in the Philippines.[17] Following the recent midterm polls, President Duterte's allies have now strengthened their majority in the Senate, paving the way to revive efforts to reinstate the death penalty and to rewrite the Constitution.

Meanwhile, Cambodia has declined into a one-party authoritarian state after Prime Minister Hun Sen's Cambodian People's Party (CPP) was re-elected in a landslide victory. The months leading up to the July 2018 vote saw the CPP government lead a severe and systemic crackdown on all forms of dissent. The most pronounced being the Supreme Court's November 2017 ruling to dissolve the country's popular opposition, the Cambodia National Rescue Party (CNRP). This saw 118 senior members banned from participating in politics for five years. Cambodia's vibrant free-press also suffered major blows with the closure of *The Cambodia Daily* and a dozen independent Khmer language radio stations. Former CNRP members and other individuals continue to face judicial harassment and CNRP leader Kem Sokha, who was arrested in September 2017 under politically motivated 'treason' charges, remains in detention under house arrest.[18] In response to Cambodia's blatant disregard for the rule of law and worsening human rights record, the European Union (EU) is currently reviewing its 'Everything but Arms' (EBA) trade scheme, which allows Cambodia to export products (with the exception of armaments) to the EU at reduced tariff rates.

Across the border in Thailand, Prayuth Chan-o-Cha—the former head of the military junta since the 2014 coup d'état—was elected as Prime Minister in the polls earlier this year. This comes after the country held long overdue polls under a 2017 junta-drafted Constitution, designed to ensure the military's continued role in politics.[19] The years prior to the March 2019 election under military rule saw a rapid decline of human rights through the use of repressive laws—such as the Computer Crimes Act, sedition charges and a range of decrees introduced by the then ruling military-led National Council for Peace and Order (NCPO)—to silence critics and opposition voices.

Opposition politicians under attack:
Law as a political weapon

Declining democratic trends across South East Asia have resulted in increased attacks on opposition parliamentarians. ASEAN Parliamentarians for Human Rights (APHR) has documented how opposition politicians in several ASEAN countries, including the Philippines and Cambodia, have faced trumped-up criminal charges and other forms of harassment, preventing them from exercising their mandate to represent their constituents. Below are two lawmakers' profiles to illustrate how laws and state institutions have been misused to silence political opponents:

Senator Leila de Lima is one of the staunchest critics of Philippine President Rodrigo Duterte and has been the target of vicious political persecution and vilification for her opposition to the "war on drugs". As the then Chair of the Senate Committee on Justice and Human Rights, she led an investigation into the extra-judicial killings under the current administration. This led to her ousting as committee chair. De Lima was arrested on 24 February 2017 on charges related to alleged drug trading and has remained in detention since. Her case has been marred by significant delays—it took approximately 18 months before she was arraigned in one of her three cases—and to date, at least six judges have withdrawn themselves from hearing her case. The trial has commenced in all three cases. However, even from within the walls of her detention cell, she has continued to file bills and resolutions on issues such as poverty and human rights.

In 2017, CNRP's Vice-President Mu Sochua was forced into exile amidst a crackdown on opposition leaders and civil society actors. Her party was arbitrarily dissolved the same year through a Supreme Court ruling that led to her and over 50 other elected members to lose their parliamentary seats. This disbandment ahead of the 2018 election allowed Prime Minister Hun Sen and the CPP to run unopposed and win all parliamentary seats—effectively turning Cambodia into a de facto one-party state. Despite this win, Cambodian authorities have continued to harass opposition politicians and government critics. In March this year, Mu Sochua and seven other CNRP members were charged with 'plotting and incitement to commit felony'.[20] Mu Sochua recently co-founded the Courage Fund which aims to support Cambodian dissidents, and she remains a prominent advocate for a more rights-respecting and democratic Cambodia.[21]

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Human rights violations and impunity

Across South East Asia there is a growing climate of impunity for human rights violations. For decades the mostly-Muslim Rohingya have faced systemic discrimination and been denied citizenship status in the Buddhist majority Myanmar (Burma). Violence peaked in August 2017 when the Arakan Rohingya Salvation Army (ARSA)—a Rohingya armed group—attacked police posts in Myanmar's northern Rakhine state. This prompted a military crackdown by Myanmar security forces and their proxies in the form of mass killings, sexual violence, arbitrary attests and the burning of entire villages. Consequently, over 740,000 Rohingya have fled Myanmar, with the vast majority crossing the border to neighbouring Bangladesh.

United Nations (UN) Secretary-General Antonio Guterres has referred to this as 'one of the world's worst humanitarian and human rights crises'.[22] The UN's Human Rights Chief even labelled it a 'textbook example of ethnic cleansing'.[23] An independent UN fact-finding mission has called for the investigation and prosecution of senior Myanmar military personnel for genocide, crimes against humanity and war crimes. Despite this, the Myanmar government has continued to deny the abuses and has failed to bring those responsible to account.[24] Repatriation attempts are currently underway, but many refugees and human rights groups have cited the continued lack of access to citizenship and accountability for these crimes as the main reason people fear returning.

As the search for accountability and justice continues for the Rohingya community, their plight reminds us of the deep-rooted culture of impunity that operates in the region. In the Philippines, apart from the extrajudicial killings of suspected drug traffickers, the country also has the highest number of unsolved murders of journalists in the world.[25] Hun Sen's Cambodia continues to demonstrate that political and economic elites operate outside of the rule of law in a culture of impunity. Many Cambodians still cite the cases of slain Free Trade Union leader Chea Vichea (2004), environmental activist Chut Wutty (2012) and political commentator Kem Ley (2016), as evidence of Cambodia's legal system and the administration of justice failing to hold the true perpetrators to account.

Similarly, in Timor-Leste, impunity remains for the serious human rights violations committed during the Indonesian occupation from 1975-1999.[26] There has also been little progress in reconciling past human rights abuses in Indonesia—including the mass killings of 1965-66 that targeted members and supporters of Indonesia's Communist Party—despite promises from President Joko Widodo to do so during his election campaigns.[27]

China's influence in South East Asia

With China now exercising a more assertive character on the global stage, many governments are wondering what this means for Beijing's closest neighbours in terms of adhering to the "rules based international order".[28] Recently we have seen China's system of hi-tech censorship and surveillance, coupled with tough Internet regulations, serving as a model for South East Asian nations. Reporters Without Borders and Freedom House have captured details of how the Chinese government is exporting its model of politics beyond its own borders.[29]

Between 2017 and 2018, many South East Asian countries were found to have already received either training on information management, artificial intelligence surveillance technology, or telecommunications infrastructure from China.[30] For example, Vietnam has introduced a cybersecurity law that closely resembles China's following a training for Vietnamese officials. In April 2017 the Cambodian government signed an "information cooperation" agreement with China that includes training in online censorship and surveillance.[31] This took place only a few months prior to the CPP's crackdown on independent media outlets and civil society organisations.

Mark Schiefelbein | AP
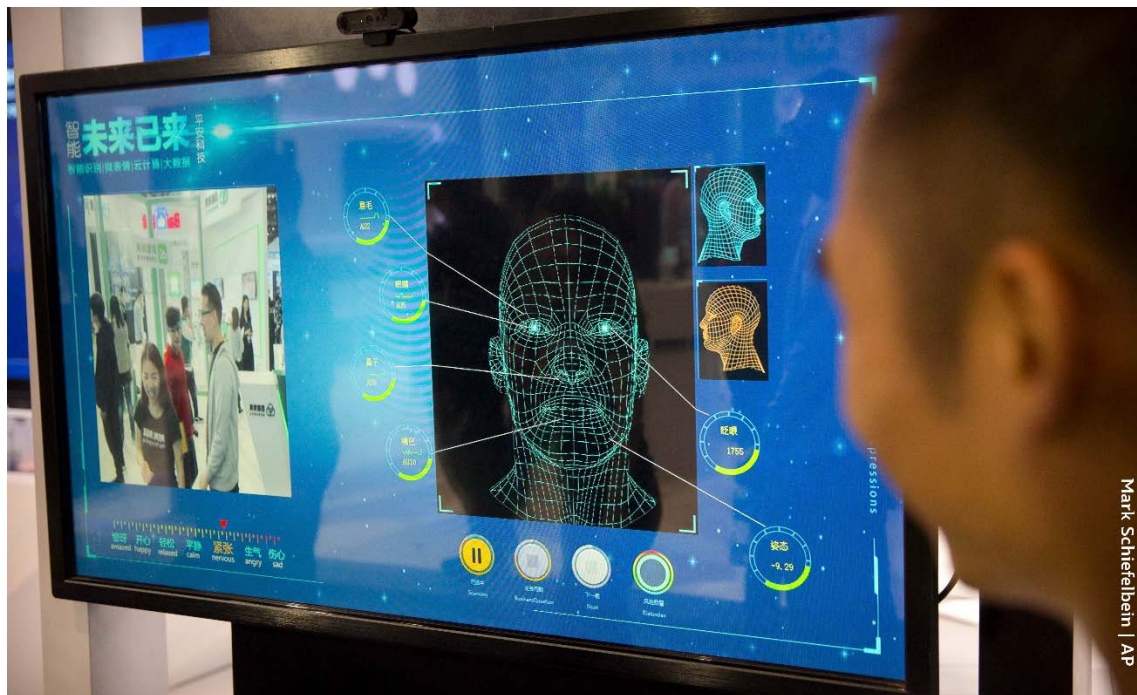
Investing in South East Asia's rule of law: The role of businesses

The rise of authoritarian politics and disregard for the rule of law means that living, working and doing business in South East Asia will likely become more challenging for the foreseeable future. Most indicators point to a continuing decline in democratic values and the rule of law across the region. According to the Australia–ASEAN Chamber of Commerce 2019 survey, 43 per cent of Australian businesses in South East Asia found corruption as the main barrier to operating in the region.[32] As the Australian business community

is expected to increase investments in the region, it is ever more important for the Australian private sector to actively support a more robust rule of law in South East Asia for long-term corporate success.

A robust rule of law helps to combat corruption and poverty and protects citizens and businesses from arbitrary political decisions and regulations. As the World Justice Project argues: 'every sector of society is a stakeholder in the rule of law'.[33] Paying attention to a country's rule of law landscape is important for a business' risk assessment for the following reasons: i) the uneven enforcement of regulations; ii) corruption; iii) ineffective dispute settlement mechanisms; and iv) reputational aspects. These realities can undermine legitimate business activity and impact domestic and foreign investment.

Essentially, what this requires is a strong institutional framework that ensures laws are enforced equally through accessible and impartial institutions, in line with international human rights standards and norms.[34] A lack of predictability threatens to undermine investor (and individual) sentiment and confidence.[35] This is where efforts to strengthen legal frameworks and promote more accountable institutions where Australian companies operate in becomes crucial. Many Australian businesses are well placed to support such initiatives either through their core business operations or in-kind contributions. This includes through strategic social investment in legal education or legal aid projects for vulnerable groups.

Enterprises can also positively address gaps in the rule of law through partnerships with a range of stakeholders, including governments, bar associations, organisations, and civil society actors. Such collaboration could be a suitable option, particularly where a host country is more sensitive to issues on human rights and the rule of law. As Australia is a good example of a country with a well-developed legal regime, companies can use this leverage to play a significant role in supporting the domestic adoption of laws that are transparent, impartial, and applied consistently. Being part of the Global Compact Local Networks in the region is another opportunity for companies to promote economic growth and sustainable development for the benefit of all.[36]

Australian investment in South East Asia's rule of law can help Australia better understand the region and support better engagement with its Asian neighbours. It is also an opportunity for Australian businesses to critically reflect on their own practises to ensure compliance with universal human rights norms, including the Guiding Principles on Business and Human Rights—the global standard on the subject matter. Corporates have the responsibility to integrate human rights protections in their policies and processes, and conduct due diligence to mitigate any risks of human rights violations and avoid business activities with actors involved in atrocity crimes.[37]

Encouraging the Australian government to resume dialogues to develop a National Action Plan (NAP) on Business and Human Rights will help set out clear expectations for responsible business conduct at home and abroad. In October 2017 the Australian government announced that it was not proceeding with a NAP, despite extensive consultations with academia, the business community and civil society. According to the Human Rights Law Centre, the NAP would have identified a 'range of policy reforms to implement Australia's international law obligations … and enhance protections for those harmed by Australian business activities'.[38] Some South East Asian nations are in the process of developing NAPs, including Thailand, Malaysia, Myanmar, Indonesia, and the Philippines.[39] Australia's decision not to go ahead with this is a reputational risk for Australian companies operating in South East Asia and is at odds with the rhetoric of engagement and partnership.

Conclusion

The rule of law may be universal as a political standard, but across South East Asia we can observe opaque judicial procedures, non-independent judiciaries, impunity and disregard for human rights and inconsistent application of the law. There is evidence of governments adopting the language of the rule of law to suppress the political opposition and civil society. This demonstrates how the universal standard of the rule of law has by no means been accompanied by a universal definition and application.

As such, it is integral for Australian businesses to recognise and understand the various rule of law permutations that operate in the region. A richer understanding of South East Asia's rule of law landscape will help Australian businesses to better navigate commercial and regulatory environments. Their proactive role to support the strengthening of a robust rule of law culture in the region will not only contribute towards meaningful risk reduction, but also create a more business-friendly environment for sustainable and long-term success.

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7 ENVIRONMENTALLY SUSTAINABLE WATER MANAGEMENT IN THE ASIA PACIFIC

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Stuart Bunn, Mark Kennard and Sue Jackson

Introduction

Balancing water needs for human use and for the protection of freshwater ecosystems is one of society's great challenges. Freshwater is not distributed uniformly across the globe nor often in relation to patterns of human settlement, and overuse and pollution further diminish available water supplies. As a consequence, much of the world's population is exposed to a high level of threat to water security—as are freshwater ecosystems.[1]

The Asia-Pacific region is a global hot spot for water insecurity: 1.7 billion people currently lack access to basic sanitation and approximately 80% of wastewater is discharged into rivers, lakes, and the sea with little or no primary treatment. It is estimated that up to 3.4 billion people could be living in water-stressed areas by 2050 given projected increases in water demand for food production, domestic supply, manufacturing, and electricity production.[2] There is little doubt that water will become a constraint on economic growth in a number of countries unless significant effort is directed toward improved water management.

The Asia-Pacific region also sustains outstanding freshwater biodiversity and a high societal dependence on environmental services (e.g. fisheries) that healthy rivers and wetlands provide. Freshwater ecosystems are home to extraordinary biodiversity, but almost one in three freshwater species is threatened with extinction world-wide,[3] and populations of freshwater vertebrate species have fallen at more than twice the rate of those on land or in the oceans.[4] South and South East Asia are by far the most threatened regions.

Many human populations in the Asia Pacific rely on rivers and wetlands for a large part of their diet and subsistence. In these areas, rice is the major source of carbohydrate but fish is the major, if not only, source of animal protein and a major source of minerals.[5] Consumption of freshwater fish is particularly important for the physical development of children, and not only often represents a cheaper source of animal protein but also a preferred part of local and traditional recipes. Technologies required in freshwater fisheries are relatively low in cost and therefore widely available to millions of people, including to women and children who frequently harvest small, but nutritionally important quantities from the river and wetlands near to their homes. In Asian countries, fish make up a larger proportion of household expenditures in low income households.[6]

The path to environmentally sustainable water management

The prospect of sustaining current rates of development and improving livelihoods in the Asia Pacific clearly depends on the precious natural resources provided by healthy aquatic ecosystems. However, decades of neglect have degraded the environment and its natural resources as governments across the region have prioritised rapid economic growth over environmental objectives. Asia's leaders are now looking to green their economies as part of their commitment to the 2030 Agenda for Sustainable Development.

Meeting the Sustainable Development Goal (SDG) targets[7] to protect and restore water-related ecosystems (SDG6.6; 15.1) and reducing land-based pollution (SDG6.3) poses a major challenge in the Asia-Pacific region (see Figure 1). However, there is concern that these will be insufficient to reduce rates of freshwater biodiversity loss without commitment to additional priority actions. These include the rapid

implementation of environmental flows, reducing exploitation of freshwater species and the mining of riverbed materials, controlling invasive species, and safeguarding river connectivity.[8] There is an excellent opportunity to review the SDG targets and other indicators relevant to this challenge and identify practical steps for implementation at the Conference of the Parties (COP 15) to the Convention on Biological Diversity, to be held in China in 2020.

Figure 1: Sustainable Development Goals

	SDG 6.3: By 2030, improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. **SDG 6.6:** By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.
	SDG 15.1: By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

Source: United Nations.[9]

Priority environmental water challenges for the Asia Pacific

In a recent review, we assessed four priority environmental water challenges for the Asia-Pacific region (see 'Four Key environmental water quantity and quality challenges in the Asia Pacific'),[10] using indicators from a recent global river threat assessment and the Asian Water Development Outlook. These indicators, together with published information on threats to river health and freshwater biodiversity in the region, were used to assess information and capacity needs to address each of these dimensions of environmental water management.

## Four key environmental water quantity and quality challenges in the Asia Pacific

1. **Environmental flows**:[11] The provision of water for the environment is a key action to meet SDG targets 6.6 and 15.1. The flow needs for floodplain and coastal wetlands, which are often of great significance for fisheries and international agreements for migratory waterbirds, are of particular importance in the region.

2. **Fragmentation and connectivity**: Dams and other in-channel barriers have a major impact on migratory aquatic species, including important fisheries species, while levees reduce floodplain subsidies that sustain the high aquatic production in many lowland rivers.[12] Dams also trap sediment and are associated with shrinking deltas,[13] and the loss of important river–wetland connections.

3. **Water pollution and river health**: Addressing water pollution (SDG 6.3) is essential to protecting aquatic ecosystems and freshwater biodiversity (SDG 6.6 and 15.1) and is a key action to make drinking water safe (SDG 6.1). Point source pollution from industry and urban sources is a significant problem in many developing countries in the region. In addition, many countries are also dealing with similar land-based pollution problems to those in Australia and improving catchment resilience in the face of increasing extreme weather events is a key challenge.

4. **Biodiversity and conservation planning**: The region is known for its high freshwater biodiversity,[14] and includes significant floodplain wetlands and lakes for migratory waterbirds. New approaches are needed to guide future water infrastructure investment, to minimise risks to freshwater biodiversity, fisheries production and other flow-dependent values such as cultural heritage.

Most countries across Asia show high levels of flow alteration (i.e. their rivers have low hydrologic integrity; see Figure 2). Dams have not only significantly altered flow regimes and disrupted connectivity in many rivers, but also reduced sediment delivery to the sea. Delta shrinkage has been reported for several large rivers, including the Yellow, Zhujiang (Pearl River) and Yangtze in China, the Chao Phraya (Thailand) and the Mekong (Viet Nam).[15]

The proposed boom in hydropower development in the Himalayan region[16] will mean that impacts from flow alteration and fragmentation are likely to increase. There are already emerging issues with dams and loss of connectivity in the Mekong.[17] Up to 50% of the annual fisheries yield in the Mekong basin could be compromised if uncontrolled development continues.[18] Replacing this lost food base may lead to further degradation of the river environment already stressed by external pressures and it may intensify poverty.[19] Many fish species of commercial and subsistence importance in the Ayeyarwady Basin, Myanmar, are also migratory and face similar threats from water resource development.[20]

Figure 2. Geographic variation in indicators of environmental water integrity
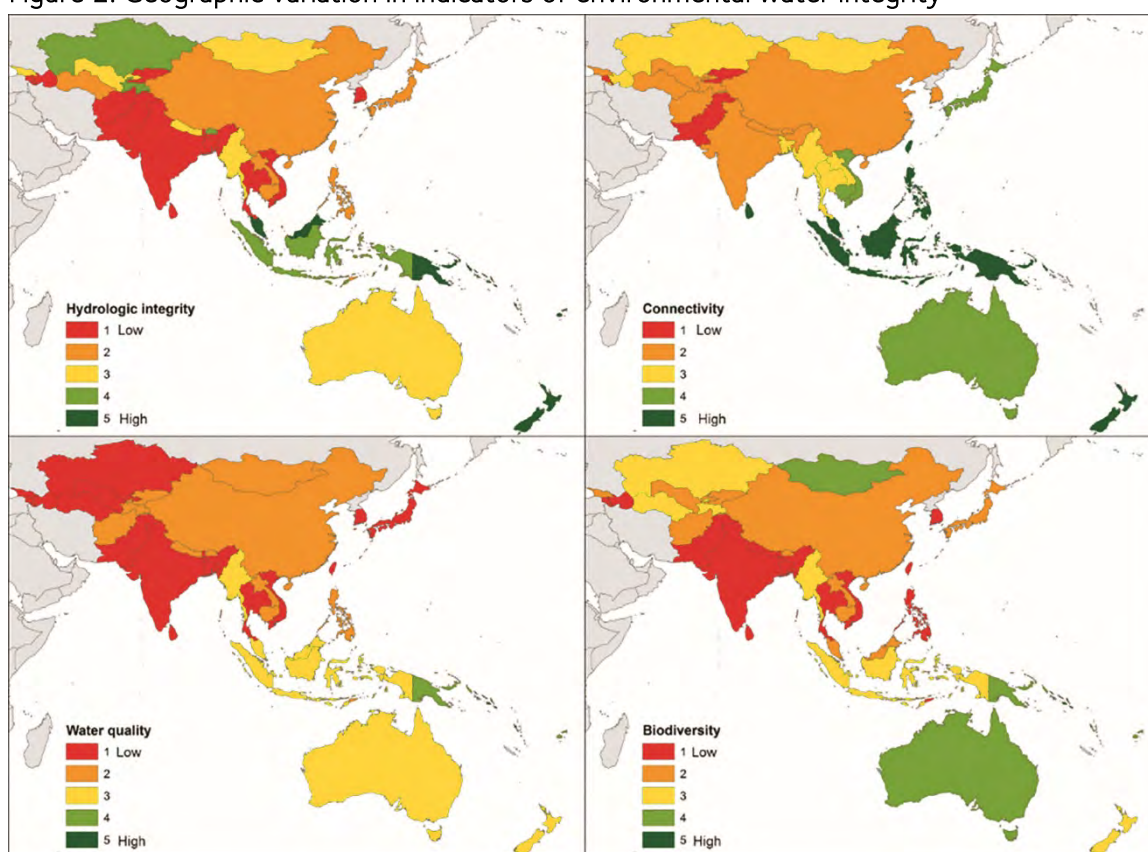
Source: Bunn, Kennard and Jackson 2019.

The United Nation's Food and Agricultural Organization's (FAO) recent assessment of the state of the world's fisheries noted that water management plans often ignore the needs of these fisheries and that 'demands on freshwater systems from hydropower, irrigation and industry feature more prominently in policy discussions, especially in developing regions where people's dependence on fisheries is greatest'.[21] Although dams can generate renewable energy and jobs, and may contribute to better flood control in the wet season and a greater water supply in the dry season, river regulation and fragmentation represents a particular risk to inland fisheries, making this an important consideration in dam assessments.

The gendered impact of flow alteration from hydro-electricity programs is also a noted feature of the socio-ecological changes underway in South Asia, particularly the Himalayas. The benefits of energy projects are skewed in favour of urban populations over the rural communities in which women labour in agriculture. Women in India bear an unequal burden within their rural communities when irrigation and household water, land, and forest resources are reduced due to hydropower, and from climate and land intensification-induced changes such as erosion.[22] Hydro schemes are contributing to environmental degradation that, when combined with low returns from agriculture, drives migration of rural men and youth to urban areas. This migration is adding to urban energy demand and adding to rural women's work.

In addition to flow alteration and loss of connectivity, poor water quality is a major threat across Asia and overall river health is poor and declining in many countries. Over-abstraction, pollution, mining and structural modifications of the river corridor, as well as a loss of connectivity with floodplains, have changed the character and function of rivers in China to the extent that many are no longer ecologically or physically recognisable.[23] About 80% of the major rivers in China have become too polluted to sustain commercial fisheries, and fishes have been eliminated from at least 5% of the total river length.[24] Water pollution is also a major threat to human health and is associated with a high incidence of liver and stomach cancers, the leading causes of cancer mortality in rural China.[25]


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Forest land conversion to agriculture and other uses, and deforestation by legal and illegal logging have caused serious erosion and sedimentation problems and pollution in the downstream portions of catchments in Indonesia.[26] These threats are then exacerbated by population pressures as people move into new areas.

Data on river health and threats for many island countries is incomplete. Generally, the risks to the environment are relatively low; however, deforestation and associated water quality changes represent a significant threat to freshwater fish diversity and downstream coastal areas (e.g. Fiji).[27] Deforestation of catchments in volcanically young and rugged high islands has led to massive soil erosion and impacts upon wetlands.[28] Conversion of tropical rainforest to oil palm plantations is also an emerging issue, in countries like Papua New Guinea.[29] Water quality impacts from mining on freshwater fisheries have also been recorded.[30]

Capacity to address these challenges

The *Yale Environmental Performance Index*[31] provides a coarse measure of the level of each nation state's institutional capacity and willingness to reduce and prevent environmental degradation (see Figure 3).

Figure 3. Map of geographic variation in environmental governance
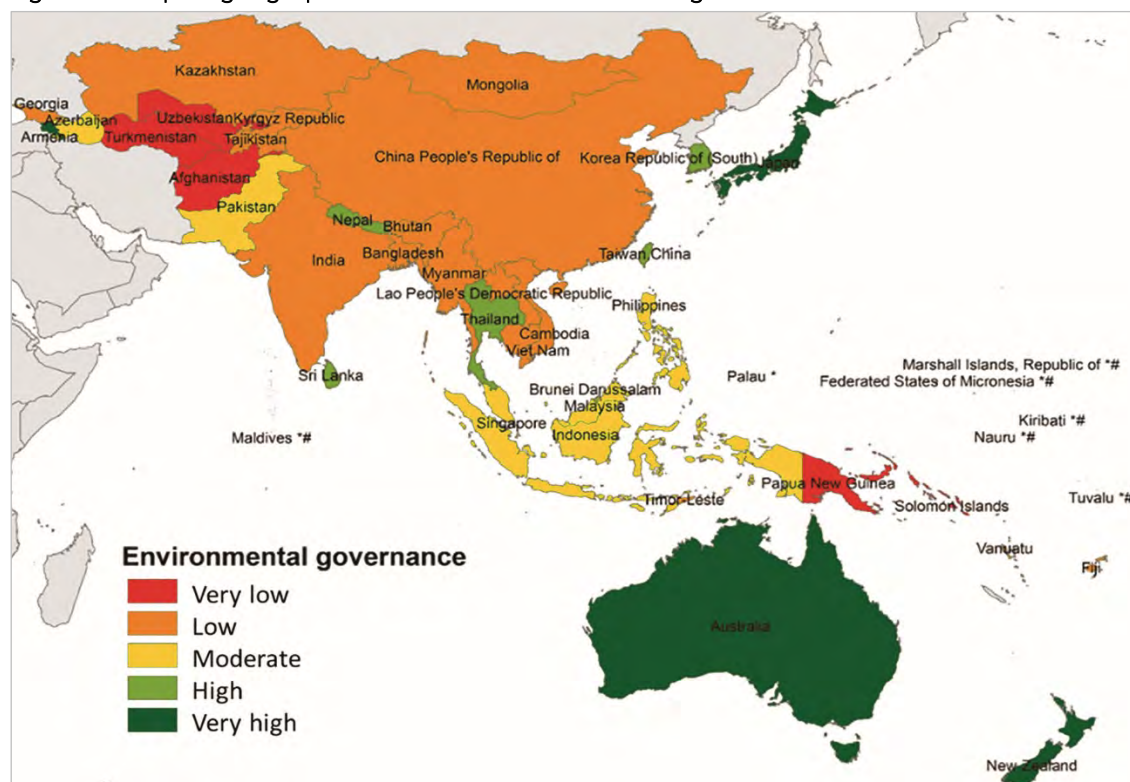
Source: Bunn, Kennard and Jackson 2019.

With the exception of a few countries like Sri Lanka, Nepal, Thailand and Singapore, environmental governance is ranked low to very low across Asia (see Figure 3). Many countries have policies related to different water uses and in most there is a national water policy that refers to integrated water resource management (IWRM) and addressing environmental concerns. However, none has a well-defined policy for providing flows to maintain the ecological integrity of rivers and associated aquatic ecosystems.[32] At best, some countries (e.g. Nepal) recognise downstream water requirements as a water right and recommend that minimum flow requirements be established.

Environmental flows have yet to be main-streamed into water resources planning, development and management decision making in many countries. In India, the government has not developed a clear policy or technical guidelines or operational procedures for conducting reconnaissance level or comprehensive environmental flow assessments or to support their implementation or enforce compliance.[33] The few detailed studies of environmental flows to date in India have concentrated on the upper reaches of the River Ganga.[34] Socio-cultural factors are growing in importance in environmental flows work in India.[35]

Myanmar has recently undertaken the Ayeyarwady State of the Basin Assessment (SOBA), which included an ecohydrology assessment to characterise the status and trends of key aspects of the Basin's flow regime that are likely to be of importance to biodiversity and fisheries and explored the associated risks from water infrastructure (e.g., through the loss of connectivity due to in-stream barriers or the impoundment of key habitats).[36]

China has recently implemented an ecological redline policy (ERP) to tackle environmental degradation and secure ecosystem services for the future.[37] Since 2005, there has been increased interest in river restoration, especially in urban areas. The objectives vary with location—in the north of the country, where water resources are scarce, most projects have focused on environmental flows and restoring aquatic habitat, in the south the focus is more on improving water quality and river health.

A number of government directives are now in place to facilitate this investment—including the release of new guidelines for river restoration planning in 2015 by the Ministry of Water Resources. In 2015, the Chinese State Council issued the 'Water Pollution Prevention and Control Action Plan' ("Water Ten Plan"). This includes objectives to reduce the percentage of badly polluted water bodies so that over 70% of water in 7 key rivers becomes suitable for drinking supply and recreation (Grade III) or better, and to reduce groundwater over extraction and pollution.[38]

There is generally insufficient baseline data on freshwater quality to evaluate the impacts of developments or land use practices in many of the Pacific Islands, and little data available on the physical, chemical and biological processes in island watersheds, including soil erosion, loss of biodiversity and land clearance. Few Pacific Islands have specific legislation that centrally addresses wetland issues.[39] Although there are some laws relevant to various wetland issues from the perspective of various individual government sectors, their enforcement is either limited or not coordinated across government or industry.

Conclusion

Nowhere else in the world is there a greater need for investment to address environmental water issues than the Asia-Pacific region, and especially South East Asia. The region represents the confluence of outstanding freshwater biodiversity, high societal dependence on environmental services that healthy rivers and wetlands provide, and a high level of threat to these values that is rapidly intensifying.

Australia has a strong international reputation in environmental water planning and policy, underpinned by a solid foundation of hydroecological science. Australian researchers have also played a significant role in the development of practical guidelines for river rehabilitation, and the development and implementation of innovative tools for monitoring and reporting on river ecosystem health. There is clearly international interest in these approaches to address environmental water quality and quantity challenges. Growing concerns about the environmental and social costs of water pollution and over-allocation will undoubtedly stimulate further demand for Australian expertise over the coming decade and open up new opportunities for private-sector investment in on-ground implementation of nature-based solutions.

There is a compelling need to build capacity and provide tools for environmental flow management in South East Asia and address issues of fragmentation and loss of connectivity, especially in the larger transboundary river systems with important fisheries (e.g. Mekong, Ayeyarwady, Salween). While there is adequate hydrological information for many of these systems, basic knowledge on fish ecology and fisheries, river ecology, sediment transport and on human uses and values of aquatic resources is very limited within the scientific community.[40] Such information will be essential to underpin the consultancy-based processes deployed by international banks and others.

China is South East Asia's most important upstream riparian country, sharing over a hundred rivers and lakes with 18 downstream countries.[41] Building capacity and developing tools for effective environmental water management in China may also lead to improved outcomes in the broader region, through information sharing and improved management of transboundary rivers.[42]

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