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Griffith Asia-Pacific Strategic Outlook 2024

Unlocking Asia Pacific's global leadership in sustainable development

Edited by Christoph Nedopil and Gloria Ge

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About the Griffith Asia Institute

Griffith Asia Institute (GAI) is an internationally leading partner for an inclusive, sustainable and prosperous Asia-Pacific. We build capacity and create positive impact through partnerships in sustainable economics and business, politics, international relations, security, and inclusive development. Founded more than 25 years ago, GAI has 130 members and is the largest institute of Griffith Business School at Griffith University.

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About this Publication

The ***Griffith*** *Asia-Pacific Strategic Outlook* is a publication of the Griffith Asia Institute, Griffith University, Queensland, Australia. This collection of policy briefs serves as a platform for disseminating initial research outcomes pertaining to sustainable development within the Asia-Pacific region. The findings, interpretations and conclusions expressed in this paper are those of the author(s) and should not be attributed to Griffith University or affiliated organisations. For more information, email gai@griffith.edu.au or visit our website at griffith.edu.au/asia-institute.

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FOREWORD

I am delighted to introduce the Griffith Asia-Pacific Strategic Outlook 2024. This publication offers a comprehensive analysis of the Asia-Pacific region's pivotal role in global development, with a specific focus on its importance for Australia. Developed by the Griffith Asia Institute, a globally leading institute at Griffith Business School, this compendium offers a comprehensive and incisive analysis of the multifaceted issues that define the strategic landscape of the Asia Pacific.

The Asia-Pacific region holds significant influence across economic, political, and social spheres, making it a linchpin in the global arena. Given Australia's geographical proximity and extensive economic interdependence with the region, it is crucial to understand the complexities and opportunities that arise from this interconnectedness.

The publication's issue briefs cover a range of topics critical to the Asia Pacific, such as green transition, sustainable development, inclusive growth, and labour mobility. Additionally, the dedicated focus on Pacific and Southeast Asian issues reflects an understanding of the diverse challenges and prospects within these sub-regions, underlining their intrinsic significance in the broader strategic calculus.

The Griffith Asia-Pacific Strategic Outlook 2024 is tailored to meet the needs of decision-makers in Australia and globally. By distilling complex issues into accessible insights, the publication serves as an indispensable resource for informing policy formulation, business strategies, and civil society initiatives. Its relevance extends not only to stakeholders within Australia but also to a global audience keen on understanding the evolving dynamics of the Asia Pacific.

What sets this publication apart is the collaborative effort that underpins it: All chapters were co-authored with leading partners from the region, such as the Asian Development Bank Institute, National University of Singapore, or Institute for Essential Services Reform in Indonesia. Such partnership is key to ensuring excellence in research while delivering policy and practice impact within the region.

In conclusion, the Griffith Asia-Pacific Strategic Outlook 2024 is a testament to the University's commitment to fostering informed dialogue and scholarship on global issues. I commend the Griffith Asia Institute for curating this publication, which I am confident will serve as a lodestar for navigating the complexities and opportunities that define the strategic landscape of the Asia Pacific.

I trust that the insights offered here will galvanise meaningful action and discourse among its readers, propelling constructive engagement and collaboration for a more prosperous, equitable and sustainable future.

Professor Caitlin Byrne
Pro Vice Chancellor (Business)
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EXECUTIVE SUMMARY

The Asia-Pacific region encompasses a vast geographical expanse, characterised by diverse landscapes, climates, cultures, religions, and economies. It is home to the world's two most populous countries, India and China, as well as the Pacific Island countries, which comprise a significant area hosting many of the most isolated and smallest nations on Earth, such as Nauru and the Marshall Islands.

Against this backdrop of complexity, the Asia-Pacific region remains a cornerstone of global growth, with Asia projected to contribute to 60 per cent of global GDP growth in 2024. This resilience is rooted in the region's remarkable economic progress over the past five decades, which has lifted hundreds of millions of people out of poverty and positioned several economies at the forefront of technological advancement in areas such as green energy, new energy vehicles, green finance, digital economy, agriculture and food. The Asia-Pacific region has a unique opportunity to become the world's leader in sustainable development. However, the region faces pressing challenges that undermine its sustainable development potential. Foremost, these include climate change, democratic resilience, inclusive growth, shifting geopolitics, and tightening monetary conditions.

The Griffith Asia-Pacific Strategic Outlook (GAPSO) serves as a crucial platform for comprehending the multifaceted challenges and identifying opportunities within the region, addressing both local and global Sustainable Development Goal (SDG) priorities. To this end, the Griffith Asia Institute has collaborated closely with regional partners to identify and analyse megatrends and pathways for navigating the complexities of the Asia-Pacific region, with the overarching aim of unlocking the region's potential to be the global leader in sustainable development.

We have identified six major themes – three regional and three sectoral themes that serve as cornerstone for fostering sustainable development leadership in Asia Pacific: green transition, inclusive growth and labor market as sectoral themes, and China, Pacific, Southeast Asia as regional themes.

While each theme necessitates specific forms of analysis and measures to drive sustainable development, we have identified four core recommended actions to accelerate Asia-Pacific leadership in sustainable development.

Core Recommended Action 1: Build trust

Trust is the foundation of collaboration for sustainable development in Asia Pacific. While this should not come as a surprise, trust between nations and also within nations has deteriorated over the past decade. For example, while multiple Western nations including Australia were officially cooperating with China on the Belt and Road Initiative (BRI) in 2015, this is not the case in 2024. Dependence on China for trade and investment has increased in the region, while the latest State of Southeast Asia Report 2023 found that more than 68.5 percent of those who see China as most influential in the political and strategic sphere are concerned about its expanding influence. Trust seems further eroded by lack of shared information and divergent interpretations of shared issues, including on territorial issues or the urgency of acting on climate change.

Building trust is thus essential to even have a discussion on topics and to accelerate accelerated sustainable development in Asia Pacific. We propose to build trust by:

- Utilising universities and other civil society organisations across the region as a neutral convening place for respectful discussions and interactions through research and educational exchange programs
- Foster joint knowledge creation to develop shared language around issues at hand. This may involve developing mutually agreed-upon perspectives on geopolitical matters such as the South China Sea, establishing definitions and data for issues like inclusive growth or emissions, and sharing instances of success and lessons to enhance learning, such as in green finance and resource governance
- Expanding sports and culture diplomacy to build familiarity of different cultures to a broad overseas audience.

Recommended Action 2: Foster better knowledge and understanding of China

China has become largest trading partner, largest investor and green innovation leader for most Asia-Pacific economies. Almost all themes in GAPSO mention China—whether it is for green growth, in relation to Pacific or Southeast Asia, or to support inclusive growth through ecosystems such as Alibaba's. Yet, the region's understanding of China, trust in China and conflict potential with China vary widely driving ambitions to "de-couple", "diversify", or "deter" China, as well as to "cooperate", "co-finance", and "trade" with China.

Possible reasons for this conflicting view on China are the size and complexity of China (including its governance, history, economy), a (perceived) lack of transparency from China, as well as China's rapid evolution from a manufacturing powerhouse to an innovation powerhouse which seemed unthinkable just a few years ago. Concepts of China are in consequence often outdated and drive misunderstandings of China. The only constant remains that China is here to stay and is poised to become economically and politically more powerful in the years to come.

Understanding China, engaging China while ensuring economic and political non-dependence on China are essential to foster peaceful, green and overall sustainable development for all of Asia-Pacific as well as each economy in the region. Specific actions to be taken include:

- Update and improve knowledge on China (e.g., economy, technology, finance, policy, society) regularly while keeping a balanced perspective
- Strengthen partnerships with Chinese partners, e.g., in research and civil society
- Build platforms for knowledge sharing with regional partners that have experiences in engaging with China to share lessons learnt (e.g., how to ask China for green finance support, how to deal with China's political system and influence).

Recommended Action 3: Identify and focus scarce resources for cooperation on shared issues

Asia and Pacific economies have a complex multitude of issues to deal with and priorities are often very different between the countries. At the same time, resources for cooperation are scarce: time of diplomats, policy makers and business people on the one hand, public and private money on the other hand driven by economic uncertainties and continued sovereign debt crises across many Asian economies. Nevertheless, cooperation among Asia-Pacific economies brings significant benefits to accelerate sustainable growth as it supports social and economic development, nature and climate protection and peaceful co-existence. We recommend focussing cooperation on specific topics of maximum joint interest to generate positive development and reduce the risk of negative outcomes through bilateral and minilateral (e.g., ASEAN, APEC, BRI) settings. The identified shared issues are quite clear:

- Push for climate action and biodiversity protection with the need to mobilise finance, technology and capacity for the energy and social transition. Given its geographical location, certain areas in the Asia-Pacific region are among the most vulnerable globally to the direct impacts of climate change and biodiversity loss.
- Drive peaceful co-existence with the urgent need to agree on a common language, common definitions and improve processes for addressing land and ocean borders (e.g., South China Sea), as well as resource use (e.g., Mekong river).
- Enhance democratic resilience for example by improving information through independent, accessible and trusted media as well as by ensuring fairness of election procedures.
- Ensure food security where Asia Pacific faces increasing food security risks (with an estimated 375 million people experiencing hunger in 2020) and increased vulnerability to climate change and biodiversity loss.

Recommended Action 4: Harness the green and digital transition to propel Asia-Pacific economies and create inclusive growth opportunities

The green and digital transition serves as the catalyst for inclusive economic growth in Asia Pacific. Already today, more individuals in the region are employed in green sectors than in traditional fossil fuel energy industries. The Asia-Pacific region possesses the potential to surpass global standards in its green transition, elevating millions of people to a healthier lifestyle (e.g., reduced pollution) while ensuring significant employment and food security across societies. Leveraging this opportunity necessitates proactive measures from both the public and private sectors, including transparent communication and equitable distribution of benefits among those adversely affected by the transition.

- Accelerate the green transition through public sector entities. State-owned enterprises that control the majority of high-emitting assets across many Asia-Pacific economies must improve governance and leadership to become drivers not barriers for green development. Private enterprises similarly require regulatory support and access to green finance to continue driving innovations in energy (e.g., green hydrogen, local green industry manufacturing jobs), food (e.g., alternative proteins), and transportation (e.g., zero-emission vehicles).
- Embrace digitalisation, which has already provided significant growth opportunities across the region through new means of financing (e.g., micro-finance), trade (e.g., e-commerce) and services (e.g., e-government). With a relatively young population willing to try and use new technologies, Asia-Pacific economies can leapfrog development to reach more people and lower cost creating new jobs on the way. However, governance is of greatest important to ensure fair access and protection of data.

- Focus on inclusive growth: Despite the region's economic growth in recent decades, the Asia Pacific remains home to 1.7 billion people living on less than USD 2 per day. Rapid economic growth has not translated into an equitable distribution of opportunities and income. Achieving truly inclusive growth, addressing the diverse needs of people across Asia and the numerous micro-, small-, and medium-sized enterprises (MSMEs), necessitates improvements in digital technologies for finance and information sharing, essential worker training (as mentioned above), and ensuring access to finance (credit, insurance), which may include direct transfers.

- Foster fair, open and sustainable trade that enables MSMEs as well as multinational enterprises (MNEs) to access new markets in Asia Pacific and create jobs across the region. Several trade agreements, such as RCEP, APEC, ASEAN or PACER Plus are active in the region. Yet, trade remains often unbalanced. More work is needed to ensure access to markets while protecting local businesses, particularly with new opportunities through digitalisation and green growth.

Clearly, the devil of action resides in the details, and further research, convening, and sharing of lessons will be pivotal in nurturing Asia-Pacific leadership in sustainable development, fostering inclusive, green, and prosperous societies. Recognising the nuances among countries underscores the significance of the thorough analysis and insider perspectives provided in the six themes in this Strategic Outlook:

1. "Chasing the Asia-Pacific green transition opportunity," authored by Christoph Nedopil, Rob Hales (both from Griffith Asia Institute), Lawrence Ang (Managing Director of Climate Smart Ventures, Singapore and the Philippines), and Fabby Tuwima (Managing Director of the Institute for Essential Services Reform, Indonesia). This article emphasises that Asia-Pacific economies stand at a critical juncture in surpassing the rest of the world in green transition. However, achieving this necessitates bold and inclusive decision-making to swiftly address five challenges and evade climate and nature loss catastrophes. These challenges include accelerating the energy transition by reforming state-owned enterprises, scaling up green financial systems, mitigating biodiversity risks, fostering climate-smart businesses, and facilitating a just green transition.

2. "Leaving nothing to chance: Sustaining Pacific development beyond 2024," an in-depth analysis of Pacific island countries' prospects in advancing sustainable development objectives, authored by Anna Naupa (Australian National University) and Tess Newton Cain (Griffith Asia Institute). This article explores the intersection of economic prospects, climate outlook, and geopolitical dynamics with three regional priorities: deepening regional resolve, safeguarding Pacific democratic cultures, and leveraging Pacific agency. Based on their analysis, the authors offer high-level and practical recommendations to Pacific leaders and external partners to address the delicate and complex issues facing the region.

3. "Engaging China for sustainability in Asia Pacific," written by Christoph Nedopil, Chen Gang (National University of Singapore), and Lili Mi (Griffith Asia Institute), delves into the complexities of collaborating and competing with China in the region. The article underscores the importance of engaging China for sustainability in AsiaPacific, highlighting the need for partnership and cooperation among Asian, Pacific, and Western economies to achieve sustainable development goals. The authors emphasise the necessity of solidifying mutual trust through cooperation on shared interests like climate change and green economic transition.

4. "Achieving inclusive and equitable growth in Asia-Pacific," written by Shawn Hunter and Dian Tjondronegoro (Griffith Asia Institute) with contributions by eight authors from the region in collaboration with the Asian Development Bank Institute (ADBI). This article examines financial inclusion, women's economic inclusion, bridging the digital divide, food security, green financing, and artificial intelligence in the Asia-Pacific region. Despite the region's success in poverty reduction, challenges related to inequality persist, exacerbated by the COVID-19 pandemic. The authors advocate for a multidimensional approach to addressing inequality and highlight the complexities faced by governments and development practitioners in designing and implementing effective development strategies.

5. "Development Outlook: Exploring the opportunities of Southeast Asia," authored by Andrea Haefner (Griffith Asia Institute) and Sovinda Po (Center of Southeast Asia Studies, Cambodia), discusses key developments in Southeast Asia that will influence the period between 2024-2026 and beyond. The article underscores Southeast Asia's rapidly growing and diverse economy, highlighting both traditional and non-traditional security risks, including the unresolved South China Sea dispute and transnational issues like terrorism and public health crises. Addressing these developments is crucial for achieving a sustainable, inclusive, and economically prosperous subregion.

6. "Confronting labour market challenges in South Asia: An SDG perspective," co-authored by Mohd Avi Hossain from the International Labor Organization (ILO) and Iyanatul Islam (Griffith Asia Institute), aims to address the contradictions of rapid economic growth and significant poverty in South Asia. The article examines challenges related to employment, wages, social protection, gender disparities, the green economy, and digitisation. The authors emphasise the need for policymakers to make a resolute commitment to addressing labour market challenges to realise the aspirations of the Sustainable Development Goals (SDGs).

While acknowledging the importance of other topics such as trade and artificial intelligence (AI) in the region, we contend that the issues we've highlighted are paramount for the strategic outlook and sustainable prosperity of Asia Pacific. Addressing these challenges necessitates unique regional approaches built on multidisciplinary research, capacity building, and collaborative action, rather than relying solely on global solutions.

Griffith Asia-Pacific Strategic Outlook provides decision-makers in policy, business, and civil society with a comprehensive analysis of megatrends and actionable pathways. It is a starting point for discussion, partnership and action. Time, however, is of essence as a failure to quickly address the region's challenges, such as climate change, democratic resilience, or equitable and inclusive development, can swiftly precipitate a downward spiral for businesses, societies, and the planet. This is especially pertinent as social, political, and ecological tipping points become increasingly apparent, evidenced by conflicts in the South China Sea, escalating risks of climate catastrophes, disenfranchised populations seeking alternatives, and the proliferation of political blocs engaged in perilous economic and security competitions.

Yet, we believe that by working in partnership to address these identified challenges, we can unlock a sustainable development leadership trajectory for the region, fostering peaceful coexistence and inclusive prosperity for all economies in Asia Pacific.

AUSTRALIA'S OPPORTUNITY IN UNLOCKING ASIA-PACIFIC'S GLOBAL LEADERSHIP IN SUSTAINABLE DEVELOPMENT

Australia is an essential economy within Asia Pacific contributing 5 percent to the region's GDP. It is among the richest economies in the region (measured by GDP per person) with globally leading universities, health care providers, commodities firms, tourism destinations and much more. At the same time as being anchored in Asia-Pacific, Australia is considered a global North country with strong cultural, economic, and security ties to traditional Western powers, such as the USA and the EU. This position allows Australia to have a significant influence on collaborating in the region and globally.

Based on the Griffith Asia Pacific Strategic Outlook, we identify the following actions Australia can take to engage Asia-Pacific on its pathway to becoming a global leader in sustainable development:

1. Utilise its unique position to be the pillar of trust, consensus and democracy in the region. Australia could foster joint research in core areas of shared interest (e.g., climate, food, biodiversity, democratic resilience) through joint funding schemes with partner countries. Furthermore, Australia could utilise its universities and other venues as a neutral convening space to enable decision-making in crucial topics. To this end, Australia could utilise the opportunity to attract COP32 to Brisbane in close partnership with Pacific islands fostering global collaboration on climate change. It could also present itself as an ambassador for collaboration, sustainability and mutual respect through the 2032 Olympics.

2. Walk the talk of climate action and biodiversity protection through accelerated green transition of its economy. Currently, about 23 percent of Australia's exports are fossil fuels and another 2.5 percent are red meats – two sectors identified as contributing most to climate change and biodiversity loss. Australia's economy currently undermines global green growth targets, as well as its credibility as a partner for Pacific islands fighting against rising sea levels from climate change.

   At the same time, Australia has significant opportunities in green growth – from innovating food systems, e.g., by reducing lifetime emissions of meat production and providing alternative protein products, to using its vast land and commodity resources for the green energy transition, e.g., by building vast solar and wind farms to export electricity rather than fuels. Australia could unlock this potential offering investment opportunities for domestic and international partners linked to green growth that unlocks not only Australia's green economy but offers great opportunities for jobs, innovation and financial returns across the region.

3. Expand green regional collaboration to work with Asian partners on providing capacity, technology and finance to accelerate the green transition across Asia. While Australia is engaging through bilateral means (e.g., the Department of Foreign Affairs Australia Awards program brings regional executives to learn about climate finance, sustainable growth etc to Australia), Australian public and private partners could expand tripartite or minilateral collaboration opportunities to utilise different types of knowledge, technology and finance. This cooperation could also include Chinese partners, e.g., to accelerate the green energy transition where Chinese partners lead in providing technology, but all other partners can create significant value through activities such as planning, financing, and management. It can further establish and lead a climate adaptation fund for Asia Pacific and take leadership in climate adaptation measures in the region.

Champion open, fair and sustainable trade including through trade-enabling support for MSMEs in the Pacific, Southeast Asia, and South Asia. Australia as a trusted rules-based economy can work through the Asia-Pacific Trade Facilitation Forum as well as with like-minded regional powers such as Korea and Japan to facilitate knowledge exchange on trade facilitation measures that enhance resilience of international supply chains and support sustainable economic recovery. It can provide special support and access for inclusive and green supply chains that provide opportunities for MSMEs and low-carbon and nature-positive trade.

Chasing the Asia-Pacific green 'Just Transition' opportunity

Christoph Nedopil, Robert Hales, Lawrence Ang, and Fabby Tumiwa

INTRODUCTION

Asia-Pacific economies stand at a critical juncture in outpacing the rest of the world in its green transition. China, as one example, "invested over USD 50 billion in new photovoltaic (PV) supply capacity—ten times more than Europe! It created more than 300 000 manufacturing jobs across the solar PV value chain since 2011", writes the International Energy Agency (IEA).[1] As a result, in 2023, green industries contributed 40 per cent to China's Gross Domestic Product (GDP) growth with value added from these industries equal to the total GDP of Switzerland.[2] Singapore's central bank (Monetary Authority of Singapore), meanwhile, is leading efforts to green the financial system and develop financial instruments to accelerate the phase-down of coal-fired power plants: In December 2023, it launched the Transition Credit Coalition (TRACTION) and two pilot projects in the region to finance early retirement of coal plants[3], as well as a new sustainable taxonomy to allow finance coal retirement under green finance considerations.[4] Vietnam, on the other hand, launched its new Power Development Plan, (PDP8), which sets out clear policy and economic ambitions for a greener energy system.[5]

Yet, a successful green transition in Asia Pacific is all but certain. Hopes for a green transition through the Just Energy Transition Mechanism (JETP) supported by Group of 7 (G7) countries in Vietnam and Indonesia, or similarly through the Energy Transition Mechanism under the Asian Development Bank (ADB) in countries including Pakistan mostly underdelivered.[6] New coal-fired power plants are still being built across the region, for example, India plans to add 80 gigawatts (GW) by 2031,[7] while China commissioned 47 GW in 2023.[8]

Chasing the green-just transition opportunity in Asia Pacific requires decisionmakers in policy, business, and research to be bolder and more inclusive as well as to understand and develop solutions to sticky challenges both domestically and regionally.

Five issues stand out:

1. Energy transition and state-owned enterprises

Asia's energy demand is projected to increase by two-and-a-half times by 2050, driven by economic growth, population growth, and urbanisation. Already now, the region accounts for more than 60 per cent of global greenhouse gas emissions, mostly from energy. Most of the energy system, however, is controlled by state-owned enterprises with political and economic incentives to keep the status quo. What are the challenges for policymakers for the green energy transition to set incentives for both private investments in equipment manufacturing and electricity systems, and to address the behemoth of state-owned enterprises that control power systems across Asia based on fossil fuels?

2. Finance

Asia's emerging market and developing economies need investment of at least $1.1 trillion annually to meet climate mitigation and adaptation needs. This compares to current investments of about USD 330 million.[9] How can financial systems become greener to mobilise more private capital, while particularly vulnerable countries (e.g., in the Pacific) can also secure more climate finance from international development finance organisations?

3. Biodiversity risks

By 2050, Asia is projected to experience the highest rates of habitat loss, primarily due to land clearing for agricultural purposes, which implies even higher human pressure on the environment.[10] In Southeast Asia alone, up to 42 per cent of all species could be lost by the end of this century under a business-as-usual scenario.[11] Not addressing biodiversity, puts 63 percent of Asia-Pacific GDP at risks, while nature-positive business opportunities could deliver USD 4.3 trillion of annual economic value and generate 232 million jobs in the region, according to a joint study by Singapore's state asset company Temasek, the World Economic Forum and AlphaBeta.[12]

4. Climate-smart businesses

Corporations are facing increasing pressure to address climate change to reduce stranded asset risks as well as to expand corporate opportunities in the green economy. Some corporates have been leading and engaging in setting standards (e.g., through associations such as ASEAN or GFANZ). Others have boards that want to keep the status quo and risk not only undermining global climate goals but to undermining their fiduciary duty.[13]

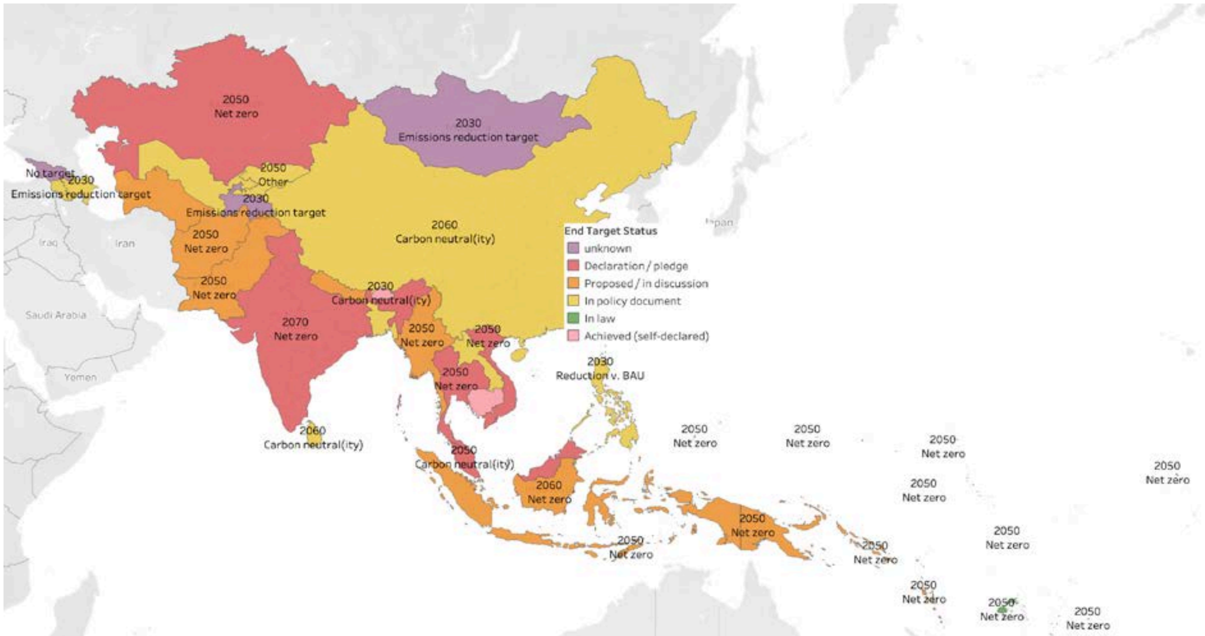
5. Just Transition

The fossil economy is currently a key source of employment, particularly among developing nations. Based on IEA's estimates, of the 8.4 million employed globally across the coal value chain, more than 80 per cent of these individuals are in Asia.[14] The concept of a just transition in Asia must address the need to achieve net-zero targets and preservation of local biodiversity addressing issues such as job security and livelihoods.

ENERGY TRANSITION POLICY AND THE ROLE OF STATE-OWNED ENTERPRISES IN ASIA

Most Asian and Pacific economies have set national climate ambitions through nationally determined contributions (NDCs) and policy commitments with net zero emission or carbon neutrality goals anchored in proposals, policy documents, and laws (see Figure 1).

Figure 1: Climate commitments of ADB developing member countries



Source: Data sourced from Net Zero Tracker. [15]

The energy sector plays a vital role in achieving this transition and the energy systems across the Asia Pacific have traditionally been dependent on fossil fuels. In ASEAN economies, for example, 80-90 per cent of primary energy consumption was from coal. For a long time, green electricity additions have been slow and green energy share (solar) has increased only slightly to 2.1 per cent in 2021 through the addition of 40 TWh of capacity.[16]

Conceptually, greening the energy sector requires a two-pronged approach: a much-accelerated phase-down of coal to reduce emissions and, simultaneously, a massive build-out of green energy including the necessary transmission and power storage facilities. This concept was generally agreed upon at COP28 in Dubai in 2023 with the commitment to triple the green energy installations.

Practically, however, this continues to be difficult for various Asian economies, for three interrelated reasons:

1. Policy design and the role of SOEs: Energy markets in most countries across the world are highly regulated where planning, supply and demand, as well as the price of electricity, are partly determined by regulators. However, compared to most other global markets (even other emerging markets), energy markets in many Asian economies have a peculiarity in that they are dominated by state-owned enterprises (SOEs). SOEs often dominate power generation and often monopolise power transmission and distribution in addition to oil and gas supply. SOEs often fulfil a dual mandate for social development and financial returns—governments as the SOE (State Owned Enterprises) owners, in return, regions are spending freely on providing subsidies. Asian fossil fuel subsidies increased rapidly since 2020 and were worth more than USD 4 trillion in 2022, which is more than half of the world's global fossil fuel subsidies, according to the IMF (International Monetary Fund).[17] The government support for SOEs and the high market capture by SOEs in the region is a detriment to private companies to invest in a greener energy system. Apart from new government regulation, SOEs meanwhile have little financial incentive, no significant competition, nor

any cost to keep on emitting due to the lack of significant carbon pricing that would force them to accelerate the energy transition. Any accelerated green energy transition threatens current business models and a write-down of existing assets in fossil fuels, such as coal-fired power plants (stranded asset risks). Similarly, policymakers have often little incentive to change the system, particularly in countries with strong national resource endowments in coal or gas (e.g., Indonesia, Pakistan) that bring tax revenues. Paired with the belief of many policymakers in the region that fossil fuel-based power systems are more reliable and affordable than renewables, an accelerated energy transition might get stuck. This might also explain the flip-flopping of various countries in the energy transition, such as Pakistan, which announced in 2020 to not build new coal-fired power plants under its old President, and yet continues to build new ones under new leadership.

2. Technology import dependence: Asia's green energy transition depends on technology (e.g., solar panels, distribution systems, power storage systems) imported from China. In solar, China controls 80 per cent of the global market.[18] Few Asian excluding China countries have significant local manufacturing jobs in green energy (exceptions are, e.g., Vietnam, Malaysia and Indonesia with Chinese companies setting up factories there). Adding the need to build not only power generation plants but also significant upgrades to the transmission network and power storage systems, the current set-up is economically less attractive for many Asian countries than the current local economic value addition through fossil fuels, particularly if the country has fossil reserves in coal or gas creating stable local jobs. A technological solution particularly for smaller power grids microgrids (see Box 1).

3. Finance: The IEA estimates that about USD 190 billion investment per year is needed in Southeast Asian countries alone to reach the 1.5-degree target.[19] While too many fingers point to the private sector for mobilising capital to finance the transition, the current power markets in many Asian economies allow for limited private sector engagement due to the strong role of SOEs – which makes private investors wary.

Box 1 | Early retirement of coal plants[20]

ACEN has launched its Just Energy Transition (JET) Roadmap for the South Luzon Thermal Energy Corporation coal-fired power plant at COP28. Developed in partnership with the Coal Asset Transition Accelerator (CATA), the roadmap focuses on clean energy replacement, decommissioning, asset repurposing, community transition, worker reskilling, and continuous improvement. ACEN's CEO, Eric Francia, highlighted the importance of a proactive and inclusive transition process, setting a precedent for the industry in Asia. The collaboration with CATA aims to support a smooth transition away from coal while prioritising the well-being of workers and communities.

The partnership with CATA, consisting of Climate Smart Ventures, Carbon Trust, and Rocky Mountain Institute, signifies a global effort to accelerate the shift from coal to clean energy in a just and sustainable manner. ACEN's JET Roadmap sets a new standard for private power companies in Asia, showcasing innovative models for repurposing coal assets and ensuring a smooth transition for affected stakeholders. The initiative not only emphasises environmental benefits but also prioritises the holistic development of communities and workers, setting a replicable model for future coal-to-clean transitions globally.

FINANCE FOR A SUSTAINABLE ASIA PACIFIC

Asia's emerging market and developing economies need investment of at least $1.1 trillion annually to meet climate mitigation and adaptation needs. This compares to current investments of about USD 330 million making a massive mobilisation of resources urgently necessary.[21] Earlier investments will allow for lower peak emissions and thus lower climate risks, while possibly creating more jobs (see Table 1).

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Table 1: Impacts of climate transition scenarios on Asia-Pacific economies

	Current Unconditional Net Zero (based on stated policy without international support)	Net Zero 2050 (based on stated policies, with international support)	Net Zero 2050 (Cost optimised with international support)
Earliest year in which caron emissions peak in the Asia Pacific	2025	2022	2022
GDP impact relative to baseline	Peaking at +5.0% in 2033 +1.9% in 2060	Peaking at +6.3% in 2031 +1.8% in 2060	Peaking at +6.1% in 2031 +1.9% in 2060
Cumulative investment required	USD 53.1 trillion	USD 71.2 trillion	USD 69.0 trillion
Change to Asia-Pacific trade balance by 2060	+USD 782billion	+USD 824 billion	+USD 872 billion
Absolute Jobs impact	Peaking at +25.1 million in 2033 +11.0 million in 2060	Peaking at +36.5 million in 2032 +5.4 million in 2060	Peaking at +34.6 million in 2032 +5.3 million in 2060
Household energy cost impacts by 2060	-USD 261 billion	-USD 265 billion	-USD 270 billion

Source: Asia Society Policy Institute.[22]

However, with vast differences in their economic and institutional settings, Asia-Pacific economies have vastly diverse needs and access to climate finance (see Figure 2). Countries with no capital stock and dependence on fossil fuels but good economic development potential can be considered first movers (potentially Myanmar) and might access development finance and microfinance. Countries like Indonesia, meanwhile, could be categorised as fossil fuel extractor countries with high transition risks and the need for financial transfers to accelerate the green energy transition. Most Pacific islands would be considered climate-vulnerable countries with a high need for development finance. More developed Asian countries such as China, India, Thailand, Korea, and Singapore would be considered large current and future emitters with often strong domestic capital markets and the ability to mobilise all types of finance. These countries also often have more developed green capital markets to issue domestic green bonds (see Figure 3), partly even in domestic currencies. These countries are then also often leading in developing green finance taxonomies to spur more investors to invest in green. In 2023, for example, ASEAN economies agreed to a sustainable finance taxonomy[23] that spurs green investment and allows financing of the retirement of coal plants (adopted further, for example, by the Monetary Authority of Singapore.[24] In that vein, these countries were also leading efforts by the Glasgow Alliance for Net Zero (GFANZ), an alliance of global financial institutions, to develop guidelines for financing early coal retirement in the Asia Pacific.[25]

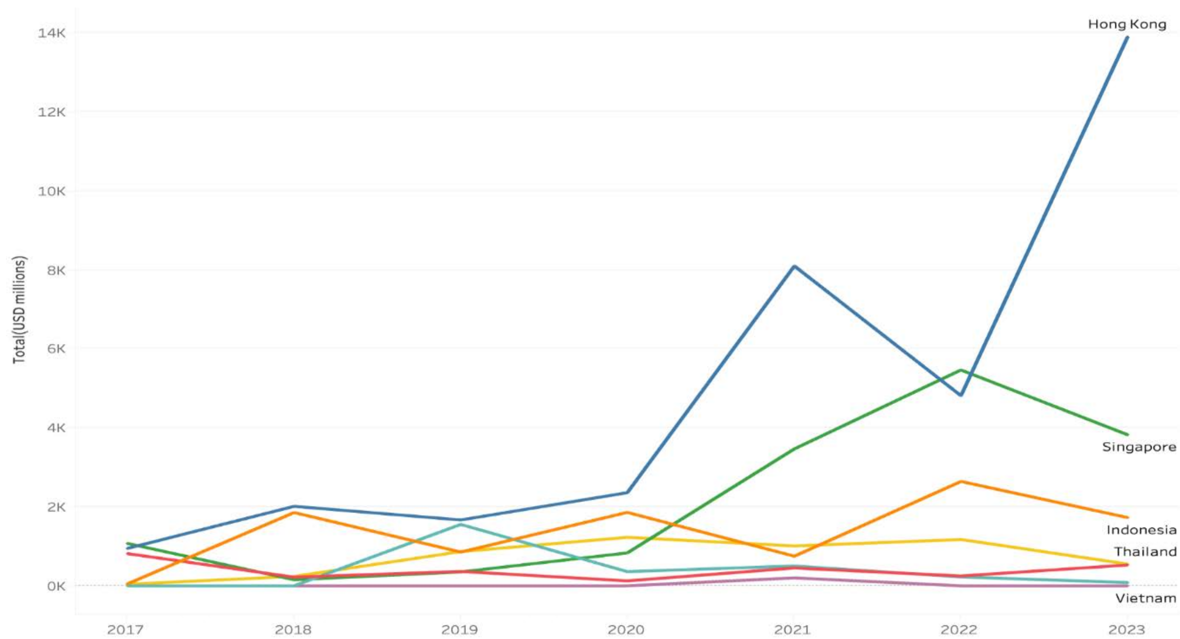
Figure 2: Types of Asia-Pacific economies and the need for climate finance

Source: Authors, extended from Gallagher et al, 2023.[26]

Meanwhile, countries receiving overseas support, such as through JETP (e.g., Vietnam, Indonesia), have often struggled to make use of these support mechanisms, often due to foreign exchange rate issues that make use and repayment of any foreign currency-denominated loans challenging without foreign exchange (FX) insurance.

Finally, countries without a significantly developed financial system, e.g., several Pacific islands, and high climate vulnerability are calling for new financing instruments to address their climate finance needs (in particular for adaptation), e.g., through the Bridgetown Initiative[27] or new IMF resilience and sustainability facility[28], as well as through the reform of the Bretton Woods Institutions such as the World Bank to provide more climate financing to emerging economies, e.g., through guarantees.[29]

Figure 3: Green bond issuances per year and Asian economy

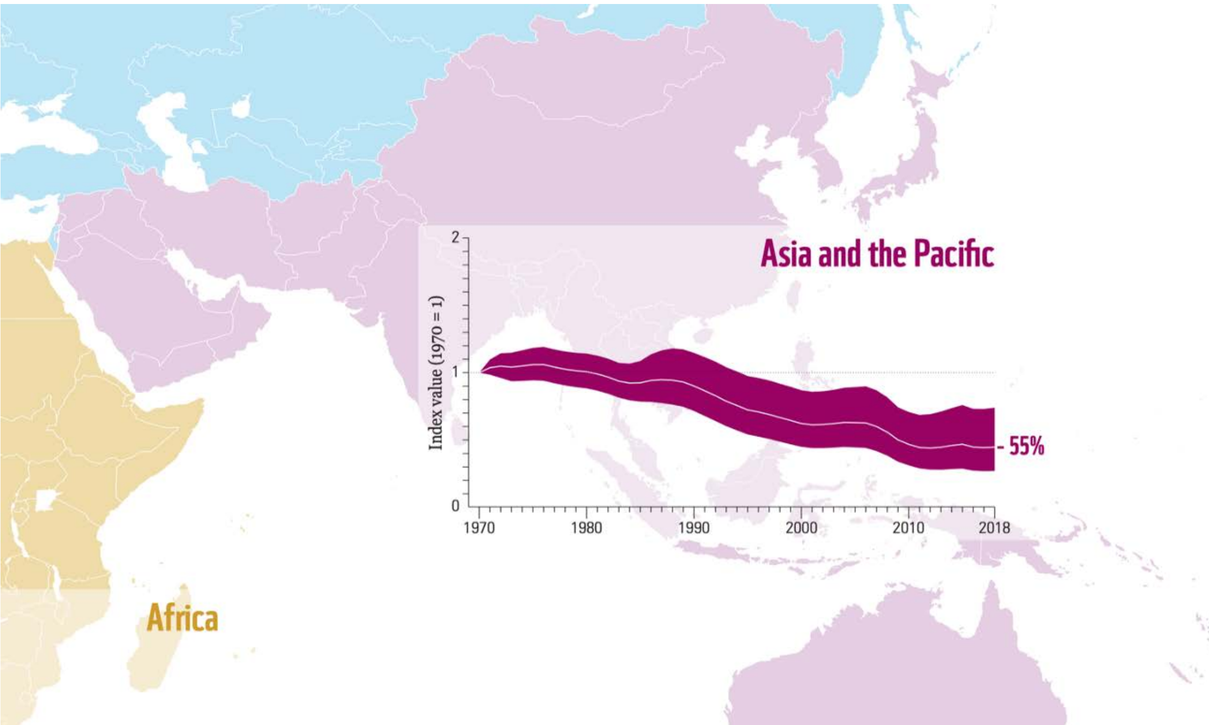


Source: AsianBondsOnline, Asian Development Bank.[30]

BIODIVERSITY RISKS IN THE ASIA PACIFIC

The Asia-Pacific region is home to 17 of the 36 global biodiversity hotspots rich in biodiversity, including coral reefs, tropical forests, and other ecosystems that provide essential resources such as food, clean water, and economic opportunities. About 200 million people in the region directly depend on nature for food, medicine, fuel, and other needs.[31] However, biodiversity in the Asia Pacific is under threat from population growth, rapid industrialisation, and urbanisation, leading to environmental degradation and economic costs (see Figure 4).

Figure 4: Biodiversity loss in the Asia Pacific



Source: World Wildlife Fund (WWF).[32]

In other words, business as usual is leading to irreparable damage to biodiversity and the ecosystem putting 63 per cent of gross domestic product (GDP) equivalent to USD 19.5 trillion in the Asia Pacific at risk (a higher proportion than the global average).[33] Biodiversity risks also have "significant impacts on sovereign creditworthiness, default probability and the cost of capital" – particularly against the backdrop of improved environmental macroeconomic models.[34]

To address biodiversity loss, economic activities that drive biodiversity loss need to be transformed. Apart from climate change, which contributes to 11-16 percent of biodiversity loss in the region, the following issues have been identified to drive biodiversity loss:

- food, land, and ocean use systems,
- infrastructure and built environment, and
- energy and extractive systems.

For example, Asian economies accounted for 45 per cent of global meat consumption already in 2019 which led to both significant climate emissions (meat consumption contributes to about 30 per cent of global GHG emissions) and biodiversity loss.[35] Tropical regions in Southeast and South Asia are converting tropical rainforest to agricultural land to produce plant-based commodities such as coffee, tea, bananas, citrus fruits, palm oil, rubber, sugarcane, and grazing food for animal-based food production.[36] Great opportunities exist in alternative protein production, urban farming, and higher efficiency agriculture.[37] The study by Temasek and others found that addressing biodiversity loss in these three sectors alone could protect significant parts of biodiversity, while simultaneously generating economic opportunities worth USD 4.3 trillion annually and creating 232 million jobs.

Box 2 | Alternative protein opportunities

Companies in the Asia Pacific have raised billions for alternative protein companies to reduce environmental impacts from animal husbandry while providing healthy food and employment.[38] The Singapore-based company Next Gen Foods has developed a plant-based chicken replacement raised about USD 100 million in the largest ever Series A funding round in 2022.[39] The Hong-Kong based alternative protein company OmniFoods – known for its plant-based pork products, is expanding its presence across the region. Similarly, coconut-based alternatives to yogurt provide growth opportunities, e.g., such as Coconut Palm Group Co. Ltd. (Chinese) or Coyo (Australian).

To rethink our growth model from exploiting nature and seeing biodiversity loss as a social externality in the economy, a whole society effort including policy makers, financial regulators, businesses, research and civil society need to take responsibility to not only change entrenched behaviours and interests (e.g., in regard to food consumption), but to create positive opportunities through pricing externalities, improved biodiversity reporting standards, green innovation (e.g., in alternative foods) and new financial mechanisms to reward and incentivise biodiversity protection.

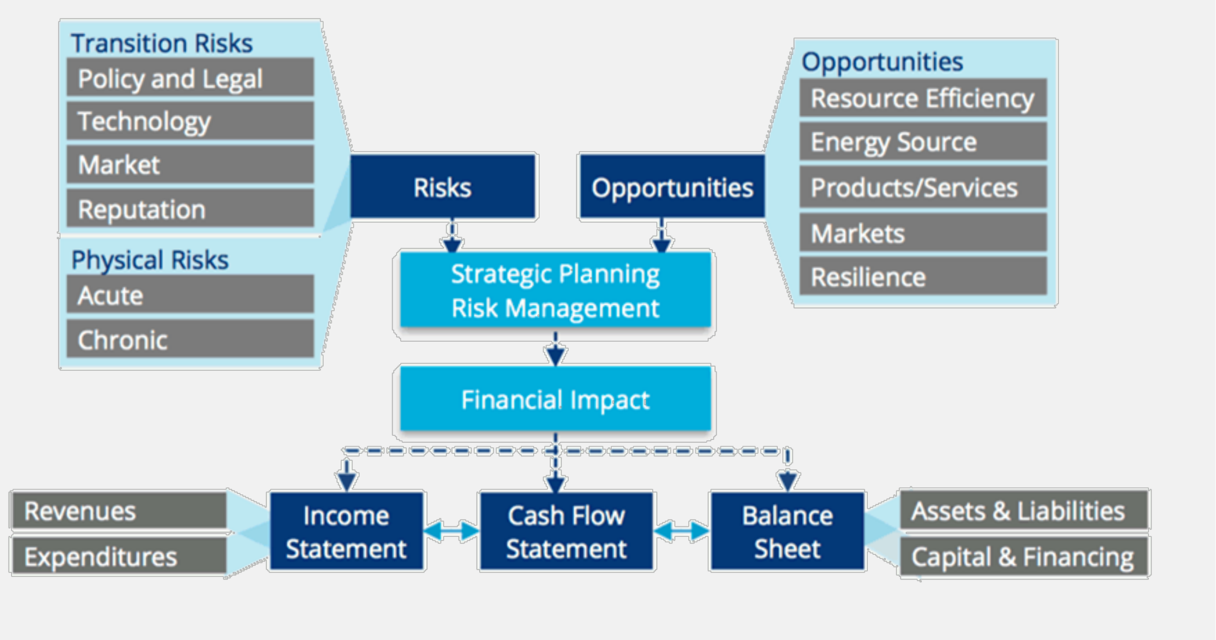
Particularly in Asia-Pacific economies this can also include improving the use of nature as infrastructure[40] to provide better climate adaptation means (e.g., through natural flood barriers through mangroves), which can also serve as mitigation means (e.g., through carbon sequestration and storage) and financial revenue models (e.g., through generation of carbon credits).

CLIMATE-SMART BUSINESS

Business leaders and corporate boards in Asia-Pacific economies have a short window of opportunity left to shape the green transition and benefit as innovators or fast followers in a rapidly transitioning market.

In contrast, businesses not prepared for the accelerating changes are at risk of becoming stranded. A useful framework to understand and address climate risk is provided by the Task Force for Climate Related Financial Disclosures (TCFD). According to the framework, boards and corporate leaders in Asia-Pacific businesses need to take note of transition risks and physical risks and adjust their business models accordingly. As noted above, physical risks from climate change and biodiversity loss have been rapidly increasing in the region, for example due to increased floods, fires, and droughts impacting food supply chains, infrastructure, and assets (which might get destroyed). These risks, however, are not only localised: For example, changing rain patterns have more than halved the shipping capacity of the Panama Canal through which more than 6 per cent of global trade flows. This increases cost and time for more than 6 per cent of global trade particularly for trade routes between Asia, Pacific and North America.[41]

Box 3 | Climate-related risks, opportunities and financial impact[42]



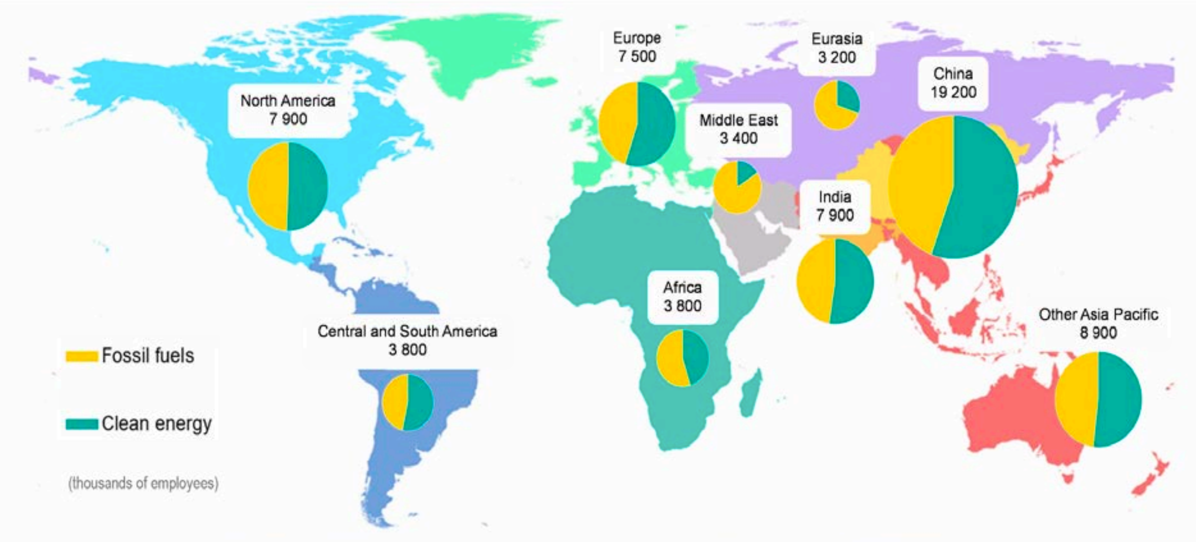
On the policy and legal side, Asia-Pacific businesses must be on top of new disclosure regulations, not least through the International Sustainability Standards Board (ISSB) released in June 2023, but also through stronger ESG-related disclosure regulations across markets.[43] At the same time, businesses following such disclosure and green transition pathways can unlock significant amounts of green finance from public investors, capital markets and financial institutions focused on ESG-aligned financing in line with green financial standards flourishing in the region (e.g., new sustainable finance standards have been published in Mongolia, Singapore, Indonesia, Philippines, Thailand, ASEAN, China and many other countries in the region). At the same time, regulatory standards across the world aiming to reduce emissions aim to hamper trade with high-polluting goods. As an example, the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) came into force in 2023 and will be fully operational in 2026 to reduce import of carbon-intense products, such as steel and price it at a carbon price like the EU (valued at around USD 80 per ton). For example, exports worth USD 0.7 to 1.1 billion per year will be affected for each of the Southeast Asian countries Vietnam, Indonesia and Thailand[44], while Indian and Chinese exporters face even higher risks.[45] While large companies exporting from the Asia Pacific into Europe obviously require strong carbon accounting for Scope 1, Scope 2, and Scope 3 emissions to comply with CBAM (and more stringent national regulations), also micro-, small- and medium-sized enterprises (MSMEs) will be indirectly affected by carbon accounting needs as they are part of broader supply chains that need to do a full supply chain carbon accounting.[46]

A further risk for climate-smart businesses to consider come from increasing number of lawsuits due to climate change which have risen from less than 100 per year in 2015 to over 250 in 2022 often focusing on neglect by board of directors to address climate change risks in corporate strategy: While the majority of lawsuits are in the US, businesses in Asia-Pacific economies including Australia are becoming increasingly exposed to law suits from investors and others.[47] Similarly, customers in Asia are increasingly holding businesses accountable for their sustainability impacts and choosing their brands according to the impact of the product on the environment.[48]

JUST TRANSITION

Asia is home to the world's fastest employment growth in the energy sector. About 36 million people across the Asia Pacific worked in the energy sector in 2019[49] (most of them in India and China) (see Figure 5). It is noteworthy that most workers in the region are already employed in the clean energy sector, e.g., in manufacturing of solar PV, new energy vehicles and others.

Figure 5: Employment in energy sector in Asia



Source: International Energy Agency.[50]

Nevertheless, just transition considerations are key when transforming Asia-Pacific economies to a green economic model, not only due to continued significant employment in the traditional sectors (e.g., coal mining) that might be at risk, but also due to secondary effects of the transition such as inclusion of MSMEs into supply chains affected by regulatory or business transitions as well as inclusive growth questions of equity (e.g., women seem disproportionately affected by climate change regulation impacting gender inequality, amongst others due to their "disproportionate responsibility for securing food, water" and thus working in areas affected by climate change).[51]

Box 4: Transition examples in Asia[52]

An example of the pathways to a just transition can be seen in Vietnam. Vietnam's coal reserves are concentrated in Quang Ninh province and the Red River Delta basin. There are now efforts to transition to a more sustainable economy, with a shift from brown to green industries and an increase in foreign direct investment in non-mining sectors in Quang Ninh. Furthermore, Vietnam has implemented policies and strategies for a just energy transition. One specific policy is the National Green Growth Strategy for 2021–2030, adopted in October 2021. The transition strategy also noted that there were low levels of employment related to the coal industry and that a great proportion of the economy is benefiting from investments in green-related industries.

Addressing these challenges requires a comprehensive approach that encompasses international collaboration, technological innovation, business transformation, effective government policies, and consideration of social equity. Governance of the transition is the key to economic, social, and environmental success.

SUMMARY AND RECOMMENDATIONS

This paper examined five key challenges in the pursuit of a sustainable and equitable future for the Asia Pacific. To navigate the challenges and harness the opportunities, policymakers are urged to focus on strategic interventions in six critical areas.

Policymakers in the Asia Pacific are encouraged to implement regulatory frameworks that stimulate innovation and competition in the energy sector. The aim is to use the dominance of state-owned enterprises to pave the way for investments in green energy and drive a transformative shift in the regional energy landscape.

RECOMMENDATION 1

Accelerate the green energy transition in the Asia Pacific

1. Work under the assumption that state-owned enterprises (SOEs) will continue to play a significant role in the power sector across Asia. Greening state-owned power companies requires a different engagement strategy than aiming to convince private investors to set up new power facilities. Rather, it requires support in strategic and governance capacity development for SOEs including their ability to mobilise new equity and debt financing to invest in their green transition.
2. Provide avenues for structured early retirement of coal-fired power plants to accelerate emission reduction while simultaneously providing financing for renewable energy projects. This can be done through innovative financing instruments (such as a mix of refinancing, blended finance, carbon credits). Early coal plant retirement also needs to address just transition considerations (e.g., job loss) and technical impediments (e.g., are alternatives viable, what are the cost). This requires a more systematic analysis of coal plants than is currently available.
3. Provide incentives for indigenous manufacturing capacity development in the green energy sector, also to compensate for job losses in the fossil sector. International partners can provide financing and technical capacity to build local manufacturing and improve factor endowment (e.g., infrastructure, skills).

Bridging the financial gap for climate mitigation and adaptation demands innovative solutions bespoke to the specific needs of diverse types of economy in the Asia-Pacific region. Policymakers are recommended to craft policies that not only foster private capital mobilisation but also establish fruitful partnerships with international development finance organisations. This approach seeks to amplify financial resources, particularly in vulnerable countries, and propel the region towards its climate goals.

RECOMMENDATION 2

Address green finance gaps in the Asia Pacific

1. Utilise and expand existing green financial instrument use in more developed countries, such as green credits, green bonds. This might require a tweaking of specific incentives (e.g., central bank incentives for lower capital adequacy ratios for green financial instruments, such as in China and Indonesia), financial and technical support for green bond issuances (e.g., in Japan).
2. Improve trust of international investors in green financial instruments such as bonds and ESG funds by reducing greenwashing risks through standardised and timely disclosure regulations (e.g., through ISSB) and third-party verification. This requires expansion of skills and capacity with regulators, verifiers, and corporations.
3. Apply innovative green finance instruments and in particular development finance for countries with less developed capital markets and with higher needs for adaptation. This might include the use of guarantees to reduce foreign exchange risks, blended finance to reduce financing costs, environmental insurance, and default clauses to securitise climate and other environmental risks.

Integrating biodiversity into national economic models becomes paramount for sustaining the rich ecosystems of the Asia Pacific. Policymakers are advised to implement policies that value natural areas and biodiversity as national investments. Furthermore, fostering nature-based market programs with rigorous certification ensures sustainable production practices and addresses the urgent need to reverse biodiversity loss.

RECOMMENDATION 3

Address biodiversity risks in Asia-Pacific economies

1. Improve policy design in the region with three goals:
   a. protect nature through regulation: The Convention on Biological Diversity and the Nagoya Protocol mandate governments national biodiversity strategies and action plans. By adhering to these mandates, governments in Asia can demonstrate their commitment to global biodiversity conservation efforts and contribute to addressing the pressing issue of biodiversity loss.
   b. improve disclosure requirements of companies to include environmental risk reporting (e.g., based on the reporting framework of the Task Force for Nature Related Financial Disclosures (TNFD) or the Natural Capital Protocol).
2. Expand funding for nature protection, e.g., through innovative financing instruments such as debt-for-nature swaps,[53] blue/biodiversity bonds, as well as by using proceeds from carbon markets to fund nature-positive activities and by providing avenues for carbon offsets through nature-based solutions (e.g., coastal restoration). This requires strong policy design to avoid greenwashing and ensure the integrity of the underlying projects.
3. Price externalities of biodiversity loss based on regional needs to avoid further loss of biodiversity and to allow for local communities to benefit.[54]
4. Improve business opportunities for nature-positive innovation by supporting innovation through investment in research and development, as well as regulatory support mechanisms (e.g., reduction of administrative hurdles for green foods).

Aligning corporate interests with environmental sustainability is pivotal. Policymakers should incentivise businesses to adopt circular economy principles and incorporate environmental, social, and governance (ESG) factors into decision-making. By doing so, businesses become catalysts for positive change, contributing to the broader climate goals and fostering a climate-smart business landscape. Not doing so means Asia becomes less competitive as ESG standards rise globally.

RECOMMENDATION 4

Address climate-smart business practices in Asia Pacific

1. Improve board leadership and corporate governance to include expertise in climate and biodiversity risks and opportunities driving business strategy and accountability of management.
2. Rapidly improve expertise in ESG and climate-related disclosure and risk management to reduce frictions and be prepared for upcoming domestic and international disclosure regulations (e.g. ISSB, CBAM). Ensure voluntary commitments and disclosures (e.g., through the Assess, Commit, Transform and Disclose—ACD-T framework) to share results and best practices.[55]
3. Invest in green innovation within the corporation and the supply chain to reduce emissions (and nature impacts) and develop green products in line with customer, investor, and regulatory needs.
4. Provide stewardship and engagement for supply chains including MSMEs to ensure their participation in the green business and supply chain transformation.

Achieving a just transition necessitates a change in governance perspectives. Policymakers in the Asia Pacific are urged to integrate distributive and procedural justice elements into transition frameworks, ensuring fairness and inclusivity. Considering fair share principles and measuring socio-technical transition impacts become key strategies in steering the region towards a balanced and socially sustainable future. Transition risk planning should be localised to people who are impacted.

RECOMMENDATION 5

Address just transition considerations i n the Asia Pacific:[56]

1. Labour-oriented concept: Focus on the labour-oriented concept of just transition to develop social protection programs for workers to manage the impact of energy and economic transitions on employment.
2. Integrated framework for justice: Just transition is an integration of many justice-related frameworks such as environmental, climate, and energy justice and needs to include distributive and procedural justice elements.
3. Country specific consideration of fair share: Identifying the fair share ranges for mitigation, based on agreed-upon principles defined by the *United Nations Framework Convention on Climate Change* can allow financing needs.
4. Measuring and forecasting socio-technical transition: Understanding the trajectory of technological change and its social implications is vital. Computational economic analysis of the distribution of social benefits and burdens of transition scenarios can identify leverage points in the transition process to ensure equity and social sustainability at a macro level.
5. Governance strategy and not a single policy: Framing transition as a governance strategy can guide policymakers in managing changes in the desired direction. It has been noted that authoritarianism in Asia focuses on high-level goals to achieve environmental goals (transition) without considering the more politically controversial concept of procedural justice for people affected.
6. Public engagement and perception: Policymakers should consider public engagement at the micro level to understand how different stakeholders are impacted by and perceive impacts. Such localised knowledge assists in developing policies that are more responsive to the needs and concerns of various groups affected by the transition.
7. Provide green skills and capacity: Focus on upskilling and reskilling initiatives to meet the increased demand for existing green jobs. Additionally, policymakers should create specialised training for direct green jobs and develop new educational pathways for emerging green jobs, involving curriculum development, vocational training, and collaboration with industries to address skill gaps effectively. These actions are crucial to foster a fair and inclusive transition, support the rise of a Green Collar workforce, and seize the potential of 180 million additional jobs in the green economy by 2050.

As the demand for green jobs rises, policymakers should proactively expand training programs. Recommendations include developing specialised training for jobs with evolving task profiles and creating educational pathways for emerging green jobs. Collaboration with industries becomes crucial to identify and bridge skill gaps effectively, ensuring a skilled workforce for the region's green transition.

These recommendations collectively form a strategic roadmap, guiding policymakers to enact targeted and impactful measures for a sustainable, inclusive, and environmentally responsible future in Asia.

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Leaving nothing to chance: Sustaining Pacific development beyond 2024

Anna Naupa and Tess Newton Cain

INTRODUCTION

The value proposition of Pacific regionalism in an increasingly dynamic geopolitical environment must balance the agreed rhetoric of Blue Pacific stewardship that drives a regional ethos, with the realpolitik of governments looking at shorter-term timeframes potentially at the expense of these stated values of custodianship. Maintaining Pacific agency and regional resolve will become increasingly tested in 2024.

This paper explores Pacific island countries' prospects in advancing sustainable development objectives in 2024. It considers what will be necessary to regain and sustain Pacific development gains while navigating a challenging economic and climate outlook amidst increasingly dynamic geopolitics.

As 2024 forecasts for the Pacific region accumulate, three themes dominate: economic prospects, the climate outlook, and geopolitical dynamics. The latter has absorbed considerable media analysis of Pacific political currents in recent years, notably a pre-occupation by the West with China's Pacific islands relations. The persistent tension between an external framing of our region as the Indo-Pacific and our own framing of the Blue Pacific, will continue to shape the region's strategic engagement on shared security[1] and development aspirations under the *2050 Strategy for the Blue Pacific Continent.*[2] The strategy charts pathways for the region's political and economic cooperation under 'the Blue Pacific' umbrella, to drive collective engagement of Forum member states to ensure strategically beneficial partnerships for the region. At its adoption in 2022, Forum Leaders said, "Securing the future of the Pacific cannot be left to chance."[3]

With six years remaining for countries to meet the ambition of the global Agenda 2030 on sustainable development, priorities are mapped out in national plans, the *Pacific Roadmap for Sustainable Development*[4] and the *2050 Strategy*, the latter two guiding the work of the region's technical agencies, collectively referred to as the Council of Regional Organisations of the Pacific (CROP), in support of national needs. The financing requirements to meet this ambition are considerable, as are Pacific countries' responsibilities to both advance and monitor progress and the means of implementation. In 2024, five Pacific countries (Federated States of Micronesia, Palau, Samoa, Solomon Islands, and Vanuatu) will be delivering Voluntary National Reviews (VNRs) on their progress towards meeting Agenda 2030.[5] The VNR process is a chance for countries to show reasonable development progress towards the Sustainable Development Goals (SDGs) and to highlight areas needing more support.

The interplay of Pacific countries' domestic realpolitik with geopolitical rivalries has a direct bearing on localised sustainable development outcomes.[6] For example, the prioritisation of bilateral relations over collective diplomacy has been observed in relation to post-pandemic economic recovery and security partnerships in some Pacific island countries in 2023.[7] These politics of development are also played out on a regional scale through the CROP in terms of coordinated access to collective resources.[8] Combined, the pressure for Pacific island countries to control the geopolitical narrative, retain diplomatic agency and manage domestic political agendas, signal a trend that will make or break some key shared targets for the Pacific in 2024.

This paper is in three parts. The first part horizon scans the 2024 global outlook and considers the implications of the following key themes for the Pacific islands region: economic prospects, the climate challenge, and geopolitical tempo. The second part examines how these themes intersect with the following priorities: deepening regional resolve, safeguarding Pacific democratic cultures, and leveraging Pacific agency. By taking this intersectional approach, in the third and final section we arrive at recommendations for Pacific policy makers and their development partners, that we consider to be significant to sustaining positive gains for Pacific development in 2024.

WHAT THE 2024 GLOBAL OUTLOOK MEANS FOR THE PACIFIC REGION

Several global trends will have implications for the Pacific islands region and national governments alike.

Shaky economic prospects

The World Economic Forum forecasts that protracted weaknesses in the global economy coupled with geopolitical rifts are expected to accelerate geo-economic fragmentation in 2024; more than half of the world's chief economists are expecting the global economy to weaken during the coming year.[9] Elevated energy commodity prices in particular will continue to challenge Pacific countries' ongoing post-pandemic economic recovery efforts, despite a forecast decline of almost 5 per cent in 2024.[10] The International Monetary Fund highlights the rising fragmentation in commodity markets, which can lead to high price volatility in 2024.[11] Ongoing supply chain disruption is anticipated to further challenge the region as extreme weather events and conflict hit global trade choke points in the Panama Canal and the Red Sea.[12] While inflation is forecast to lower to 4.8 per cent globally in 2024, this will vary within the Pacific as will GDP growth prospects, public debt levels and cumulative post-disaster recovery needs.[13] Inevitably, the Pacific will continue to feel the ripple effects of global economic volatility via commodity pricing and global inflation from geopolitical flashpoints and conflict zones such as the Russian invasion of Ukraine and the Israel-Palestine conflict. Prioritising reliable supply chains and affordable commodities will be important for Pacific governments.

The climate challenge for Pacific island countries and the regional collective

Several Pacific forecasters have noted that the series of global structural shocks to Pacific economies in 2023 continue to be compounded by the ongoing climate crisis.[14] A continuing strong El Niño event, with below normal rainfall predicted for Pacific countries at distance from the equator, coupled with normal-to-enhanced risk for tropical cyclones in the eastern Pacific has implications for the region's food and water security.[15] For example, the agriculture and fisheries sectors are particularly climate-sensitive sectors. Forecasts for the annual tropical cyclone season in the South Pacific suggest 4-8 severe tropical cyclones between November 2023 and April 2024.[16] Storm surge, and coastal and river flooding will also continue to challenge communities and livelihoods. The Intergovernmental Panel on Climate Change (IPCC) has cautioned that climate-related hazards and associated risks in the near term are expected to also have implications for food, water- and vector-borne diseases adding to the burden on health systems.[17]

The increased pressure on developing health and transport infrastructure from more intense climate-induced severe weather events, and the subsequent post-disaster 'states of emergency' across the Pacific render governments and households in regular crisis mode, focused on basic access to food, water and shelter, stretching limited resources and disrupting hard-won development gains.[18] The IPCC's Sixth Assessment Report has flagged the urgency for a dramatic increase in climate finance for both mitigation and adaptation, proposing that in the Pacific this needs to increase sixfold.[19] Operating in regular emergency-mode and crisis response leaves little space for longer-term strategy implementation. The level of public debt incurred to address these challenges will remain a key priority for PICs, again driving governments' development partner choices in 2024.[20]

The bittersweet outcomes of COP28 offer a glimmer of optimism with the hard-won announcement of the operationalisation of the Loss and Damage Fund, with hopes that 2024 will not be as disappointing a year for global climate action as 2023.[21] Pacific ambition to phase out fossil fuels will need to navigate the posturing of world powers in the search for a new world order beyond them, notwithstanding the IMF's caution that fragmentation of commodity markets could affect the costs of decarbonisation.[22]

Geopolitical shifts: impacts on Pacific regionalism and national sovereignties

Global political change in 2024 will also have implications for the Pacific. With over half the world's population going to the polls this year, including four Pacific countries, 2024 is a watershed year for global democracy.[23] Leadership changes in globally significant elections such as in the United States, the United Kingdom, India, and Indonesia may shift Pacific engagement priorities. For example, the United States Congress has yet to enact legislation to allow for the implementation of the Compacts of Free Association (COFA) with the Federated States of Micronesia and the Republic of the Marshall Islands, which includes major economic assistance to the countries in line with the Biden Administration's Indo-Pacific, Pacific Partnership and National Security strategies.[24] The respective COFAs end in 2023, with Palau's COFA with the US ending in 2024. Combined, the total value is USD 10.4 billion (FY 2023 dollars) a significant contribution towards national service delivery and infrastructure needs.[25] Micronesian leaders expressed concerns at the US funding delays, citing growing financial pressures are causing them to consider other partners.[26]

DRIVING PACIFIC DEVELOPMENT GAINS IN 2024–THREE ESSENTIAL ELEMENTS

We see three essential elements that Pacific Island countries need to focus on as they collectively and nationally advance the Pacific's development aspirations. By leaving nothing to chance, Pacific regionalism can ensure that 2024 makes a difference to the region's economic prospects, climate outlook and engagement with dynamic geopolitics.

1. Deepening Pacific regional resolve

At the core, Pacific island countries' appetite for the collective diplomacy of the Blue Pacific has a bearing on the advancement of national and regional development aspirations. In 2024, continued competition to draw the Blue Pacific narrative into external geopolitical constructs such as the Indo-Pacific will strain existing political fault lines within and amongst Pacific Island Forum members. Navigating these external political dynamics will necessarily remain a focus for Pacific island countries as they balance bilateral opportunities with regional resolve. Across the various multilateral platforms and evolving global agreements, the Pacific region will be drawn into initiatives on a global scale that also have significance for the Pacific's 2050 aspirations and will require a strong Pacific diplomatic bloc, for example:

- Written submissions to inform the International Court of Justice's advisory opinion on climate justice and human rights – with implications for Pacific island countries' loss and damage claims - are due on 22 March[27]
- the Fossil Fuel Non-Proliferation Treaty continues to gather global momentum led by Vanuatu and Tuvalu[28] and
- a new global treaty on plastic pollution to be agreed this year.[29]

A key 2024 milestone will be the decision on Australia's bid to host COP31 in 2026 up against Forum Dialogue Partner, Türkiye. Whilst the Pacific has indicated support for this, Australia's underwhelming climate ambition, and at times undermining of the Pacific ambition, requires meaningful and genuine action, particularly in aligning commitments to the Pacific's 1.5-degree target. If Australia is successful, then an ambitious preparatory process that delivers genuine outcomes for the Pacific will need to commence at the earliest.

When it comes to economic prospects, a key regional priority is improving Pacific access to climate finance from global mechanisms such as the Green Climate Fund. The Pacific Resilience Facility (PRF) is a homegrown mechanism designed to support Pacific communities and governments in meeting climate adaptation needs at a grassroots level. The work done to date to secure initial capitalisation of this facility (at USD 500 million) has yielded mixed results.[30] The current Chair of the Pacific Islands Forum, Prime Minister Mark Brown of Cook Islands, has made it clear that he would like to see the PRF supported by the Forum Dialogue Partners, including those who are awaiting decisions on their applications to join the group.[31]

Political cohesion is also needed within the Forum family. Within the region, advancing the Pacific 2050 Strategy Implementation Plan will be informed by regained momentum in the overdue PIF-led Review of Regional Architecture. Announced in 2021, the Review is expected to finally conclude in 2024. The Review will test the Blue Pacific's partnership choices as well as the expectations of the different institutional players in implementing the plan. It must carefully consider the political economy of the Blue Pacific's governments and regional organisations whilst also identifying innovative, new pathways for national governments to benefit from a fit-for-purpose regional architecture, that avoids duplication of effort.[32] But competition for financing at both national and regional levels, to resource national sustainable development plans, the Pacific 2050 Strategy Implementation Plan, and numerous other regional sectoral plans, can and does create cracks in the cohesion required for effective Pacific regionalism. For example, the announcement of a new 'Pacific Partnerships for Prosperity' at the 2023 Forum Leaders Meeting in Cook Islands, as a supplement to the *Pacific 2050 Strategy* resourcing strategy can create additional complexity: Forum members are contributing to some of the regional duplication that the much-hyped Review of Regional Architecture will need to resolve.[33]

At the same time, enduring concerns over Japan's Fukushima Daiichi nuclear wastewater release into the Pacific Ocean will need to be addressed, alongside the political fault lines emerging over deep-sea mining.[34] The region will need to progress national approvals to sign on to the 2023 hard-earned Pacific win on the United Nations' adoption of the Agreement under the United Nations Convention on the Law of the Sea on the conservation and sustainable use of marine biological diversity of areas beyond national jurisdiction.[35] Indeed, 2024 will be a key year for devising regional governance approaches, and the Melanesian Spearhead Group's proposal for a Zone of Peace, amplified by Fiji Prime Minister Rabuka, is another matter in the mix for regional governance.[36]

The Blue Pacific narrative is not simply rhetoric. It is a revitalisation of the Pacific Way approach to collective diplomacy within the region, which for some time had drifted into an awkward apathy following pockets of national and regional instability in the 2000s.[37] When former Samoan Prime Minister Tuila'epa Sa'ilele Malielegaoi, as then-Chair of the Pacific Islands Forum in 2017-18, articulated the Blue Pacific narrative he was clear in its intent to address the rapidly changing geopolitical landscape:

> *"The opportunity to realise the full benefits of the Blue Pacific rests in our ability to work and stand together as a political bloc. And the challenge for us is maintaining solidarity in the face of intense engagement of an ever-growing number of partners in our region."*

In 2023, his successor Prime Minister Fiame Naomi Mata'afa and Chair of the Alliance of Small Islands States (AOSIS) was equally pointed in how the Blue Pacific is central to retaining Pacific control of the regional agenda, even when there is a preference for bilateralism. Acting as the Blue Pacific has delivered multiple 'wins' for the region across climate, environment, fisheries, ocean, and development domains, amongst others. There is a continuing need to act together, but importantly in a way that is at the same time strategically pragmatic for each nation and the region. Determining the 'what and when' of a Blue Pacific flex is even more vital when Pacific island countries are facing a particular peak in engagement by and with diplomatic and development partners.

Box 1: Pacific regionalism

In 2024, a deepened resolve for Pacific regionalism can leverage:

- Global loss and damage finance for Pacific priorities.
- COP31 bid outcomes to advance the Blue Pacific's higher ambition on climate action.
- CROP agencies to develop a standardised resource mobilisation criteria focused on the *2050 Strategy Implementation Plan* and coordinated to complement Pacific states' national development finance needs.

2. Safeguarding Pacific democratic cultures

Across the world, democracy is in retreat. Autocracy, populism, and a dilution of liberal democratic norms are (re)emerging in many countries. The Pacific region is not immune from this. Domestic anti-democratic tendencies and drivers are converging with external pressures, including those associated with geopolitical competition.

At the national level, we can point to constitutional preambles and text from national plans that indicate or imply the choice of democratic government by countries as they have moved from being governed by others to governing themselves. However, the explicit use of terms such as ‘democracy’ is less prevalent in action plans.

At the regional level, the most explicit commitments to democratic governance and the rule of law appear in the Biketawa Declaration[38] and the Teieniwa Vision.[39] However, this architecture also holds at its centre the sovereignty of members of the Pacific Islands Forum. It is becoming increasingly apparent that (in)actions that indicate democratic backsliding on the part of one member of the ‘Pacific family’ are unlikely to be questioned or criticised by the grouping as a whole.[40]

Beyond elections, there is not much at a regional level that fosters robust democratic cultures. Regionally, and sub-regionally, participation in election observer missions is the totality of a Pacific democracy monitor. Media freedom, freedom of expression and other essential democratic stays are primarily left to the domain of the private and community sectors in each country. The regional approach to democracy is too narrow and needs to widen its gaze.

The intersection between democracy and economic prospects in the Pacific region is linked to the increasing geostrategic tempo that is playing out in this part of the world. It also intersects with the dynamics of national and sub-national politics and undermines the self-determination of Pacific territories such as Guam, New Caledonia, American Samoa, and French Polynesia. Safeguarding democracy in the Pacific region is a key part of preserving the enabling environment in which Pacific communities can prosper.

Across the region, politicians and communities are united in calling for more 'development', with a particular focus at local government level on the need for infrastructure to support productive sectors such as agriculture (e.g. roads, wharves). As countries such as Tuvalu, Solomon Islands, Kiribati, and Palau head to the polls in 2024, voters want to know what their elected representatives will ‘provide’ by way of increased resources to support livelihoods. This clientelistic view of the relationship between voters and parliamentarians persists and continues to overshadow an embedded understanding of the role of MPs as legislators.[41] This creates a range of pressures that can facilitate an atmosphere of ambivalence about democracy or, worse, a dilution of democratic culture and practice because it is getting in the way of ‘development’.

In many countries, most notably in Melanesia, popular discourse is characterised by a preoccupation with political stability. Again, this is seen—with good reason—as a prerequisite for development that will create increased economic opportunity for communities and an uptick in revenue to support government spending. There is no doubt that a lack of stability in political leadership acts as a significant brake on policy development and implementation.[42]

However, it is also true that some of the most politically 'stable' countries are those where democratic culture is constrained. Fiji experienced a period of political 'stability' in the period 2006-2014 under a military-led government that had taken power by force rather than via democratic elections.[43] Whilst this coup is often described as 'bloodless' it ushered in a period in which human rights abuses were numerous. Basic democratic norms such as the freedom of association were abrogated, and trade unionists and other members of civil society were subject to arbitrary detention by the police and army. The media was subject to periods of censorship and control, some of which were encapsulated in legislative measures which persisted until very recently.[44] In addition, Satish Chand has argued that Fiji's economy suffered significantly because of its 'coup culture' with an estimated three years of economic setback for each coup event.[45]

In 2019, further to the 'switch' from Taiwan to China, Prime Minister Manasseh Sogavare of Solomon Islands claimed that his government wanted to be on 'the right side of history'.[46] However, more significantly, it is about being on the 'right' side of the economy. If democratic Taiwan and/or like-minded partners are unable or unwilling to provide grant or concessional finance to provide the infrastructure needed to build economic activity, in ways that align with the political imperatives of the decision-makers, then it is understandable that offers from China will be entertained and likely accepted.

The prevalence of climate events such as cyclones can add to stresses on the quality of governance, including whether state authorities are overreaching in their exercise of power and infringing on individual or community rights. For example, use of 'State of Emergency' powers (e.g. in Marshall Islands, Kiribati, Tuvalu, Vanuatu) which curtail activities, ration access to resources, or impose curfews.

When it comes to foreign policy and statecraft it is expected that a lot of the work is done out of the public gaze, behind closed doors. However, countries that consider themselves to be democracies need to maintain appropriate levels of self-awareness to ensure that their practice is suitably reflective of democratic principles.

Democracy is at risk of atrophying in the Pacific region.[47] Whilst there have been numerous instances of democratic backsliding over a sustained period and stemming from domestic drivers, it is also clear that this is being exacerbated by increased participation of outside players.

External influence on media platforms is one of the ways that major partners undermine democratic culture in Pacific island countries: attempts have had varying levels of success, with reported interference by China[48] and heavily curated information by Australia.[49]

Partners' long-standing soft power modalities, such as invitations to study tours for members of the Pacific political elite[50][51] and scholarship opportunities[52], are common diplomatic strategies to promote shared values between countries. For CCP-led China, however, these engagements are unlikely to discuss the importance of democracy, independent media and civil liberties. Similarly, for the democratic 'like-minded' (USA, Australia, New Zealand, India, Taiwan), the apparent willingness to turn a blind eye to illiberality in the interests of preserving geostrategically valuable relationships and influence does not foster a stronger democratic culture in the region. There are also serious concerns about the undermining and chilling effect of activities such as the 'Pacific Solution' in Australia and the region. [53] The muted response to recent attacks on the independence of the judiciary in Kiribati[54] is an example of behaviour that can create this impression. It is reminiscent of a reluctance to speak out about similar attacks on the rule of law in Nauru.[55]

Box 2: Pacific democratic culture

In 2024, safeguarding Pacific democratic cultures requires:

- A broadened regional assessment of democratic integrity of Pacific states, to include independent media, civil society engagement and respect for the rule of law, in addition to election observation.
- Targeted efforts to promote and safeguard human rights for all Pacific peoples via regional partnerships.

3. Proactively leveraging Pacific agency

Given the increased and increasing tempo of bilateral and multilateral engagement with Pacific island countries and regional organisations, upholding and maintaining the centrality of Pacific agency has never been more important. However, moving beyond mere lip service to working in ways that concretise a commitment on all sides remains a challenge. A foundational element of the exercise of agency on the part of Pacific leaders, whether individually or collectively, is to progress the decolonial bargain. This includes the assertion of indigenous terminology and strategic frameworks.[56]

Putting Pacific agency front and centre when it comes to development in the region is important because it is what will drive success in every field. Whether it is addressing the implications of labour mobility, safeguarding budgets against debt distress or navigating the green transition, leveraging Pacific agency will be at the heart of those initiatives that succeed.

Closely linked with the issue of agency is that of capacity. Discussions of capacity constraints in Pacific island countries or regional organisations are often constructed too narrowly and fail to appreciate the fuller context in which people are operating. Even more unhelpfully, they too often adopt a deficit narrative as their starting point. This disregards the crucial fact that some of the most important resources (when it comes to effecting change) are those held by Pacific people in our own contexts. They include cultural competence, local networks, and social and political capital to influence our communities.[57]

A significant challenge to increasing economic growth in the Pacific islands region is the impact of increasing sovereign debt and the implications for Pacific agency. The impacts of economic shocks such as natural disasters, COVID-19, and global inflationary pressures create an environment in which risks of debt distress come to the fore. Participation in the Belt and Road Initiative by Pacific island countries with small, fragile economies, has attracted a great deal of comment in this sphere, for example in relation to Tonga, a country which has tried unsuccessfully to have its significant debt burden to China forgiven and is now commencing repayments: in 2024 Tonga is expected to spend more on servicing debt to China than on providing health services to the population.[58]

Entering arrangements that incur debt are an exercise of sovereign power and the agency of Pacific governments to do so is to be not only acknowledged but respected. There are opportunities for partners to support the agency of Pacific governments by providing advice about managing debt to maximise economic and development returns. Partners should also avoid adding to debt burdens.[59]

The current development discourse surrounding 'localisation' is insufficient when it comes to achieving what is needed in terms of full activisation of Pacific agency as we envisage it here. The 'localisation' discourse is a product of the 'projectisation' of the Pacific, which is itself an unhelpful framing for how people and communities in the region determine our priorities and go about achieving our aspirations. In addition, unless these discussions are firmly rooted within an ongoing process and practice of decolonisation across multiple dimensions, it cannot be accurately described as a means of centering and leveraging Pacific agency.[60]

Given the evident—and increasing—impacts of the climate crisis across the region, it is somewhat paradoxical that this is a sphere in which we have seen some of the most striking examples of Pacific agency being exercised, including on the global stage. We can expect to see more of this in the coming year, with the work towards seeking an Advisory Opinion at the International Court of Justice being a striking example.[61]

There is a particular aspect of Pacific agency that requires attention, which relates to increased participation in Pacific regionalism so that its value proposition can be achieved (see above). The rationales for Pacific regionalism are largely unexplained and unappreciated beyond the rarefied atmospheres of regional organisations. For the regionalism project to thrive (and not merely survive) we need to grow the 'regionalism literacy' of Pacific communities. Addressing the multifaceted challenges of the climate crisis provides a valuable entry point for work of this type.

The presumption of the rapidly formed 'Partners to the Blue Pacific[62]' (PBP) in the wake of the 2021 PIF endorsement of the 2050 Strategy for the Blue Pacific Continent extends the geo-strategic competition into the region's development domain. In fact, the PBP – which also includes Australia and New Zealand, underscoring their somewhat schizophrenic relationship with the Pacific Islands Forum—maintains a paternalistic approach to our region, aiming to 'bolster Pacific regionalism' and to be a facilitator 'to expand Pacific participation in international fora.'

Leveraging Pacific agency requires investments in creating and maintaining the right 'enabling environment': one that provides for decolonised, Pacific-designed ways of engaging and doing on all sides. On the part of Pacific leaders, policymakers, and negotiators there is a need for assertiveness and an ability to be comfortable in telling development partners 'no' when the need arises. A good example of when this should happen is if access to resources or assistance is subject to taking an approach that is contrary to national interest.

When it comes to development partners and metropolitan countries in the region, they need to develop and prosecute an approach that is based on doing things *with* Pacific counterparts, not *to* or *for* them. This does not mean that partners' national (including security) interests should be disregarded. Part of what is required is the willingness and ability to develop high trust relationships that allow for matters to be discussed that may be uncomfortable for some participants. This requires a solid foundation in Pacific literacy, including a recognition of Pacific peoples' agency and capacity in Pacific territories.

Box 3: Pacific agency

In 2024, proactive Pacific agency can leverage:

- Global discussions on loss and damage finance to advance framing that recognises the unique challenges for SIDS and facilitates enhanced access to finance.
- Bilateral Forum summitries with partners to maximise the value of development support on Pacific priorities.

SUMMARY AND RECOMMENDATIONS

The year 2024 presents significant challenges and opportunities for Pacific island countries amidst economic uncertainties, an ongoing climate crisis, and geopolitical shifts. The region's collective diplomacy embodied in the Blue Pacific narrative remains crucial for achieving the development aspirations of Pacific peoples. Pacific regionalism is interconnected with international trends, and strategic engagement is necessary to tackle economic recovery, geopolitical narratives, and global structural shocks. Leveraging Pacific agency is key to building necessary bilateral and multilateral relationships for developmental progress in the region. A renewed focus on Pacific democratic practice and values will also be important to enhance the enabling environment for national and regional development. Renewed focus on Pacific democratic values is vital for fostering an enabling environment for national and regional development. Pacific leaders and peoples must address challenges, seize opportunities, and shape the trajectory of development in the Blue Pacific.

We offer some thoughts on how each of these areas can be addressed by the leaders of the Pacific—national or regional—and by external partners. We have purposefully kept these high-level, not least because of the concern expressed above about the 'projectisation' of the Pacific and Pacific people. These are offered as conversation starters to promote thought leadership within the region and beyond to grapple with the challenges we have identified. Our recommendations are cross-cutting across the three strategic areas: economic prospects, climate challenge, and geopolitical shifts. Moreover, they are focused on the 'how' and 'why' of engagement with and within the Pacific rather than the 'what'.

RECOMMENDATION 1

Deepening Pacific regional resolve

For the leaders of the Pacific:

Revive annual State of Pacific Regionalism reports by the Pacific Islands Forum Secretariat to guide dialogue and strategy for the region's political and development goals. Implement a dedicated Track 2.0 dialogue involving broader strategic communities like academia, civil society, and the private sector for enhanced thought leadership.

For partners of the Pacific:

We recommend renewed and revitalised attention to the *Blue Pacific Principles for Dialogue and Engagement*, the Framework for Pacific Regionalism, and other blueprints that guide established and potential partners to work with and within the regional architecture.

RECOMMENDATION 2

Safeguarding Pacific democratic cultures

For the leaders of the Pacific:

We recommend that national governments and the Pacific Islands Forum undertake a 'democratic integrity' audit of national and regional statements, plans, and policies to identify where deficits in both language and programming need to be rectified to safeguard democratic cultures in the region.

For partners of the Pacific:

We recommend that partners, in the spirit of acting in partnership, ensure that their interventions first 'do no harm' to democratic practice and integrity institutions in the region, whether in bilateral or multilateral engagements. Further, democratic partners have an additional responsibility to ensure that their modes of engagement are designed to avoid dilution of democratic resilience (as a minimum) and, wherever possible, actively support and strengthen it.

RECOMMENDATION 3

Proactively leveraging Pacific agency

For the leaders of the Pacific:

We recommend that Pacific leaders and their administrations invest in regional diplomacy training, supporting officials to build networks, enhance regionalism literacy and skills to engage in challenging partner conversations where their assertion of Pacific agency can produce transformative partnership outcomes.

For partners of the Pacific:

We recommend that partners engage Pacific peoples in advisory committees, including via CROP agencies, to enhance their Pacific literacy and strategy orientation towards approaches that produce greater mutual benefit for all parties involved.

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Engaging China for sustainability in Asia: Collaboration, competition, or choppy waters

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INTRODUCTION

China's economic, political, and military rise has reshaped its engagement in Asia, and it has reshaped the region's engagement with China. China has become the region's largest trading partner and the largest investor. It has adopted a more assertive stance over its territorial claims in disputed areas such as in the South China Sea.[1] China sees itself the largest developing country in the world that provides a new development model "for the common development of all countries" through the Belt and Road Initiative (BRI).[2] It aims to provide new models for global security through the Global Security Initiative (GSI) and supports expansion of multi- and mini-lateral formats such as the Shanghai Cooperation Organization (SCO) and BRICS Plus. China is seen across the world and in Asia as a main partner for tackling climate change through its globally leading renewable energy technologies. China emphasises its position, along with other developing countries,[3] the need to address climate change pro-actively,[4] highlighting how developed countries have historically had higher absolute and per capita emissions and have underdelivered on its promises for climate financing under the common but differentiated responsibilities framework.

Engaging China for a sustainable Asia requires an understanding of China's ambitions in the region and its appetite for cooperation with Western countries. After the US's trade impositions and China's border closures from 2020 to 2022 for COVID-19 prevention and control protocols discussions on de-coupling and de-risking were followed by challenging domestic economic development trajectories with youth unemployment of over 20 per cent in June 2023.[5] At the same time, China and Western powers such as Australia and the US have worked on stabilising or improving bilateral relationship in 2023. Yet, distrust between China and many Western power remains acute. Interpretations in China include that certain Western countries aim to decelerate or limit China's global rise and resist multilateral institutions reform that would allow for China's proportional or fair representation.[6] Interpretations in some Western countries include that China aims to export autocratic governance models and create a network of dependent and compliant economies by "weaponising" sovereign debt and trade dependency.[7]

This development also affects Asian economies, who are dependent on diplomatic and economic engagement and support from its international partners including China and Western powers to address some of the region's major challenges, such as the green transition to address climate change and biodiversity loss, digital transformation, as well as trade and security.

Against this backdrop, this chapter analyses five major developments and trends to understand China's engagement in Asia and how Asian countries as well as other partner countries, in particular Western countries like Australia, can engage China through cooperation and provision of alternatives for sustainability and wealth in Asia Pacific. How we address these developments within the next years will determine whether China's ambition to "get the house in good repair before rain comes, and prepare to undergo the major tests of high winds and waves, and even perilous, stormy seas", as expressed by China's President Xi at the 20th National Congress in October 2022—is a literal joint effort to address and reduce the impacts of climate change, or the metaphorical meaning of preparations for major conflicts.[8]

CHINA'S CHANGING ROLE IN THE REGION

China's growing engagement in green transition

China plays a pivotal role in facilitating the transition to green energy. Chinese companies have emerged as global leaders in investment, development and manufacturing of technologies and materials related to the green transition. China dominates significant parts of global value chains in sectors such as mining, renewable energy, and transport.[9] For example, China's solar manufacturing capacity accounts for at least 80 per cent of the global market share.[10] In 2023, 40 per cent of China's announced 5.2 per cent economic growth was driven by the "New Three" industries related to electric vehicles, green power generation and batteries with investment in 2023 these sectors equalling the total GDP of Switzerland(Myllyvirta, 2024).[11]

Many Asian economies, including Pakistan, Kazakhstan, Cambodia and Laos, in their ambition to transition their economy to green are looking to China to provide financing and technology.[12] China engages many Asian economies through the BRI, which originally emphasised large-scale infrastructure building, financial cooperation and trade facilitation and is now more focused on "green Belt and Road" or "high-quality Belt and Road" development with engagement relating to climate change adaptation and mitigation.

At the same time, China is looking at key partners in the region to strengthen its supply chains, particularly in transition metals. An example is Indonesia, which saw over USD 20 billion in Chinese financial engagement since 2013, such as the nickel mine and smelter PT Dragon Virtue Nickel Industry, a subsidiary of a Chinese mining giant, Jiangsu Delong Nickel. Similarly, at the sidelines of the Belt and Road Forum in October 2023, Indonesia's state-owned power company PLN announced deals[13] with China worth USD 54 billion including for production of solar panels through Trina Solar China as well as renewable energy grid expansion. The collaboration is anticipated to expedite the Indonesian government's ambitious energy transition plan, aiming for 75 per cent of new energy capacity from renewable sources and the remaining 25 per cent from natural gas by 2040. The eight underlying deals are twice the amount of the G7-led Just Energy Transition Partnership (JETP) for Indonesia.

Indonesia's Institute for Essential Services Reform (IESR) was also one the founding members of the Green Investment and Financing Partnership (GIFP) also established at the 2023 Belt Road Forum.[14] With financial institutions such as China Development Bank signed up, GIFP aims to facilitate funding for Chinese-sponsored green energy projects. Similarly, in May 2023, China Exim Bank, together with a dozen financial institutions including China Development Bank, and China Export & Credit Insurance Corporation, released the Initiative for Supporting Belt and Road Energy Transition with Green Finance.[15]

Besides energy and mining, China also significantly invests in green transport-related infrastructure in the region. Examples include high-speed rails in Indonesia, Laos, Thailand, Malaysia or subways in Vietnam and Pakistan.[16]

Currently, few other countries, except for Japan, have similar engagements in the region. With a trillion-dollar financing gap for green transition for climate mitigation and adaptation in the region,[17] and the need not only for installation of green infrastructure systems, but for an indigenous green economy through local manufacturing and ownership (as requested from China e.g., by Indonesia's President during the 2023 Belt and Road Forum), significant opportunities are untapped to support the green transition of Asia's economies.[18]

In addition to the technological and financial aspects of the green transition, China's green engagement also seems to be positive for both its overseas soft power expansion,[19] and as a tool for international collaboration: The Sunnyland statement between the US and China from November 2023 highlighted stronger collaboration between the two major powers and US Climate Envoy John Kerry suggested that climate cooperation could pave the way for improved understanding in other areas to avoid unintended consequences of other conflicts.

Increased Chinese outward foreign direct investment

Over the past years, multiple Asian economies have seen significant investments by Chinese companies establishing local manufacturing and production capacity. Several reasons might accelerate this development with significant opportunities for Asian economies.

First, Chinese companies have become global technology leaders, for example in green energy or green transport technologies, including companies like CATL, Goldwind, Jinko Solar or BYD. These companies not only see a growing global market for their product, but also a need to produce closer to their customers in Asian and global markets.

Second, with domestic overcapacities in various sectors in China, some Chinese companies are in need to search for alternative markets. Particularly privately owned companies with a stronger financial return mandate (as compared to SOEs that might also have a domestic development mandate), for example in the construction sector, see opportunities in investing abroad and expanding into new markets, including in Asia.[20]

Third, fear of trade impositions between China and Western markets has motivated various Chinese companies and companies traditionally producing in China to build manufacturing bases outside China to circumvent tariffs or export restrictions. Examples can be found in the technology sector, such as solar or battery factories.[21]

Fourth, increasing manufacturing costs (wages, energy costs and environmental costs) within China provide new opportunities for countries with lower cost structures to attract labour- or energy-intensive industries previously located in China. These companies can be found in assembly-related work, as well as the textile and garment industry.[22]

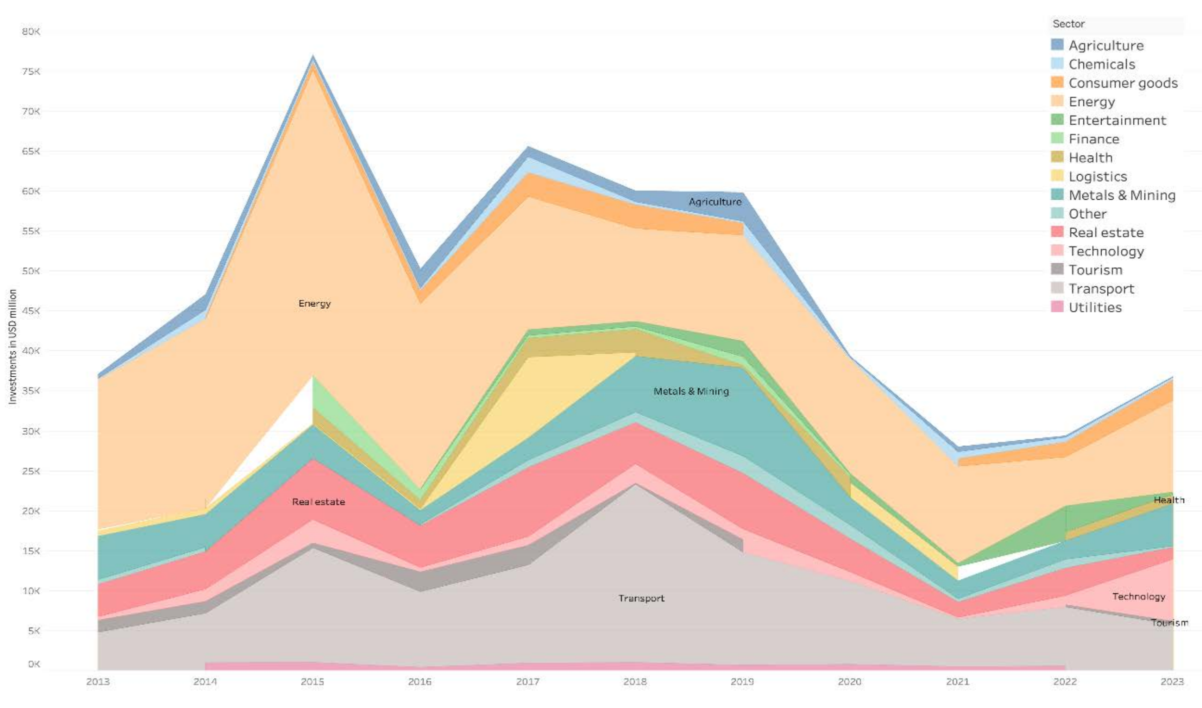
Finally, several Asian countries have also engaged China to increase local value addition. For example, Indonesia has partly banned export of its raw minerals to entice investment in local minerals processing to create local jobs, taxes and GDP growth.[23] However, without significant local ownership, most of the financial benefits will nevertheless be repatriated to China, while particularly environmental cost associated with mining and processing will have to be borne by Indonesia's society.

CHINA'S AMBITIONS FOR NEW GOVERNANCE MODELS

Over the past decade, many nations Asia have signed agreements to cooperate with China on Chinese-led or Chinese (co-)initiated mini-lateral or "multi-bilateral" initiatives outside of more established institutions (such as ASEAN, G20). These initiatives include, amongst others:

1. Belt and Road Initiative (BRI), established in 2013 with the aim to strengthen export of Chinese-style development through infrastructure construction and trade facilitation. Although there is a huge infrastructure deficit in the world, especially in developing countries, international and regional development banks have not been able to effectively address this problem, resulting in many developing economies missing out on growth opportunities due to lagging infrastructure development. The BRI reflects China's unique global development concept and its thinking and solutions to global development problems, laying an institutional foundation for the subsequent Global Development Initiative. Over 37 Asian countries have actively signed memorandums of understanding on cooperating with China on the BRI and Asian countries are the main recipients of China's financial engagement reaching almost USD 450 billion (particularly Indonesia, Pakistan, Vietnam).[24] Since 2019, an emphasis has been green development in the BRI, and during the most recent Belt and Road Forum in October 2023, China emphasised that the BRI is a new development model where the Western development model failed to deliver, as these had exacerbated inequalities and had not brought development to most nations.[25] Adjacent, but officially not part of the BRI, China established the Asian Infrastructure and Investment Bank (AIIB) in 2016. The AIIB expanded its membership from 57 to 106 and had approved 202 projects worth USD 8.2 billion by the end of 2022.[26]

Figure 1: China's Asia and Pacific engagement through investment and construction contracts 2013-2023



Source: Nedopil, 2024.[27]

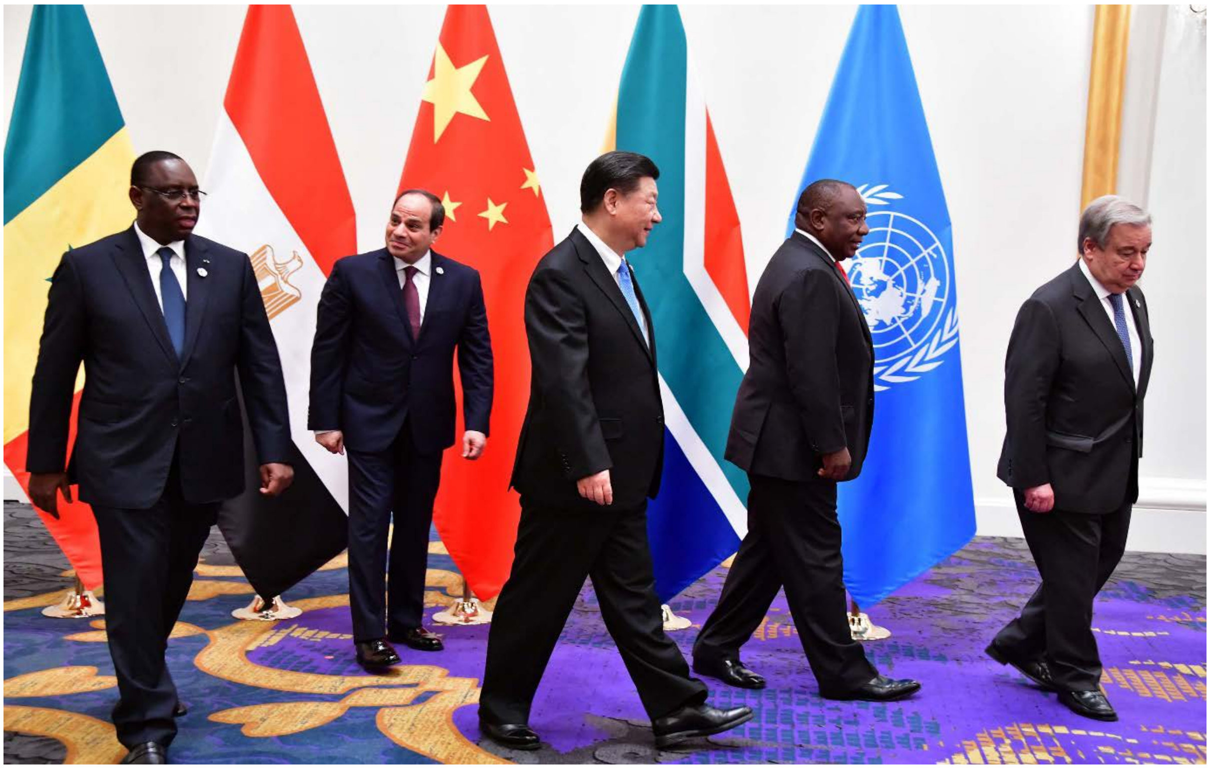
2. Global Development Initiative (GDI) established in 2021 with the aim to provide development assistance through finance and capacity to emerging markets. Since its establishment, the BRI has become an important pillar of the GDI, a broader and more extensive initiative, expanding from hard connectivity to soft connectivity. China has pledged to provide a total of $1.5 trillion in support of the GDI over the next 15 years. This support will come in the form of investment, financing, and technical assistance.[28] It aims to focus on topics including poverty alleviation, food security, green development and climate change adaptation.
3. BRICS was originally established in 2010 (its predecessor BRIC without South Africa was established in 2006) as a forum for the large developing countries Brazil, Russia, India, China, and South Africa to discuss issues of economic cooperation. The BRICS nations encompass about 27 per cent of the world's land surface and 42 per cent of the global population, as well as about 23 per cent of global exports and 19 per cent of global imports. In 2012, BRICS nations established a new multilateral development bank, the New Development Bank (NDB) with headquarters in Shanghai, China. In 2023, several nations applied to become BRICS members and BRICS nations invited 6 nations (Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates) to join BRICS Plus. Like the BRI, the BRICS Group focuses on development issues, especially in emerging economies. However, the BRICS Group focuses on cooperation and coordination among major emerging economies, emphasising the important role of these countries in building a new international economic order rather than connectivity. The BRICS is seen by some observers as an attempt to provide an alternative to the G7[29] while others see it as a club of nations bound by grievances against the established Western order in search for an alternative system that suits them better.[30]
4. The Shanghai Cooperation Organisation (SCO) was established in 2001 as a political, economic, international security and defence cooperation mechanism by six nations: People's Republic of China, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan, and Republic of Uzbekistan.[31] It covers approximately 80 per cent of the area of Eurasia and 40 per cent of the world population. It focuses on several areas, including counterterrorism, combating separatism and religious extremism, promoting trade and investment, and developing cultural and educational cooperation. By November 2023, the SCO had not provided military support in any actual conflicts, but regularly conducts joint military exercises among members to promote cooperation and coordination against terrorism and other external threats.[32] Although the SCO has a strong security focus, it is officially not a military alliance based on the traditional principle of collective security, nor is it aimed at one or some military alliances. Rather, it officially advocates a "new security concept" of mutual trust, mutual benefit, equality and cooperation, which has become an important principle of China's global security initiative.
5. Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement signed in 2020. It includes 15 Asia-Pacific economies including Australia, China, Indonesia, Japan, South Korea, Laos, Malaysia. RCEP is the largest trade bloc with its members accounting for about 30 per cent of the world's population (2.2 billion people) and 30 per cent of global GDP ($29.7 trillion), making it the largest trade bloc in history.[33]

China also established several other initiatives, including the Global Security Initiative (GSI) and Global Civilization Initiative, where both initiatives have still to be defined more clearly. These initiatives distinctly prioritise principles and provide flexibility by avoiding the necessity for a selection between China with other countries' security partnerships.[34] However, a common characteristic among these organisations is the absence of major Western economies, such as the US, most EU members, Australia and Japan (with the exception of RCEP) where the decision not to join could be complex, influenced by geopolitical, strategic, and ideological factors, with reasons varying among Western countries.

The ambitious plans including the BRI, the BRICs and the SCO will not only help China radiate its diplomatic and economic influence on the world, but more importantly, build an international cooperation platform in which China can play a decisive role, and provide an important institutional and organisational foundation for China's subsequent Global Development Initiative, Global Security Initiative and Global Civilization Initiative.

While not all initiatives are equally effective, each of the initiatives provides China with convening power with regional decision-makers in government, business, and security outside of the Western dominated global governance system. It also provides China with alternative forums to establish policy and technical standards, such as the BRICS stated aim to provide alternative global payment systems.

China's engagement of Asian economies through these initiatives does not preclude China engagement in and through multilateral institutions, such as the United Nations. However, China laments that its economic might and financial engagement in these institutions is not adequately represented through voting rights.[35]



NAVIGATING CHINA'S GLOBAL DIPLOMATIC RELATIONS

After more than two years of COVID-related self-isolation, China significantly elevated its diplomatic, business and academic engagement with the region in 2023. China welcomed over 23 heads of state during the 2023 Belt and Road Forum alone and dozens of heads of state throughout the year including from Australia, the European Union, many Pacific Island nations, and nations from across Asia.[36] In November 2023, China held the world's largest trade fair—the China International Import Export (CIIE)—which attracted record numbers of business and visitors including the largest delegations from Australia.[37] It organised countless academic conferences, including globally leading conferences such as the Shanghai Forum that attracted over 1500 academics from over 80 countries. At the same time, Chinese policy makers, businesses, academics engaged in international events.

At the same time of political rapprochement, China continued to assert its territorial and geopolitical interests. China updated its official map in August 2023 highlighting the land and sea territory under the control of China.[38]

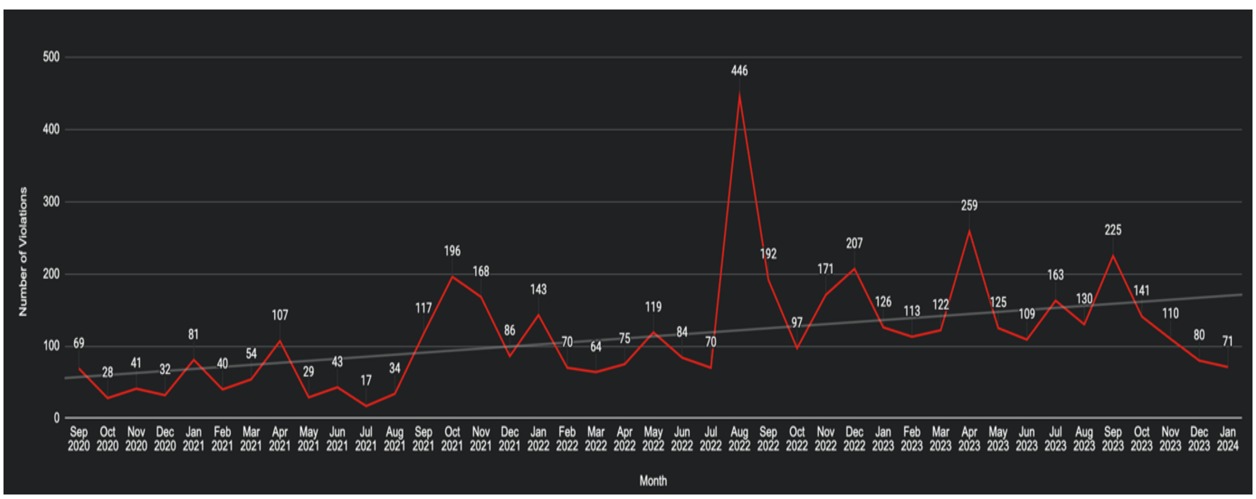
Herein, China also reiterated its claims to wide areas within the South China Sea,[39] with parts of it also claimed by other nations, such as the Philippines, Japan, or Vietnam, which is a contentious issue that involves a complex interplay of historical, legal, economic, and geopolitical factors, and efforts to address the disputes continue through diplomatic channels, albeit with challenges and ongoing concerns among the affected nations. Dangerous encounters between involved nations have increased in 2023, for example through use of military grade lasers against Philippine sailors and collisions of boats where China portrays the conflict with Philippines as driven by American interests.[40] China also expanded security cooperation with the Solomon Islands. A supposed Chinese airbase on an island off Myanmar received much global attention, yet the actual development could not be confirmed but might rather show some of the global fears about China's military expansion in the region.[41] On land, China and India continue an unresolved border conflict, which flares up occasionally and became violent in December 2022.[42] While challenges exist, fostering open communication and diplomatic efforts can contribute to finding peaceful resolutions to these issues, but it will be difficult, especially with Western interference.

China strengthened its borders and supply-chain security with its land-based neighbours. The Laos railway opened in 2021, which China plans to connect to Singapore provides strategic alternatives for sea-based trade routes, in particular the strait of Malacca.[43] China also works on building a railway from China through Myanmar's Bay of Bengal.[44] To support its strategic trade routes, China supported the construction of trading hubs at the borders, for example in Laos, Khorgos at the border in Kazakhstan and Vietnam.[45] In October 2023, Sri Lanka announced a multi-billion dollar Chinese engagement to build out Colombo city, where China already holds a 99-year lease for the Hambatota port.[46]

Growing attention is also given to the Taiwan question. While China sees Taiwan as an inalienable part of China and the Taiwan question as an internal affair, many Western observers worry about a military invasion of Taiwan and its potential consequences for broader military conflict.[47] 2023 saw 1,539 incursions of Chinese military aircrafts into Taiwan's Air Defense Identification Zone (ADIZ) according to data compiled based on Taiwan's Ministry of National Defense, indicating an assertive Chinese military stance on the issue (see Figure 2), while China also re-opened direct flights and visa free travel with Taiwan to strengthen business and social ties between the two sides of the Taiwan Strait.

Across the region, economies have adjusted to the great power competition and their engagement with China in different ways. Broadly, China distinguishes between comprehensive strategic partnerships, strategic partnerships, comprehensive co-operative partnerships, cooperative partnerships, and friendly cooperative partnerships.[48] Countries like Pakistan even enjoy a special status as "all-weather strategic cooperative partners" and "iron-clad friendship" re-emphasised in 2023.[49] Also Solomon Islands had upgraded its partnership with China to Comprehensive Strategic Partnership in 2023.[50]

Figure 2: PLA Aircraft entering Taiwan's De-Facto ADIZ by Month



Source: Taiwanese Ministry of National Defense.[51]

Other countries, meanwhile, are balancing relations with China as pragmatic allies that might choose different allies even for similar objectives. For example, Indonesia has deepened its comprehensive strategic cooperation with China in 2023 while Indonesia also "reaffirmed the strength of the defence pillar" regarding the enduring Strategic Partnership with the United States.[52] Similar pragmatic allies could be Vietnam and India that are equally working with China on geopolitical cooperation and similarly strengthening ties with less aligned partners—such as Japan or the US. For example, India is working closely with Australia, US and Japan through the QUAD strategic security dialogue and has been engaged with Japan in an active defence cooperation agreement.[53]

There are also neutral countries, such as Singapore, navigating between the United States and China by adopting a pragmatic and balanced approach to maintain diplomatic relations and economic partnerships with both major powers.[54] This strategy, rooted in careful diplomacy and regional involvement, ensures flexibility and independence in a complex geopolitical landscape.

Finally, countries with stable but fragile relationships include Japan,[55] Korea[56] and potentially the Philippines. Relationships with the latter were officially described by the Republic of the Philippines foreign Services Institute as "in recent years, both countries have experienced fiery issues that have resulted in their "cooling off," hitting a low point since the establishment of their diplomatic relations in June 1975"[57] with a hotline established in 2023 to avert military conflict.[58]

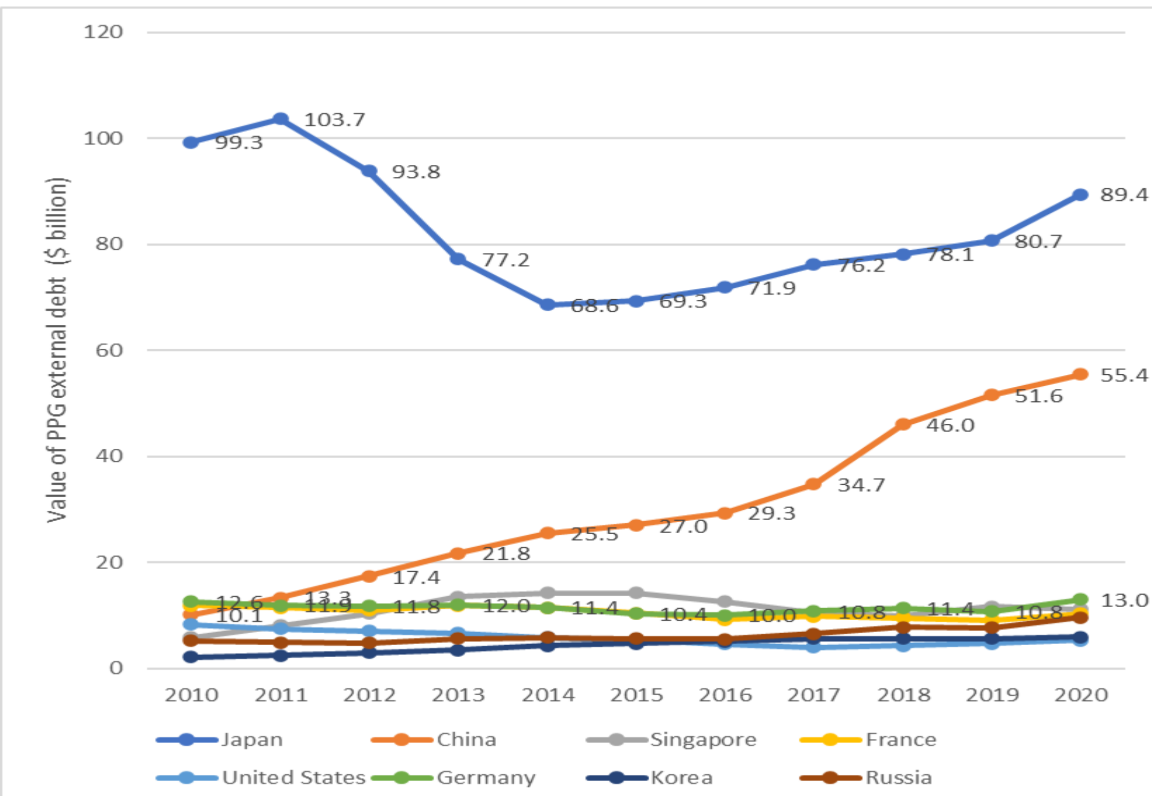
CHINA AND ITS ROLE AS GLOBAL CREDITOR AND SYSTEMS BROKER

Two issues stand out in China's growing role in the global financial system: its role as a creditor, and its role in promoting new financial systems: China's significant share of Asia-Pacific low- and middle-income countries (LMIC) debt belies its relatively recent expansion into overseas lending. While China began overseas lending in the 1950s, China's overseas lending to 1831 Asia-Pacific LMICs increased more than sixfold. As of 2021, China's largest sovereign debtors in absolute volumes include Pakistan with about USD 27.4 billion in reported debt; Sri Lanka with about USD 7.2 billion; Bangladesh with USD 5.3 billion; and Lao PDR with USD 5.2 billion. China's largest holdings in terms of the debtor country's debt-to-GDP ratio include Lao PDR (28 percent), the Maldives (25 percent), and Tonga (24 percent) from USD 10.1 billion to USD 62 billion between 2010 and 2021.

As of 2020, China's largest sovereign debtors in absolute volumes include Pakistan, with about USD 23.4 billion in reported debt; Sri Lanka with about USD 6.82 billion, and Lao PDR with USD 5.47 billion. China's largest holdings in terms of debt-to-GDP ratio include Lao PDR (28 percent) and the Maldives (34.7 percent).[59]

The typology of China's overseas lending has previously led to confusion.[60] The classification can happen along a spectrum of sovereign liability, between a spectrum of official or private, the price of the debt (concessional versus commercial)[61], the purpose of the debt (e.g., official foreign aid equivalent to OECD official development assistance (ODA), or fully commercial goals).[62]

Figure 3: China's decade-long rise in lending to 18 Asia-Pacific developing economies, 2010-2020 (current $ billion)



Note: Paris Club creditors = France, Germany, Japan, Republic of Korea (Korea), Russian Federation. Emerging creditors = China and Singapore. China includes official and nonofficial debt stocks.

The 18 countries: Bangladesh, Cambodia, Fiji, Indonesia, Iran (Islamic Republic of), Lao PDR, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Tonga, Vanuatu and Viet Nam.

Source: Authors based on World Bank IDS (2022)

At the same time, China has signed bilateral currency swap agreements with 20 partner countries and established renminbi (RMB) clearing arrangements in 17 partner countries. The number of participants, business volume, and influence of the RMB cross-border payment system have gradually increased, effectively facilitating trade and investment.[63] China's global swap line network put in place "is increasingly used as a financial rescue mechanism, with more than USD 170 billion in liquidity support extended to crisis countries."[64] According to the Global Financial Safety Net Tracker even shows that of the USD 1 trillion in active currency swaps in emerging economies by July 2023, over USD 400 billion is provided by the People's Bank of China (PBOC).[65]

Furthermore, China together with BRICS countries established the Contingent Reserve Arrangement (CRA) in 2014 with a pooled reserve of USD100 billion to provide liquidity support for members in sovereign financing needs. CRA was likely established to compensate for the BRICS' economies' frustration over the lacking reforms with Bretton Woods institutions, such as the International Monetary Fund (IMF) that does not give enough support for emerging economies and CRA aims to provide support ideally before IMF support is sought.[66]

China's growing clout in regional and international finance has originally led to claims of unsustainable debt levels and debt trap diplomacy, which had been mostly debunked.[67] At the same time, calls for China to engage in international debt relief to support emerging economies in reducing debt levels, similar to the Paris Club, have been increasingly voiced[68] and also discussed within China.[69] However, with uncertain economic outlook in China and high debt levels with various provinces in China,[70] Chinese policy makers seem reluctant to engage publicly and strategically in sovereign debt relief beyond debt rollover in emerging economies.[71] China has also laid out its demands that multilateral lenders (e.g., World Bank) would have to be fairly included for any potential debt forgiveness and reduce their "super seniority" in getting paid back.[72]

At the same time, China aims to internationalise its RMB and reduce dependency on international payment systems. By June 2023, 13 Chinese-funded banks had established 145 first-tier offices and branches in 50 BRI partner countries and about 17.7 million businesses in 131 partner countries had opened UnionPay services (a Chinese payment system), and 74 partner countries had opened UnionPay mobile payment services.[73] In 2018, the BRICS Pay project was launched to provide a new payment mechanism[74] while in 2023, BRICS nations even discussed the launch of a new legal tender to challenge the dominance of Western currencies,[75] and in particular the US Dollar, despite many hurdles that would need to be overcome.[76]

SUMMARY AND RECOMMENDATIONS

Engaging China is of utmost importance for sustainability in Asia and the Pacific. Partnership and cooperation are essential to achieve the sustainable development goals, which includes cooperation among all countries despite potentially different political systems. However, without acknowledging and possibly addressing significant differences in economic and security interests as well as perceived value differences between China, countries in Asia, and Western countries (such as Australia) with strong interest in Asia, we must expect inefficiencies at best and conflicts at worst.

To increase odds of success in engaging China, a first step is to solidify the foundation of mutual trust. Cooperating on topics of shared interest in the region, such as climate change, acceleration of the green economic transition, can be the bedrock of cooperation. Cooperation in this area addresses three topics of mutual interest simultaneously: economic development, employment, and climate change, fostering innovation and strengthening diplomatic ties. Similarly, engaging on issues of trade allows for similar benefits and is in the interest of China, regional, and likely international economies. Support from Western countries in this area can include financial support (e.g., credit enhancement, local company equity injections, project facilitation funds), and capacity building (e.g., energy planning, trade negotiations, vocational skills development).

For Asia Pacific economies, it is equally important to strengthen its negotiation positions vis-à-vis any individual country to avoid singular dependencies while Western countries and China will aim to build strong, partially mutually exclusive alternatives. Avoiding dependence should include aspects of security, technological, financial, and trade aspects. Asia Pacific economies can achieve this by strengthening regional integration (e.g., through ASEAN) and engaging in international collaboration with various partners (e.g., Australia, G7 countries), promoting diverse economic ties. A diverse set of allied countries can play an important role in providing credible alternatives based on mutual interest.

The growing geopolitical and ideological divide between many Western countries and China has also affected relations between China and Asian and Pacific economies. It will be constructive to build relationships and dialogue platforms between Chinese, Western, Asian, and Pacific policymakers, universities, businesses and civil society organisations. For Western and Asia-Pacific partners, it should also be helpful to strengthen exchanges with China by attending conferences, seminars, and workshops hosted by relevant institutions in China where China's thinking, discourses, and policy changes in the country are often elaborated and networks with Chinese experts can be established.

We offer some recommendations for engaging China for sustainability in Asia:

RECOMMENDATION 1

Green transition

1. Support green energy financing: Developed economies, such as Australia, EU can provide financing for economies in Asia Pacific through blended finance, guarantees or direct investments/loans to support local investments and accelerate the green energy transition. While Western government financiers might prefer to support non-Chinese companies, such reservations should be weighed carefully where no viable alternatives for green technologies exist.
2. Strengthen financial capacity for green investments of local enterprises: due to partly underdeveloped local financial markets or high indebtedness of local (power) companies, local financial capacity is often insufficient to raise money on capital markets. For most Asian economies it would be risky to depend on a single foreign country for green investment. Accordingly, Western partners can aim to strengthen local capital market development and provide financial management capacity and – where needed – financial investments into local companies to support indigenous ownership and financing of green companies.
3. Cooperate on local planning capacity, e.g., to plan electric grids or energy needs. While many partners in Asia Pacific have over the past years developed significant expertise in energy planning, financial and technical support by Western or multilateral institutions for project development and facilitation should both accelerate the transition by simply having more resources, and also build trust for external investors to invest in the project.

RECOMMENDATION 2

Outward foreign direct investment

1. Understand local factor endowment to attract right type of Chinese companies: As different industries require different skill sets and local factor endowments (e.g., cheap labour, skilled labour, transport network, ease of import/export, access to raw materials, energy), Asian countries need to understand their specific advantage when aiming to attract Chinese manufacturing investment.
2. Support skills development: as higher skills usually allow for more economic value creation—they usually attract higher paying jobs and thus offer more opportunities for local development. International partners can support Asia-Pacific economies in improving technical and management skills through education programs, exchanges, and vocational training. This would create significant benefits to attract investments from China and all partners in the world.
3. Support in trade facilitation: Trade integration is crucial for economic development. Partners can support Asia Pacific economies to further integrate into global trade networks, e.g., by providing trade negotiation support that benefits local communities.

RECOMMENDATION 3

Peaceful and sustainable co-existence

1. Strengthen mutual understanding and trust, e.g., by providing better information on security and defence-related activities and establishing direct communication channels (e.g., red hotline). This should help avoid unintended escalation of conflict.
2. Actively support dialogue between involved partners to find solutions to existing security and border conflicts fully understanding historical background and relevance for China.
3. Strengthen security resilience: Partners can work with Asia Pacific economies to credibly strengthen security alliances based on mutual interest.
4. Support regular engagement at sub-national levels (e.g., province, city) as well as through business, cultural and research exchanges to bolster mutual understanding and trust.

RECOMMENDATION 4

Multilateralism

1. Strengthen multilateral institutions and provide transparent pathways for China to ensure equitable representation for China. Multilateral institutions could reform voting structures and decision-making processes to reflect the evolving global economic landscape. While this seems to be an increasingly difficult undertaking given the perceived incapacity of the UN framework, significant distrust towards the IMF and other multilateral banks in Asia, the alternative is a further bifurcation of global institutions.
2. Offer credible, well-financed alternatives for diverse Asian partners. Strengthen existing local institutions like ASEAN or Pacific Forum and establish new initiatives grounded in local engagement. Prioritise economic and social development, including local financial market support, education, trade facilitation, and investment in green jobs.
3. Strengthen joint public communication involving all involved partner countries on successful engagement to provide a confident narrative that is not seen as a reaction to any specific country's engagement, but that highlights the value added through collaborative efforts without specifically referencing any single country's involvement, fostering positive and constructive dialogue.

RECOMMENDATION 5

Public financier

1. Fully understand the real exposure to China's debt and engage relevant Chinese stakeholders if need be, bilaterally on debt renegotiation and re-financing.
2. Support development of alternative financing and re-financing channels from China as well as other international and bilateral lenders, such as "A Globally Connected Europe" plan of EU in 2021[77] and the "Partnership for Global Infrastructure and Investment (PGII)" of G7 in 2023.[78]
3. Develop opportunities for engaging with China through mutually beneficial projects (e.g., in renewable energy) to attract new financing—which should be within the “small yet beautiful” logic.
4. Engage with international financial system to also evaluate possibilities to accelerate debt restructuring in line with multilateral bank reform demands.

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Achieving inclusive and equitable growth in Asia Pacific

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INTRODUCTION

Over the past decade Asia-Pacific region has experienced strong economic growth trajectories, accounting for over 70 per cent of global GDP (Gross Domestic Product) growth.[1] This growth has contributed to socio-economic transformation across the region. While the common aphorism "a rising tide will lift all boats" would suggest that the positive benefits of this economic growth would be equally measurable across all levels of society, the reality of the situation has unfortunately shown that the benefits of economic growth have often excluded those who are most in need resulting in enduring poverty and unemployment.

While the Asia-Pacific region has enjoyed considerable success in addressing poverty over the past few decades, more than 150 million people in the region continue to suffer from extreme poverty.[2] Moreover, poverty is a multidimensional issue and income alone is not a sufficient measure to understand how a person's wellbeing can be measured. Hundreds of millions across the region also suffer from deprivations in other elements of society such as access to high quality or affordable services including health, education, and finance.

The challenges associated with inequality were brought into greater focus during the COVID-19 pandemic with those at the base of the economic pyramid, many of whom operate in the informal sector and lack access to public or private safety nets, being particularly impacted by the resulting global economic fallout. Furthermore, as governments have prioritised digitalisation as a core strategy to accelerate post-pandemic economic recovery, many of the region's poor and vulnerable are at risk of being left behind in a world where digital access and capabilities are becoming increasingly important to access basic services or participate in economic activities.

When considering strategies to achieve greater inclusive growth, it is important to understand the distinction between inclusive growth and inclusive and equitable growth. Inclusive growth is achieved when all members of society benefit from economic growth, including those at the top and bottom of the economic pyramid. However, a problem with this concept is that inclusive growth often results in those at the top of the pyramid benefiting more than those at the bottom. Inclusive and equitable growth is achieved through strategies which promote another layer of developmental outcomes—that is, to ensure that the poor benefit more than those at the top. Applying such a focus to development strategies is not often discussed but is becoming increasingly recognised as a critical step towards truly unlocking the desired impact of inclusive economic growth.

The following sections of this brief explore some of the current trends associated with key development challenges faced by the Asia-Pacific region and provide insights into potential pathways forward in which inclusive and equitable growth could be achieved. The themes discussed include financial inclusion, women's economic inclusion, digital inclusion, food security, green financing, and artificial intelligence.

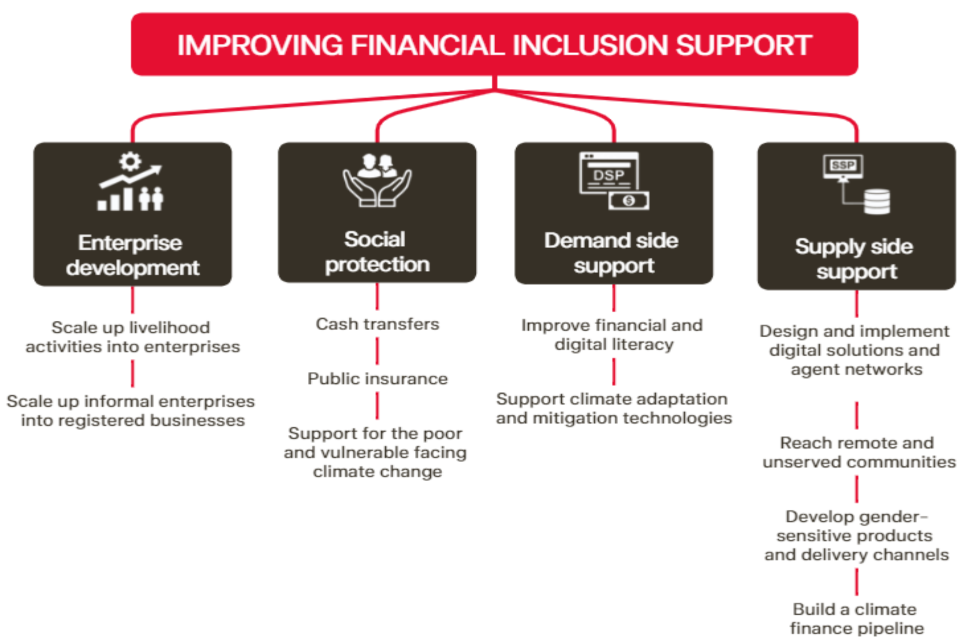
These discussions highlight the myriad of complex issues the region's governments and development practitioners face when trying to design and implement effective development strategies. They bring greater attention to the persistent challenges associated with delivering support to the region's poorest and most vulnerable segments of society, including women, youth, the disabled, those in rural communities, and micro, small and medium enterprises (MSMEs). While these challenges are not necessarily new, several contemporary factors, such as the increasing impacts of climate change and the continued rapid pace of technology developments, have created both new risks and new opportunities. As a result, the region's policymakers need to reassess their priorities and consider how these changes may warrant innovative approaches toward achieving inclusive growth and development.

The findings within this paper point towards a growing need to increase public support for inclusive growth rather than remain over-reliant on market-based approaches. This calls for further investigation into the impact of progressive policy interventions which seek to make the poor and vulnerable more resilient to economic shocks, such as targeted social welfare or protection programs, effective methods for public-led campaigns to build the capabilities of underserved populations to support their ability to engage effectively in the economy, or new regulatory approaches or requirements that enable technology to play a more meaningful role in reducing inequality. Importantly, more research is needed to understand the viability of innovative financing mechanisms necessary to enable such interventions, especially in resource constrained developing countries. The identification of effective solutions, combined with enhanced regional cooperation, will enable the necessary knowledge sharing for successful inclusive growth strategies to be replicated and scaled up across the region.

ALLEVIATING POVERTY AND VULNERABILITY IN ASIA PACIFIC

Over the past thirty years, scalable operational models for financial inclusion have been developed and replicated around the world. The Asia-Pacific region has achieved greater financial inclusion compared to other regions. Nevertheless, gaps remain. Women and people with disabilities are still disproportionately excluded, and many of the poorest members of society remain outside the financial system. The importance of closing these gaps has become magnified as the rationale for financial inclusion has changed dramatically in recent years. In the past, financial inclusion was linked to income generation. Now it is considered crucial for "resilience". Especially as climate change threatens the livelihoods of poor and vulnerable households across the Asia-Pacific region, access to savings, credit, insurance and—most importantly, social protection programs—has given new impetus to the financial inclusion movement in the region. Figure 1 shows how this can be achieved.

Figure 1: Aspects of financial support for resilience



Source: Authors, Griffith Asia Institute 2024.

Half a century ago, USAID first floated the idea of providing credit to farmers and the poor on commercial terms, and thirty years ago a World Bank staff member and two former USAID staff members developed the rationale and outlined the operational guidelines for modern microcredit.[3, 4] The intervening three decades has proven these thought leaders correct. Commercially oriented and profitable financial service providers have replaced costly and poorly performing subsidised loans by government banks and international development programs. They have added products and services, transforming microcredit into microfinance with the addition of savings and insurance, and transforming it further into financial inclusion with the addition of payments, transfers, and digital financial services. They have also expanded outreach: today, 76 per cent of adults in the world have access to a formal financial account, a 50 per cent increase compared to 2011, according to the World Bank's Global Findex database.

Many different scalable operational models have been developed and replicated around the world. A commercially oriented ecosystem, from investors to technical service providers, has emerged to support them.[5]

The Asia-Pacific region has achieved greater financial inclusion compared to other regions. Nevertheless, gaps remain. In the Asia-Pacific region, women and people with disabilities are still disproportionately excluded, in part due to the design of products and delivery channels for both traditional and digital services. Products and operational models for financing climate change adaptation and mitigation are not yet scalable or replicable.[6]

Moreover, many of the poor in the Asia-Pacific region remain outside the financial system.[7] However, except for people in very remote places that are difficult or expensive to serve, the problem is not due to a lack of access. Instead, it is due to a lack of awareness, an unwillingness to borrow due to limited income, business opportunities or prohibitive cost, or a lack of financial literacy. In other words, most of the remaining systemic barriers to financial inclusion are on the demand side rather than the supply side.

As the concept and practice of financial inclusion has evolved over the past three decades, so has the rationale for financial access. The link between financial inclusion and income generation, prominent thirty years ago, is much less emphasised today, due to a body of evidence showing that this link is tenuous at best.[8]

In this, the founders of modern microcredit were prescient as well. They warned that credit was just one input among many (including many other sources of finance) and that the "fungibility" of money meant that it is impossible to link credit to client outcomes.

While that is indeed true, the weak link between financial inclusion and income generation revealed a more fundamental problem. Most micro and small enterprises operate in an environment of near-perfect competition and serve a low-income clientele. In such conditions it is extremely difficult to grow or increase margins enough to accumulate wealth. Furthermore, the owners of these enterprises are rarely the risk takers or innovators that the term "entrepreneur" connotes.[9]

Today, financial inclusion's impact is linked to increasing "resilience", which has an extremely broad meaning, of which only one aspect is increasing income. CGAP, formerly known as the Consultative Group to Assist the Poor, the hub organisation for international development agencies' support for financial inclusion, issued a new five-year strategy in 2023 that focuses on mobilising finance for:

- Climate adaptation, mitigation, and a just transition
- Resilience to shocks and risk management
- Empowerment of women and growth of micro and small enterprises.[10]

The new emphasis on resilience instead of income generation represents a significant change in the raison d'être of the industry, even though the root cause of the problem remains the same: income from micro and small enterprises and small farms is both low and unpredictable, creating mismatches with the amount and timing of expenses. The result of these mismatches is an inability to save and invest—i.e., a lack of resilience. Rather than promoting financial inclusion to increase income, the new focus is on using financial services to directly improve resilience itself.

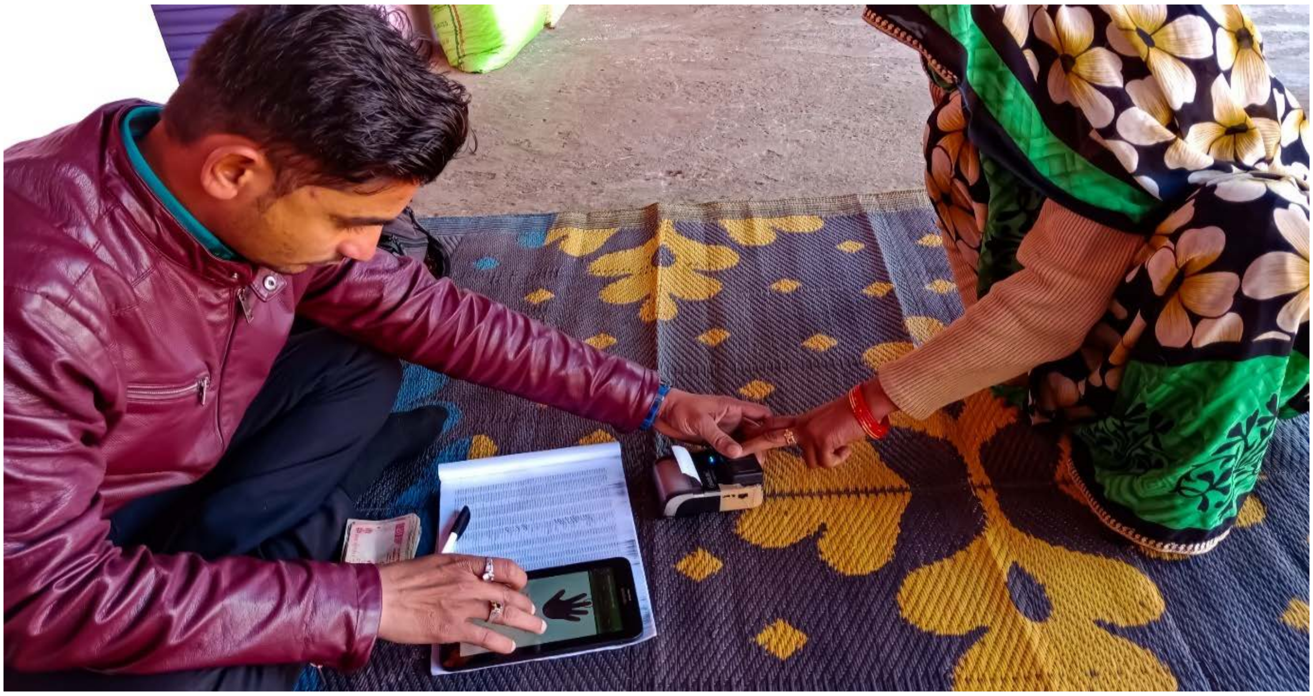
To achieve these new goals, the financial inclusion movement needs support on both the supply and demand sides. On the supply side, financial institutions need support to design and implement digital solutions and agent networks to reach remote and unserved communities, develop gender-sensitive products and delivery channels, and build their climate finance pipeline. On the demand side, clients need support for financial and digital literacy and support to switch to climate adaptation and mitigation technologies.

Support for farm and enterprise development is still needed as well. Livelihood activities need to be scaled up into enterprises, and informal enterprises need to be scaled up into registered businesses. Although income generation is no longer central to the financial inclusion movement, it is still intricately linked with issues of resilience. As long as the root cause—low and unpredictable income—persists, people will lack resilience. Their ability to manage their lives through saving, borrowing, and insurance will reach its limits, especially in the face of climate change. It may be realistic to expect that households will be able to save enough, and that financial institutions will lend enough, or that insurance companies will insure enough to enable households to recover from one calamity, but less realistic when such calamities start happening more often.

Indeed, leaders in the development community already seem to recognise the limits to financial service-based solutions to resilience in the face of climate change. Organisations such as the World Bank, Inter-American Development Bank, and USAID have recently published papers outlining their support for social protection policies—including cash transfers, public insurance, and public works-driven employment—to support the poor and vulnerable.[11, 12]

Much of those services will be channelled through financial institutions serving the poor, giving the financial inclusion movement a new impetus to grow and develop.

However, the next phase of the industry's development will differ significantly from the past. The various models for delivering basic savings and credit that were developed in the 1990s were easily standardised and replicated across contexts, countries, and continents. The industry's new requirements—whether they involve digital services, agents, climate change-related adaptation and mitigation technologies and equipment, social protection programs, or client training—have so far proven to not be easily replicated or scaled up. Wide variations in client needs and capacities, the presence of external partners, and policy and regulatory environments mean that models that work in one place are not necessarily appropriate in another. This means that each location and set of target clients will require their own bespoke research and implementation model to be effective.[13]



WOMEN'S ECONOMIC INCLUSION IN ASIA PACIFIC

Women across the Asia-Pacific region too often find themselves excluded from the most fundamental parts of the economy. Economic inclusion lays at the heart of women's empowerment and the creation of thriving communities.[14]

The levers to economic inclusion are spread across multiple levels of government, the judiciary and industry. For instance, government control legislation which can support or preclude a women's participation in the economy, such as legislation which prevents or deters women from owning a home or starting a business.

Ensuring women are included in the economy is an essential step to achieving gender equality and prosperity. It can reduce the disproportionate burden of poverty that women experience. Furthermore, women's economic inclusion also has a positive impact on the broader economy. The IMF estimates that closing the workforce gender gap could increase GDP by as much as 35 per cent in developing countries.[15] In the Asia-Pacific region, it is estimated that as much as USD 4.5 trillion could be added to the region's collective annual GDP in 2025 by advancing women's equality.[16] This would represent a 12 per cent increase over a 'business-as-usual' trajectory. Most of these gains come from simply adding female workers to the labour force, with the remainder due to the gender diversity effect on productivity.

Women's lack of economic inclusion in the region is a long term, systemic and multi-faceted problem. It will not be solved without bold, long-term solutions which trigger systemic, institutional, and enduring change.

Current state of women's economic inclusion

Across the Asia-Pacific region, women face a multitude of barriers to economic inclusion. The strength of and extent to which these barriers manifest themselves across the region differs between countries. In general, barriers to women's economic inclusion commonly include a mix of structural, legal, and cultural issues which disadvantage them.[17] For example, structural barriers that limit women's access to education, laws which restrict women's property or inheritance rights, or cultural attitudes towards gender norms and women's safety are just some of the issues women must contend with when seeking employment or other income-generating opportunities.

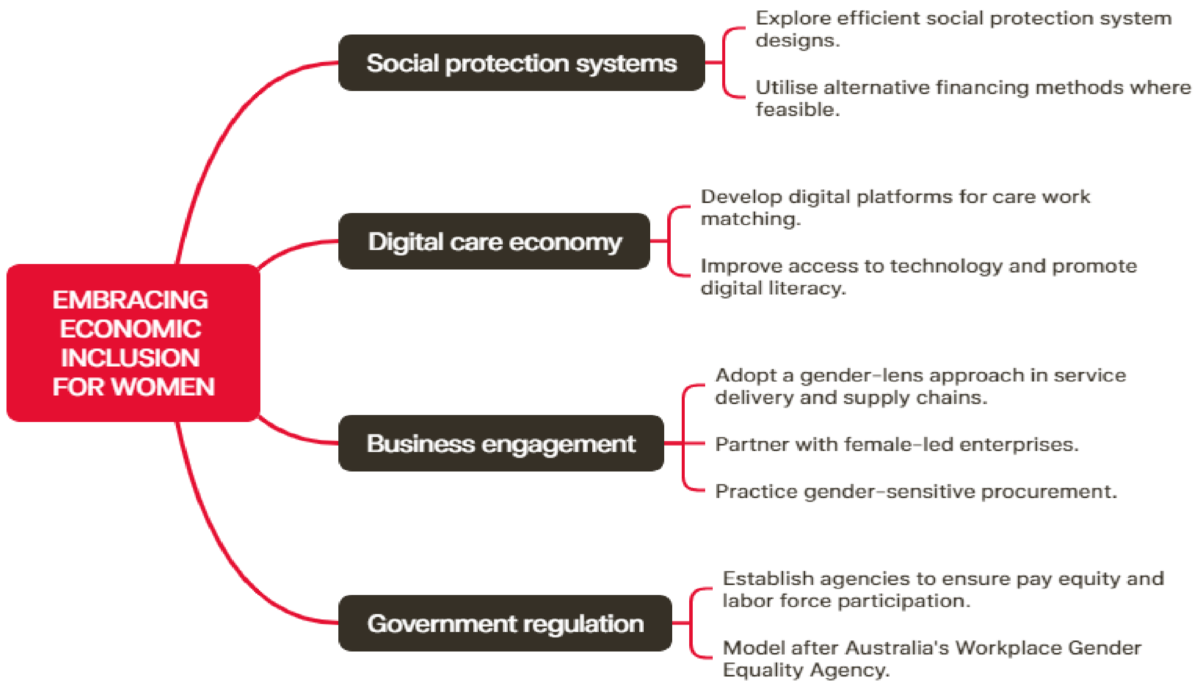
Women in the region have a lower labour force participation rate than men and frequently experience pay inequality or work as unpaid family workers. In parts of the Pacific, women's labour force participation is as low as 34 per cent despite most Pacific Island Countries having near gender-parity in school enrolment.[18] Where women are in the labour force, it tends to be concentrated in industries with low profit margins, low barriers of entry, limited innovation, or highly saturated markets, often with poor working conditions, or operating informal small-scale retail enterprises.

This problem has been exacerbated by difficulties accessing affordable and quality childcare, especially in the Pacific. A 2019 study found that, of more than 2700 employees from the public and private sector in Fiji, only 8 per cent of parents with pre-school aged children used a childcare service.[19]

The COVID-19 pandemic further impacted women's economic exclusion in the region through loss of employment, hours of work, and income. It reversed hard-won progress and cemented existing inequalities. As a result of the pandemic, women across the region were more likely to have become unemployed or underemployed, and more likely to have taken on an even greater share of caring responsibilities.[20]

Figure 2 provides some suggestions to address this problem.

Figure 2: Practical ways to promote economic inclusion for women



Source: Authors, Griffith Asia Institute 2024.

Significant reform efforts have been undertaken to address these barriers in Asia and the Pacific. For example, between 2020 and 2022, 99 per cent of the Asian Development Bank's operations in the region included the promotion of gender equality[14] The Asia-Pacific Economic Cooperation (APEC) has also recently reported significant progress across its member economies on enabling women's economic participation.[15] While such efforts have garnered modest improvements amongst specific cohorts of women, broader change across the region has been glacial.

Government's role in advancing women's economic inclusion

Governments can enact policies that help shape women's economic inclusion. There are a range of well-understood and tested policy solutions that governments can implement, such as investments in health, education, and access to financial services. Additionally, specific policy interventions are required to help women of child-bearing age remain in the workforce, while also creating more opportunities for men to take up child caring responsibilities. This is critical at the stage of life where workforce drop-out amongst women is high. For some countries, this could be subsidised childcare and paid parental leave. In others it might be the creation of laws that safeguard women's jobs during and after pregnancy or parental leave. However, while such interventions may provide benefits to women, they may still result in men being the preferred employees in the workforce, especially if such interventions cost employers. To address this, more research is needed to identify interventions which can successfully increase the number of men involved in caregiving roles.[16]

Government can also devise appropriate policies which are designed to support women directly. These would span across numerous industries and demographics and aim to ensure that woman do not fall through the cracks. An example of this would be policies that target gender discrimination across employment and service delivery, as well as initiatives that directly address women's safety at home and in the community.

The Australia's Workplace Gender Equality Agency is an example of a fit for purpose, government-led gender regulator that actively collects workforce data from employers and works with them to improve gender equality. Such an agency could be replicated in other countries to hold businesses of a predetermined size to account for through reporting and monitoring requirements.

Additionally, as a major employer of women in the region, government agencies can set a precedent for women's employment, ensuring the public sector demonstrates equal pay for equal work, support for women's development and progression, and appropriate workplace policies.

Government, as well as businesses, should invest in the digital care economy, as a potentially significant source of employment for women in the region. Recent technology and innovation offer governments the opportunity to increase economic participation among women. For example, the use of online platforms to match demand and supply in the care economy, such as Lovecare in Indonesia or Kiddocare in Malaysia, can make it easier for women to access work opportunities in the home care sector. This method of digitising the care economy is an example of how increasing women's access to digital tools can generate independence and value, especially for women at the bottom of the economic pyramid.

However, such interventions require governments to support a range of issues associated with an inclusive digital economy including improved access to technology, skill development (including digital and financial literacy), privacy protection measures, or investments in ICT (Information and Communication Technology) infrastructure. In doing this, it is important to recognise policy change is a part of the solution, but is slow to take effect, often lagging social movements and the needs and preferences of workers.

Demonstrating the value of woman's economic empowerment to the private sector

Beyond government, there are market-led approaches that businesses can take the lead on. This includes support for female-led micro, small and medium enterprises, promoting gender-responsive financial services and microcredit facilities, gender-sensitive supply chains where procurement policies prioritise working with women-led businesses, and providing access to skills training, particularly in digital skills. However, motivating the private sector to take such actions often requires the support of policymakers, including policies which mandate or incentivise business practices which enable greater opportunities for women.

The COVID-19 pandemic also set a valuable precedent for the possibility of flexible or remote work aided by technology which could create more beneficial working options for women. However, such arrangements are not possible for all people in all industries, including many of the industries and services that employ substantial numbers of women in the Asia-Pacific region, such as agriculture or retail. One challenge is achieving flexibility whilst ensuring secure and safe work. Another challenge is developing digital literacy and access to reliable, accessible, and affordable telecommunications services among women, which prevent people taking full advantage of tech-based opportunities which could support their employment or other income generating activities.

Private sector involvement in driving women's economic inclusion is dependent on demonstrating that woman—when given the opportunity to engage in the economy—can act as effective investment vehicles. Doing this will catalyse investment in female-led businesses or the development of gender-focused services that can accelerate progress towards gender equity.

The way forward

The aftermath of the COVID-19 pandemic has increased calls for bold policy change to support the wellbeing of those most vulnerable. From a gender perspective, demographics routinely missed by support systems include unemployed women, single mothers, migrant women, and women with disabilities. Policy approaches need to be considered which cater for these groups to ensure they do not slip further through the cracks.

If the cost of living continues to rise, women's economic inclusion may still be insufficient to sustain a reasonable standard of living.

Government should explore opportunities to improve the efficiency of social assistance systems and adopt bigger-picture reform to create enduring and inclusive social protection.

A key tenet of effective social protection is ensuring support reaches the right people, in the right quantity, at the right time. We need to get creative and motivated about how we create safety nets for the most disadvantaged and vulnerable people in the region, and how we gradually and sustainably transition towards the implementation of these. Alternative financing models could be one opportunity worth exploring.

For example, there are more than 80 sovereign wealth funds around the world managing assets of more than USD 20 trillion. In Asia and the Pacific, several emerging economies have sovereign wealth funds including Indonesia, Timor Leste, Vietnam, and Kiribati.

While each country has its own wide range of development priorities to manage, the potential to use these funds for financing sustainable economic support systems, including the possibility of dividend payments to vulnerable women, require further examination.

To achieve this, increasing the value of sovereign wealth funds through various policy reforms would be necessary in many countries to better leverage assets they may have available such as natural resources, public enterprises, foreign exchange reserves or investments. Such reforms are particularly difficult in countries with unutilised natural resources, small taxable populations, and limited economic growth, such as many developing countries in the Asia-Pacific region.

Paying out dividends from a sovereign wealth fund is just one example of an ambitious reform—of which many are required. Further research is needed at a country-level on options to reform social protection systems, including a lifecycle and gender-sensitive approaches to social care and transfers, which harness innovative solutions

BRIDGING THE DIGITAL DIVIDE IN ASIA PACIFIC

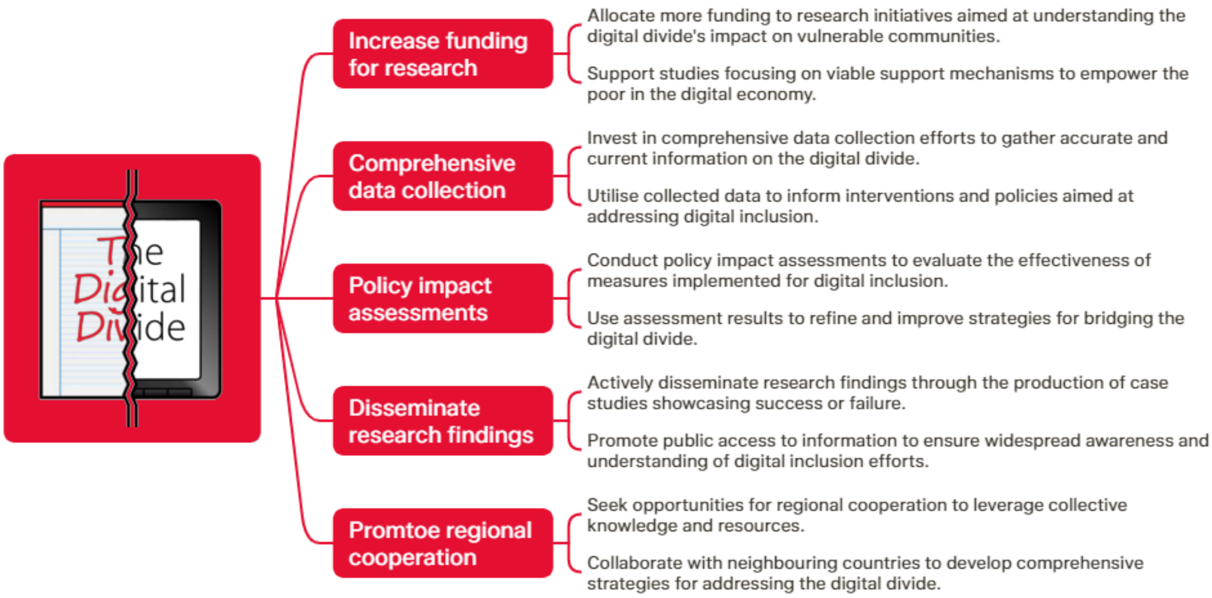
The digital divide is increasingly recognised as a matter of concern across the Asia-Pacific, especially in the wake of the COVID-19 Pandemic. While digital transformation is driving multiple positive development impacts and opportunities, the rapid pace at which digitalisation is currently taking place poses a threat to those without the skills or capabilities to use such services effectively. Digital financial services stand out as a use case which could help to drive digital adoption and close the divide. However, despite several efforts underway to help vulnerable communities engage with digital financial services, several knowledge gaps remain concerning how to accelerate adoption and effective usage amongst the region's poor.

Box 1: Examples of digital platform use by low- and middle-income people

Rubina, a grocery shop owner in rural Munshiganj in Bangladesh, owns a basic feature phone. Her use of the phone is limited to talking to her friends and relatives, sending, and receiving text messages, and occasionally using bKash (a mobile financial service) to receive payments or pay suppliers. She cannot use bKash by herself and relies on her husband to use the service for her. She cannot afford a smartphone. However, she sometimes borrows her husband's smartphone (the only family member to have one) to watch YouTube videos. She does not know how to use social media and messaging apps. Hafid, a farmer who also runs a photocopy and mobile accessories shop, hails from a semi-urban area of Bandung, Indonesia. He has a smartphone, and he mostly uses it for accessing social media and doing online shopping. The 'super app' he uses works for both online shopping and digital payments.

The examples of Rubina and Hafid illustrate how many low and middle-income (LMI) people are divided in terms of using digital platforms and services like WhatsApp/Telegram-based messaging, social media, YouTube videos, digital payments, online shopping, etc. Hafid's experience is representative of being in a far more advanced stage of the 'digital journey' compared to Rubina. Their journeys differ in terms of their access to, and use of, smartphones to engage in the digital economy due to a range of barriers such as affordability, capability, and confidence.

Figure 3: Possible ways to bridge the digital divide in Asia Pacific



Source: Authors, Griffith Asia Institute 2024.

Significant gaps remain across Asia and the Pacific towards closing the digital divide.[17] While gaps in access and usage of technology across societies and businesses have always existed, the rapid acceleration of ICT development which occurred throughout the region during the COVID-19 pandemic has brought this divide into sharper focus. As governments and businesses rushed to develop the necessary digital infrastructure to keep the economy going in the face of lockdowns and social distancing measures, the growth of digital services during the pandemic grew at an unprecedented rate.[18]

This accelerated growth of the region's digital economy due to the pandemic has brought many new benefits and opportunities. For example, the digitalisation of health, education or financial services can play a key role in decreasing costs or expanding access to excluded or underserved populations. However, as digital transformation continues to occur beyond the pace of technology adoption, individuals or businesses who lack access or the necessary skills to engage in the digital economy are left disproportionately disadvantaged. As of 2021, nearly 40 per cent of the region's population did not have access to the internet, with most of this group being women or people in rural communities.[19]

The digital divide's impact is particularly evident in financial services where the role of digital technology has been promoted as a game changer for achieving greater financial inclusion. The fintech revolution across Asia, largely propelled by the COVID-19 pandemic, has been particularly pronounced, leading to millions of new users of digital finance.[20] However, despite the prominent levels of investment and promotion towards the adoption and effective usage of digital technology, persistent challenges continue to hinder the progress of making digital financial services (DFS) viable to all segments of society.

Many factors lead to the digital divide—the quality of infrastructure, low income, cost and accessibility of smartphones, lack of education, lack of financial and digital literacy, poor user interface/user experience (UI/UX), regulatory challenges, and commercial driver.[21] But there is a behavioural angle to it as well. In multiple markets in the global south, we have seen that the LMI people still prefer personal interaction rather than digital mode.[22] There is still a lack of trust in technology and a lack of confidence to use technology—especially in the case of digital payments—and a lack of value proposition that DFS offer, especially in cash-heavy economies. The same is true for using digital platforms to grow businesses. This results in poor digital skills and a broadened digital divide.

It is important to remember that achieving financial inclusion is not only about innovative technology, investments, or infrastructure. It is also about changing behaviours, building trust, and working with communities. As digital transformation continues to change the financial inclusion landscape, it brings with it several important questions—how is the digital divide impacting those at the bottom of the economic pyramid (BoEP) and how can effective support mechanisms drive technology adoption and effective usage? What can be considered as the best practices to drive DFS? Is there a single factor or combination of factors hindering the adoption of DFS among poor non-users? And what roles do the diverse circumstances of individuals, and their communities play in it?

These are just some of the important questions practitioners and policymakers are currently grappling with to devise effective solutions to the digital divide. Their success is therefore largely dependent on closing these knowledge gaps.

Several efforts are already underway to build greater understanding of the issues and to identify and promote best practices. The programs of the Better Than Cash Alliance to promote inclusive and responsible digital payment services or research being conducted by the Griffith Asia Institute, in collaboration with the Asian Development Bank Institute and MSC (MicroSave Consulting), to test the effectiveness of social support mechanisms and influence DFS adoption, are notable examples. But despite such efforts, there is still much to be done towards understanding the full scale and impact of the digital divide, and what potential DFS truly offers as a tool for greater inclusion at the BoEP.

Policymakers have a key role to play in helping the development community better understand the digital divide and how it can be addressed most effectively. Specific actions policymakers can take include providing funding or support for research initiatives focused on the digital divide, collecting and sharing data on digital access, literacy and usage patterns, conducting policy impact assessments to measure their effectiveness at addressing digital inclusion, and disseminating research findings through case studies or other public formats to promote widespread access to information.

The stories of Rubina and Hafid exemplify the stark disparities in digital access and adoption experienced by millions of individuals across the Asia-Pacific region. In the journey towards bridging the digital divide, regional cooperation will play an increasingly crucial role. Collaborative efforts will enable stakeholders to combine their resources and knowledge, making progress not only in closing knowledge gaps but also in implementing effective solutions that cater to the unique challenges and opportunities of specific regions. The road ahead may be long, but with continued cooperation and innovative approaches, we can work towards a more digitally inclusive and equitable future for all.

FOOD SECURITY AMIDST EVOLVING INCLUSIVE GROWTH PRIORITIES

The Asia-Pacific region faces multiple challenges that are adversely affecting food production and distribution. As a result, addressing food insecurity is becoming a greater priority within the development agendas of several countries. As the region's most significant food producer, smallholder farmers represent the key to addressing this issue. Efforts to incorporate these farmers' needs as part of inclusive growth strategies are thus critical to ensuring adequate food production for the region.

Food security is a global challenge impacted by multiple evolving threats to the food supply chain, such as climate change, environmental degradation, conflicts, and pandemics. This issue is particularly severe in the Asia-Pacific region, where over 1 billion people currently face moderate or severe lack of access to sufficient food, and of adequate quality.[23] Figure 4 depicts six ways this issue might be addressed.

Figure 4: Actions to address food security challenges in Asia Pacific

Source: Authors, Griffith Asia Institute 2024.

Our world is evolving around several uncertainties, and it has become increasingly crucial to understand the complexities of these challenges and identify potential solutions to both continue progressing inclusive economic growth while also safeguarding the gains made through decades of development efforts.[24] Against this backdrop of competing development challenges and trying to ensure that economic growth benefits everyone equitably, addressing food security is emerging as a growing priority.[25]

The Asia-Pacific region is home to several major food producers, such as China, India, Vietnam, and Indonesia, however, more than 80 per cent of this food is produced by as many as 450 million smallholder farmers.[26] These small-scale producers represent some of the poorest people in the region and are particularly vulnerable to shocks, typically lacking access to technology or financial support that could help them build resilience. With so many of its food producers also being highly vulnerable, the Asia-Pacific region is one of the most food-insecure regions in the world.

But enhancing food security goes beyond just increasing the resilience of food producers and ensuring a constant or increasing supply of food. Efforts are also needed to ensure that access to sufficient, safe, and nutritious food is available to all.[27] With estimates by ADB of 1.7 billion poor people in Asia and the Pacific, living on less than $2 per day.[28] Faced with such a dire situation, it is critical for the region's governments and development practitioners to consider how inclusive growth efforts encompass strategies to feed the poor.

Challenges for food security

As we enter the 21st century, the world faces an array of specific challenges that threaten food security, including climate change, land degradation, water stress, conflicts, and pandemics. These challenges are exacerbated by growing populations, urbanisation, and evolving dietary preferences, all of which exert substantial pressure on the global food supply.

Climate change

Rising temperatures, extreme weather events, and erratic shifts in rainfall patterns create numerous challenges for food production and supply chains. These climatic alterations reverberate through the agricultural landscape, significantly impacting crop yields and the availability of essential sustenance.

In the Asia-Pacific region, where farmers are disproportionately poor and vulnerable, climate change can be particularly devastating. World Bank studies on the impact of El Niño events in Asia found that a single drought can result in millions of people falling into poverty.[29] As climate-related shocks become more frequent in the region, poor and vulnerable smallholder farmers will suffer compounding consequences.

Land degradation

Land degradation manifests as the erosion and deterioration of arable land, posing a problematic challenge to sustainable food production. Unsustainable farming practices, soil erosion, intensive tillage, and deforestation have contributed to land degradation, which is further exacerbated by urbanisation, increasing population, conflicts, and climate change. In South Asia alone, land deterioration has been estimated to cost as much as $10 billion annually in losses.[30] Failure to control and reverse land degradation will create significant challenges for food and nutritional security in the Asia-Pacific region.

Water stress

Water stress is another ominous force threatening food security, as water scarcity disturbs crop irrigation and livestock and significantly burdens agriculture. In South Asia, only about half of the region's cropland uses modern irrigation methods, which can reduce water stress. The remaining half, which comprises mainly smallholder farmers in rural areas, are at higher risk of water scarcity.[31] As populations continue to grow, compounding pollution and increasing demand will put precious water resources under even more pressure.

Conflicts

Conflict profoundly disrupts food supply chains, driving populations from their homes and exacerbating food security challenges.[32] The economic repercussions of conflicts on food production and the urgency of effective strategies deserve our utmost attention. The ongoing conflict in Myanmar has resulted in a sharp decline in food production due to the destruction of rural infrastructure, loss of livestock, deforestation, and displacement of communities.[33]

Pandemic

Recent pandemics, such as the COVID-19 outbreak, have exemplified, and unmasked critical weaknesses in the global food supply system. Across the Asia-Pacific region, household food consumption and nutrition were significantly affected as people lost jobs while prolonged lockdowns and labour shortages reduced crop production and disrupted logistics operations.[34]

Enhancing food security within the inclusive growth agenda

Ensuring food security in a world wrestling with climate change, environmental degradation, conflicts, and pandemics necessitates a comprehensive strategy that considers the economic, environmental, and social dimensions of this complex challenge.

The inclusive growth priorities adopted by governments across the region continue to evolve in response to new or growing threats. In the last decade, we have seen increased focus on investments in digital inclusion, education, and skill development to help ensure that all members of society share the benefits of economic growth. More recently, environmental sustainability and climate resilience have also emerged as major components of these strategies.

Addressing food security challenges in the Asia-Pacific region amid evolving inclusive growth priorities requires a multifaceted approach that addresses the complex linkages between economic development and access to affordable and nutritious food supplies. As the region continues to experience shifts in its inclusive growth priorities, policies that not only stimulate economic progress but also safeguard the availability and affordability of food will remain critical. For Asia and the Pacific region, achieving success will rest heavily on supporting the region's 450 million smallholder farmers. Some examples of specific steps policymakers could take to accomplish this include:

- Investing in agriculture to support sustainable and efficient agricultural practices, with a focus on vulnerable smallholder farmers. This could include allocating resources toward research, skill development, technology, and infrastructure investments to build a productive and resilient agricultural sector.
- Support smallholder farmers' access to critical services such as finance or education. Since smallholders represent the most sizeable portion of farmers in the region, policy interventions that enhance their access to such services could boost their opportunities for growth and resilience.
- Prioritise rural development to address the root causes of food insecurity. This could include investments to improve key areas such as rural

infrastructure, healthcare, market access, or education. Such improvements would have the double benefit of not only supporting the development of the agricultural sector but also increasing resilience and opportunities among some of the region's poorest and most vulnerable communities.

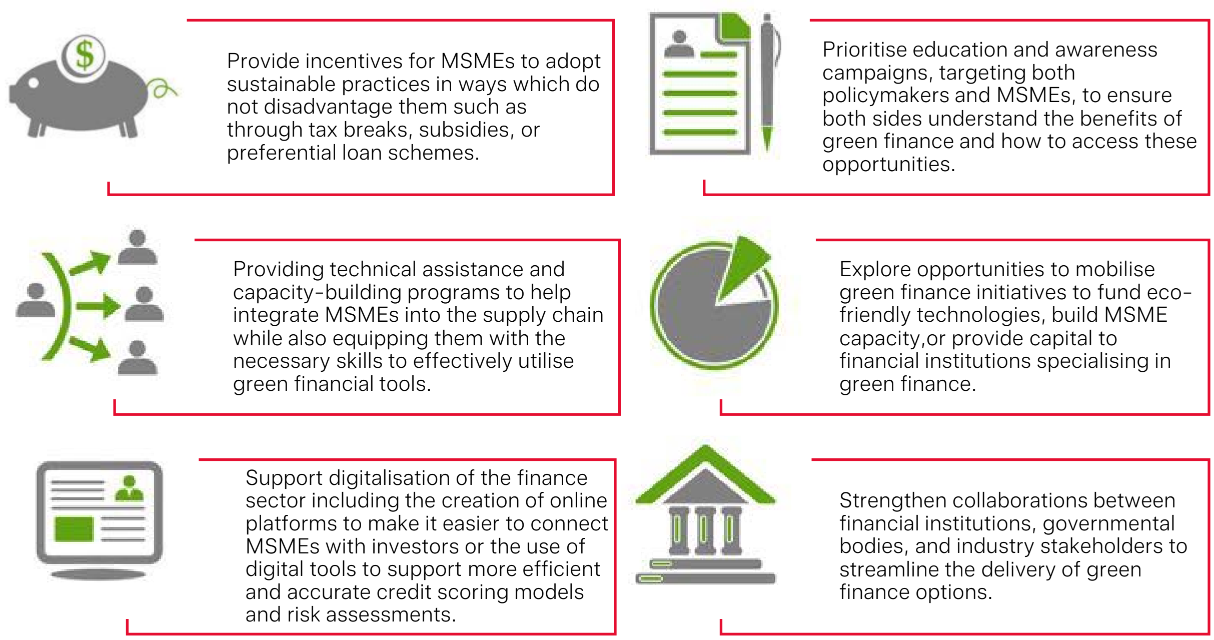
- Enhance social protection programs to boost the resilience of smallholder farmers and help to ensure that even the poorest communities can access adequate and nutritious food. Social safety nets and welfare programs such as cash transfer programs or food subsidies are some examples of interventions that could be implemented to achieve this.
- Promote and support the adoption of sustainable agricultural practices among smallholder farmers to ensure long-term food security. Environmentally friendly and sustainable food practices can be achieved by developing organic farming practices or employing conservation methods that preserve natural resources.
- Develop opportunities for technological advancements to increase agriculture productivity or efficiency. This includes investments in technology solutions that can increase the efficiency or effectiveness of farming practices and help build the capabilities of smallholder farmers to adopt and use technology effectively.

Addressing food security challenges within an inclusive growth agenda that prioritises the poor and vulnerable requires an approach that can embrace both the need to enhance agriculture productivity and efficiency while also improving the wellbeing of the region's smallholder farmers. Efficient production systems will bridge the gap between supply and demand, ensuring that food is not only plentiful but also accessible to all. By focusing on these strategies, we can pave the way for a more food-secure future that can withstand the uncertainties of the modern world.

GREEN FINANCING: CAUSE FOR CONCERN WITHIN THE INCLUSIVE GROWTH AGENDA?

As the world grapples with growing concerns of climate change and natural resource depletion, interest in sustainable and green finance as a potential mechanism to reshape industry across the Asia-Pacific region has grown significantly. As more green finance initiatives target the region's micro, small and medium enterprises, questions are raised about how policymakers can support a just transition and ensure that green financing aligns with a broader inclusive growth agenda.

Figure 5: Supporting a just transition



Source: Authors, Griffith Asia Institute 2024.

Since the 2015 Paris Climate Accord, there has been a remarkable surge in global interest in sustainable and green finance. This trend is driven by a convergence of critical factors. Heightened environmental awareness, stemming from concerns about climate change and natural resource depletion, has catalysed a widespread recognition of the urgent need for reducing environmental risks enterprises are increasingly exposed to. This trend has been especially noticeable in Asia and the Pacific where green bond issuances have skyrocketed in recent years.[35]

A major driver in the demand for green finance will be from the region's micro, small and medium enterprises. As the backbone of economic growth, MSMEs make up over 97 per cent of businesses, representing over 60 per cent of the workforce and over 40 per cent of GDP in Asia-Pacific.[36] Nevertheless, despite the role of MSMEs in job creation and economic expansion, they are also significant producers of greenhouse gas (GHG) emissions. According to some estimates, the amount of carbon emissions produced by small and medium enterprises in Southeast Asia alone is higher than that of a small country.[37] Findings like this have led to a large target being placed on MSMEs as the next frontier for combating climate change, with the calls to progress the 'greening of MSMEs' growing by the day.[38]

Importantly, MSMEs also represent the primary income generating activities for the region's poorest and most disadvantaged population segments, including women, and thus the development of MSMEs whether through the establishment of new ventures or the expansion of existing ones, plays a critical role in combating poverty and achieving more equitable and inclusive economic growth.

With increased attention towards green financing mechanisms for MSMEs, and the importance of small-scale enterprises to the poor, it is important to consider how this trend may impact the broader inclusive growth agenda. Will green financing prove to be a distraction from economic and social issues impacting the poor and hamper efforts to bring about equitable growth? Or worse, is there a risk of it having direct or indirect adverse effects on the poor?

On the policy side, financial regulators are increasingly integrating financial inclusion and climate change into their national financial sector strategies. Many of these strategies explicitly consider the inclusion of MSMEs. Additionally, some regulators are moving from strategy to action by developing initiatives that aim to support MSMEs in adapting to climate change and provide financial products and services that help reduce greenhouse gas emissions from MSMEs. For example, the policy framework promoted by the Alliance for Financial Inclusion calls upon central banks to adopt a greener approach to their financial inclusion strategies for both individuals and MSMEs.[39]

While the potential for green financing mechanisms to support transition of MSMEs into more sustainable enterprises and in turn significantly reduce GHG emissions certainly holds great appeal, how this will be achieved effectively in practice remains a key challenge.

Incorporating environmentally sustainable practices within smaller businesses is a challenging endeavour.[40] The primary focus of most MSMEs centres around immediate survival objectives, such as short-term profitability, maintaining day-to-day operations, and paying salaries. Enhancing environmental performance is likely to be an additional burden for them, potentially impacting both their income and opportunities to develop as enterprises.

Green financing also has another important benefit. As a result of their limited access to resources and low capabilities, MSMEs are also among the most vulnerable to the impact of climate change.[41] Not only are MSMEs disproportionately impacted by climate change, the increased incidents of climate related events put them in a particularly perilous situation. Green finance can also play a key role in supporting adaptation or resilience by enabling MSMEs to access financial resources and incentives for climate-resilient practices.

The concept of achieving a ‘just transition’ is not new. For decades, governments have sought to ensure that the implementation of environmental policies does not disadvantage certain individuals or industry segments. With green financing initiatives now increasing their focus on MSMEs, a just transition as a core component of climate strategies is making a major comeback.[42]

But achieving a just transition is easier said than done, especially when we consider the situation of the poorest and most vulnerable segments of society. While collectively MSMEs may be significant producers of GHG emissions, as individuals they are the smallest contributors. Yet, they are also the most adversely impacted by climate change.

This begs the question: who should bear the cost of the green transition of MSMEs?

Is it feasible (or ethical) to expect the poor who operate so many of the region's MSMEs to be asked to pay for new 'green technologies' and borrow at interest to do so? Should we expect these MSMEs to forgo business development opportunities which might otherwise enable them to generate more income and increase the wellbeing of poor families for the sake of 'greening'?

The recent push towards green financing, while noble in intent, carries the risk of disadvantaging MSMEs further. Expecting them to pay the full cost of adopting climate-friendly technologies, plus interest, seems antithetical to the concept of a 'just transition.' Furthermore, there are arguments to be made about the potential of green finance policies having unintended consequences for MSMEs, including the possibility of exacerbating financial exclusion.[43] But the reality is that we still do not know enough about the situation to fully understand the level of this risk and how to best respond.

For regulators and policymakers, one of the foremost hurdles lies in the lack of comprehensive data pinpointing how green financing specifically impacts these enterprises, particularly those at the base of the economic pyramid. Without a clear understanding of these effects, formulating targeted policies becomes an uphill battle. Moreover, the absence of coordinated efforts between climate change authorities, central banks, and supervisory authorities within national governments complicates the formulation and execution of effective strategies. In addition, policymakers lack expertise and capacity on how to develop practical measures to support MSMEs in adopting sustainable practices.

As more awareness spreads regarding the importance of eco-friendly practices, the demand for green finance options among MSMEs is expected to rise. This future entails increased availability and accessibility of financial products tailored for sustainable initiatives, enabling MSMEs to have a wider array of investment options in environmentally friendly technologies and practices that may be more suitable for their needs.

Policymakers should take proactive steps. It is crucial to foster an environment conducive to green finance by establishing supportive policies and regulations. These should incentivise MSMEs to adopt sustainable practices in ways which do not disadvantage them such as through tax breaks, subsidies, or preferential loan schemes. Secondly, governments should prioritise education and awareness campaigns for themselves as well as the MSMEs, ensuring both sides understand the benefits of green finance and how to access these opportunities. Additionally, providing technical assistance and capacity-building programs will help integrate MSMEs into the supply chain while also equipping them with the necessary skills to effectively utilise green financial tools.

Mobilising finance and improving access channels also represent important roles policymakers can take to enable green finance for MSMEs. Policy tools such as the EU's Carbon Border Adjustment Mechanism (CBAM) can potentially be leveraged to generate new funding streams for green finance products.[44] For example, a portion of CBAM proceeds could be used to establish a dedicated green finance fund which could directly support investments into technologies, capacity building for MSMEs, or providing capital to financial institutions specialising in green finance.

Policy approaches to digitalise finance channels can also have a significant impact on making green finance more accessible. For example, the creation of online platforms or digital marketplaces can make it easier to connect MSMEs with investors. Digital tools, including artificial intelligence, and data analytics can also be used to support more efficient and accurate credit scoring models and risk assessments.

Moreover, policymakers need to strengthen collaborations between financial institutions, governmental bodies, and industry stakeholders to streamline the delivery of green finance options. Lastly, it is vital to address how to continuously monitor, evaluate, and adjust policies to ensure they remain responsive to the evolving needs of MSMEs and the changing landscape of green finance.

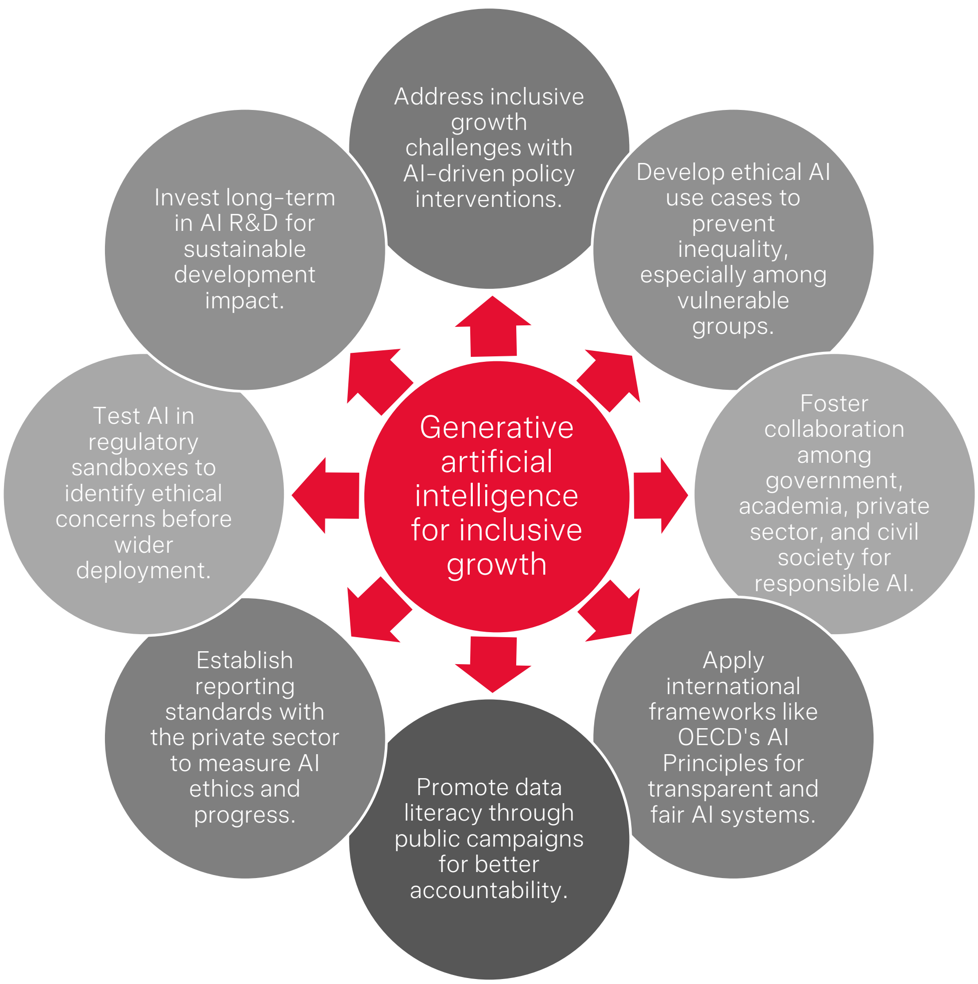
ARTIFICIAL INTELLIGENCE: THE NEW TOOL FOR DRIVING INCLUSIVE GROWTH?

Generative artificial intelligence (Gen-AI) is poised to re-shape the world as we know it. Considering its impact on development practice and inclusive growth in Asia and the Pacific, the region's policymakers must consider both the risks and rewards this innovative technology brings and design policy interventions which lead to the ethical application of AI.

AI is poised to profoundly remodel everything we recognise, from societal structures to industry paradigms, guaranteeing transformation across all sectors, from healthcare to finance.[45] While the recent warning[46] issued by the International Monetary Fund (IMF), stating that AI could put as many as 40 per cent of jobs at risk globally and exacerbate inequalities, is certainly cause for concern, industry and regulators are nonetheless also interested in understanding how this innovative technology might be leveraged to address some of the most persistent challenges associated with achieving inclusive economic growth and development across Asia and the Pacific.[46]

Can AI's potential to be a driving force for positive impact outweigh the risks it also poses to achieving equality? The answer to this question will rely in large part on how well we, as a society, can guide and develop its application in ethical ways. Figure 6 provides some suggestions about how to use AI to drive inclusive growth.

Figure 6: Driving inclusive growth using artificial intelligence



Source: Authors, Griffith Asia Institute 2024.

The current surge in Generative AI (Gen-AI), a form of machine learning that generates novel human-like content, represents the next wave of AI's evolution.[47] Its impact is already palpable; within two months of its launch, *ChatGPT* amassed a user base exceeding 100 million, indicating a significant shift in the role of AI in content creation and conversational interfaces.[48]

The advent of Gen-AI as a disruptive force is fundamentally altering the economics and creativity of content generation.[49] It is estimated that nearly half of companies across Asia and the Pacific have begun investigating the potential integration of Gen-AI into their business practices, hoping to capitalise on its capabilities to reduce costs and incubate innovative business models.[50] Preliminary studies suggest that Gen-AI's potential to augment productivity could contribute trillions of dollars to the global economy, and this is merely the dawn of a transformative era.[51]

Additionally, while AI's ubiquity continues to grow, an urgent dialogue is necessary around democratising access to these transformative technologies. AI is increasingly integrated into sectors pivotal for societal well-being, such as healthcare, finance, and governance. As such, it is incumbent upon policymakers, industry leaders, and civil society to engage in a multi-stakeholder dialogue to ensure that the socio-economic dividends of AI do not exacerbate existing disparities but contribute to an equitable landscape for all.

Ethical and social implications of AI: Navigating the risks

AI technologies hold immense promise, but they have equally powerful risks. AI can perpetuate social biases or accelerate the spread of misinformation. For instance, the ability of AI to produce deepfake videos that convincingly impersonate individuals poses a substantial threat to the integrity of public discourse, while also damaging the reputations and privacy of individuals.

Gen-AI's capacity to generate human-like content raises security concerns, including the risk of misuse for social media manipulation. Given the rapid adoption and potential impact of Gen-AI, everyone, especially governments and the technology community, must address these challenges proactively.

One of the biggest concerns for those pursuing inclusive growth strategies is the risk of AI creating greater economic exclusion, particularly among the poor or disadvantaged.[52] Automation driven by AI has the potential to lead to job displacement, especially for jobs which involve routine or repetitive tasks (e.g., manufacturing, customer service, or transportation).[53] This could potentially create greater economic inequality as some industries face greater displacement than others, resulting in certain workers facing unemployment or underemployment. Those who lack the necessary capabilities to work alongside AI may find themselves disadvantaged. This could be particularly problematic for developing countries where a greater portion of the population experiences limited education/literacy, digital skills, or access to technology.

As a part of mitigating such risks, policymakers might consider approaches to ensure the ethical application of technology. What exactly constitutes 'ethical' or 'responsible' AI? Some guidelines and protocols are already in place, but the absence of a universally accepted standard makes the question complex, even unanswerable. "Ethical AI" refers to the conscious effort to align AI development and deployment with ethical principles such as fairness, accountability, transparency, and safety.

Determining whether global standards for ethical AI are needed is a complex task. Digital technology does not respect borders, and cultural perspectives on what is ethical vary widely. Given these challenges, international dialogue is not just beneficial—it is essential for shaping responsible AI practices that are globally applicable.

Can AI drive inclusive growth and sustainability?

While navigating and addressing the potential risks will be critical to ensure that it does not inadvertently disadvantage certain groups, AI also has the potential to enable a transformative pathway towards achieving the United Nations' Sustainable Development Goals (SDGs). AI algorithms can inform decisions in critical areas, such as healthcare, education, and environmental conservation, by harnessing massive data sets, including unstructured data like social media posts or satellite images. For example, projects like the AI for Earth initiative have demonstrated AI's potential in conservation and sustainability, directly aligning with multiple SDGs. More specifically, there are several potential use cases where AI could significantly address persistent development challenges across a broad range of sectors. The data to drive these initiatives are being developed now through collaborations like AI4D.

Financial Sector

AI can revolutionise access to financial services and play a role in accelerating financial inclusion. For instance, machine learning models can assess credit risk for individuals without a financial history, thereby enabling the unbanked or underbanked to access a broader array of formal financial products and services. Companies like Ant Group in China use AI to offer microloans,[54] significantly broadening financial access. Another example is fintech company M-KOPA which uses AI to use non-traditional data to drive credit models for 3 million users.

Food security

AI can provide plot-level crop insights to smallholder farmers, incorporating huge datasets covering weather and soil conditions. This would be transformative to Asia-Pacific's 450 million smallholder farmers and have a significant impact on addressing food insecurity while also improving crop decisions which could potentially increase yields by 20-30 per cent.[55]

Health

Healthcare delivery, from diagnostics to treatment personalisation, can be revolutionised by AI. For example, IBM Watson Health has partnered with numerous healthcare organisations to improve patient care through data-driven insights.[56] AI could also help identify which at-risk populations need the most help in real-time. In addition, AI could be used to speed up access to education for potential health workers in low-income communities.*Gender Equity*

AI can help level the playing field for women in the workplace. Automated resume screening tools with built-in anti-bias algorithms can assist HR departments in making equitable hiring decisions. Organisations like She Loves Data offer training in data skills to women, preparing them for digital-age roles. Women could also be empowered with more 'gig economy' skills (and income) to populate needed data sets in less spoken languages (like in India's Kannada).[57] This, in turn, allows AI-driven apps to be created to help low-income speakers in developing countries, which are being supported by organisations like The Gates Foundation.

Clean/renewable energy

AI technologies can optimise renewable energy production. Google's DeepMind, for example, used machine learning to reduce the energy required to cool its data centres by 40 per cent, demonstrating a scalable model for energy efficiency. In a developing economy example, AI supports solar mini-grids in Africa and is showing promise is Southeastern Asia.[58]

Governance

AI can provide actionable insights for governance, enabling data-driven policymaking for more effective interventions aimed at addressing inclusive growth issues. For instance, Singapore's use of AI in urban planning allows for a more effective allocation of resources and services, from healthcare to transportation.

A call to action for responsible AI leadership

AI technology is rapidly evolving, which drives an urgent need for a dynamic ecosystem involving leaders, policymakers, and technologists. The potential of AI as a driver for social impact and sustainability is substantial, but realising this potential requires a concerted effort and ethical stewardship. Responsible AI leadership should focus on harnessing AI for inclusive growth, equitable development, and sustainability within the Asia-Pacific region and beyond. Opportunities for policymakers can include the examples shown in Figure 7. AI's promise for inclusive development is vast. Its benefits can be accelerated by actively identifying 'good but difficult problems'—social issues that are widely impactful yet historically hard to solve. Once identified, a 'good use case' can serve as a demonstrable blueprint for applying AI ethically and effectively to address these challenges.

Figure 7: Opportunities for policymakers to engage responsible AI leadership

1. Identify impactful challenges and apply policy interventions that promote AI-enabled solutions	• Countries like India and Indonesia grapple with healthcare accessibility, especially in remote or rural areas. Addressing healthcare accessibility with AI-enabled telemedicine to diagnose common conditions could extend the reach of healthcare services to marginalised communities.
2. Develop ethical use cases	• AI can help identify human trafficking victims by analysing data from multiple sources like social media, immigration records, and CCTV footage. The ethical concern for policymakers would be ensuring citizens' data privacy and safety.
3. Foster multi-stakeholder collaboration	• Singapore's Smart Nation initiative serves as an excellent case study. It involves the government, academic institutions, the private sector, and civil society in shaping technology policies and implementing smart solutions, including responsible AI.
4. Leverage international frameworks	• Projects aiming to achieve zero hunger (SDG 2) could apply AI algorithms to predict crop yields, optimising agricultural outputs. The OECD's AI Principles could guide such projects, emphasising transparency, fairness, and robustness in AI systems.
5. Promote data literacy and public awareness	• Public campaigns in countries like Australia and New Zealand have been implemented to educate people on how AI is used daily, from Netflix recommendations to spam filters, thereby fostering a better understanding and accountability towards how data is used or misused.
6. Measure and report	• Companies like Microsoft and Google have released AI Ethics reports that track progress on issues like carbon footprints of AI models, bias in AI systems, and economic impacts, setting an industry standard for transparency. Policymakers can work with the private sector to develop reporting standards promoting responsible practices.
7. Regulatory adaptation	• In South Korea, regulatory sandboxes have enabled the testing of AI in medical diagnoses. This allows real-world technology testing while identifying potential ethical or safety concerns before a broader implementation.
8. Commit to long-term investment for sustainable impact	• Leading AI nations, such as the US, China, and the UK, have demonstrated a committed long-term investment in AI research and development, which is aimed not only at economic gains but also at solving complex problems like urban pollution control and efficient energy utilisation, demonstrating a sustained commitment to both innovation and sustainability.

SUMMARY AND RECOMMENDATIONS

Several decades of robust economic growth should be viewed as a positive trend for the Asia-Pacific region. However, despite billions spent on aid and investment, major challenges remain to ensure that the benefits of this growth are distributed equitably. Today, millions of people across the region still face poverty and limited access to basic services or economic opportunities.

The evolution of development strategies and practice in the region paint a complex picture of how governments and practitioners have made continual efforts to keep up with such a dynamic and changing landscape. These efforts encompass a broad range of inclusive development themes such as those discussed in this paper; namely: increasing financial inclusion, enhancing opportunities for women to participate in the economy, closing the digital divide, supporting a just green transition, addressing food security, or leveraging new innovative technology solutions. While much progress has been made, bold actions are needed to set the Asia-Pacific region on a more stable and sustainable economic growth trajectory that is more successful in driving equitable outcomes. Below are some ideas for how policymakers could have a greater impact:

RECOMMENDATION 1

Give the poor and vulnerable the upper hand

1. Structure policies to intentionally favour the poor, especially vulnerable groups like women, smallholder farmers, and micro-entrepreneurs.
2. Mobilize financial service providers targeting the poor to deliver social protection policies such as cash transfers and public insurance, crucial for climate change resilience.
3. Complement market-based approaches with solidarity-promoting policies like strengthening cooperatives and labour unions.
4. Implement social protection policies such as cash transfers, public insurance, and public works-driven employment to foster pro-poor growth and development.

RECOMMENDATION 2

Explore the potential for new economic models that enhance resilience among the most vulnerable

1. Investigate innovative economic models to enhance resilience among vulnerable populations.
2. Develop innovative social safety nets to assist the poor and vulnerable in overcoming economic shocks, especially those caused by climate change.
3. Explore options for reforming welfare policies in emerging economies to better support vulnerable populations.
4. Utilise sovereign wealth funds for targeted interventions, such as dividend payments, to support vulnerable segments of the population.
5. Develop government-backed education, health, and housing systems to provide essential services without financial burden on the poor.
6. Focus efforts on reaching and including the poorest and most vulnerable segments of society in social safety nets.
7. Prioritise coverage and support for those excluded from formal financial systems and institutions.

RECOMMENDATION 3

Embrace innovation, but do not expect technology alone to solve economic and social problems

1. Enable technology development while ensuring consumer protection, possibly through regulatory sandboxes.
2. Collaboration with the private sector to identify effective use cases.
3. Technology's impact depends on its application, influenced by economic and regulatory factors.
4. Assess whether technology exacerbates inequalities and enact policies to promote equitable outcomes.

RECOMMENDATION 4

Leverage strength in numbers

1. Actively seek opportunities for collaboration, share successes and failures, and pursue joint regional efforts to maximise collective impact.
2. Pool resources, expertise, and efforts to address common challenges, reduce duplication, and encourage

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Development outlook: Exploring the opportunities of Southeast Asia

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INTRODUCTION

Southeast Asia stands at the crossroads of geopolitical, economic, and cultural significance, influencing not only its regional dynamics but also shaping global affairs. Comprising ten diverse nations, this dynamic region holds strategic importance due to its central maritime position, proximity to major powers like China and India, and its pivotal role in international trade routes. As the third-largest economy in Asia and the fifth-largest globally, Southeast Asia's rapid economic growth and burgeoning middle class present a colossal consumer market. Countries such as Indonesia, Malaysia, Singapore, Thailand, and Vietnam have become integral players in the global supply chain, attracting substantial foreign direct investment.

However, amid the economic success, Southeast Asia grapples with a spectrum of security challenges, both traditional and non-traditional. The unresolved South China Sea dispute, involving multiple claimants and China's assertive actions, poses a significant threat to regional stability. Non-traditional risks, ranging from transnational terrorism to public health crises and environmental issues like deforestation and climate change, further compound the challenges faced by the region.

This paper discusses the key developments in the Asia-Pacific region with a specific focus on Southeast Asia that will influence the period between 2024-2026 and beyond. These five key trends, including geopolitics and foreign policy, public health, democracy and rule of law, digital economy, and climate change will shape Southeast Asia and the wider Asia-Pacific region. Addressing these key developments are crucial in achieving a sustainable, inclusive, and economic prosperous subregion with the ability to accelerate growth and progress for its population.

WHY SOUTHEAST ASIA MATTERS

Southeast Asia is a dynamic and diverse region comprising ten countries holding significant geopolitical, economic, and cultural importance beyond its region due to its strategic location, economic potential, and cultural values. Southeast Asia sits in close proximity to major powers—China and India—has a central maritime position along vital sea lanes, including the South China Sea and the Strait of Malacca, and is positioned as a focal point for geopolitical competition alongside traditional trading routes.

Southeast Asia boasts a rapidly growing and diverse economy, currently being the third largest economy in Asia and the fifth largest economy globally.[1] With a combined population of over 650 million people and a rising middle class, the region presents a massive consumer market. Countries like Indonesia, Malaysia, Singapore, Thailand, and Vietnam have become key players in the global supply chain, attracting significant foreign direct investment.[2] The economic success of Southeast Asia contributes not only to regional stability but also to global economic growth. The Association of Southeast Asian Nations (ASEAN) has emerged as a crucial regional bloc, fostering economic cooperation, and acting as a bridge between major economies.

However, Southeast Asia remains prone to both traditional and non-traditional security risks. The South China Sea dispute has not been resolved with incidents and clashes involving several countries, particularly Vietnam, China, the Philippines, and Indonesia. Non-traditional risks include transnational issues such as terrorism, and public health crises alongside environmental impacts, including deforestation, haze pollution, and climate change which have far-reaching consequences, impacting weather patterns, sea levels, and ecological balance. Climate change, and haze pollution have caused vast damage to the life and health of millions of people and will only increase in the future, including mini hotspots such as the Mekong River Basin.

GEOPOLITICS AND FOREIGN POLICY IN SOUTHEAST ASIA

The South China Sea dispute poses a significant threat to regional security in the Asia-Pacific. Competing claimants Brunei, Indonesia, Malaysia, the Philippines, Taiwan, and Vietnam have expressed dissatisfaction over China's broad assertions of maritime sovereignty.[3] China maintains twenty outposts in the Paracel Islands and seven in the Spratlys. Together with a significant increase in its presence in the Paracels, China has been dredging and building artificial islands in the Spratly Islands since 2013, resulting in the creation of 3,200 acres of additional land.[4] In an increasingly aggressive action that puts all neighbouring countries in danger, China has established highly developed military installations on its man-made islands, complete with airstrips, radar stations, artillery installations, anti-aircraft missile systems, lasers, and jammer technology.[5] On August 28, 2023, the Ministry of Natural Resources in China revealed a new "standard map" of the South China Sea. Presently, the "nine-dash line" is merging into the waters off Taiwan's eastern shore to create a "ten-dash line". Notably, this development has drawn criticism from Taiwan, the Philippines and Vietnam who have territorial issues with China. The Philippines criticised the map for violating international law and demanded China to follow the 2016 ruling by The Hague Tribunal. Vietnam accused China of violating its sovereignty and jurisdiction over its sea regions. Taiwan denied being part of China, whereas Malaysia criticised China for claiming authority over waters off the coast of Borneo that overlap with its Exclusive Economic Zone (EEZ).[6]

The South China issue is unlikely to be resolved anytime soon, rather an increase in maritime build up is expected in the next few years alongside the exploration of natural resources, including for example Vietnam building reefs. This will further lead to rising tensions impacting beyond Southeast Asia. Under the ASEAN mechanism, a non-binding Declaration on the Conduct of Parties in the South China Sea (DoC) was signed by ASEAN and China in 2002 as part of the ASEAN framework. Three main objectives of the DOC focused on encouraging activities to boost confidence, participating in practical maritime cooperation, and laying the groundwork for the formal, legally binding Code of Conduct's (COC) discussion and conclusion.

After that, many negotiations for a binding COC in the South China Sea have begun to address the conflict. To reflect international norms, principles, and rules by international law, particularly the United Nations Convention on the Law of the Sea (UNCLOS), Indonesia recently reported that ASEAN has agreed on new guidelines to accelerate talks for a legally binding COC on the South China Sea to achieve stability, safety, and peace.[7] However, there are still many obstacles to overcome because the negotiations have focused on issues that are still up for debate, such as the COC's geographical scope and whether or not it should even

be legally binding. It is unlikely that the ASESAN COC will be concluded in the near future as countries, including China and Vietnam, are reluctant. More dialogue and negotiations are needed to drive this forward.

Other opportunities include further work on the freedom of navigation and open sea under UNCLOS, although China is not a signature to it. Similarly, a further internationalisation of the issue for example by involving the Quad, including US, Japan, India and Australia or a focus on balancing power by increasing the importance of Vietnam, Indonesia, and the Philippines to balance China could be strategies to address the South China Sea conflict.

PUBLIC HEALTH CHALLENGES IN SOUTHEAST ASIA

Southeast Asia faces various public health challenges including haze pollution and the threat of infectious diseases. Infectious diseases are the most important public health challenge, driven by dense populations, rapid urbanisation, and environmental changes, creating an environment conducive to the spread of various pathogens, from emerging viruses to longstanding infectious diseases. In Southeast Asia, diseases such as dengue fever, malaria, and tuberculosis remain endemic, while emerging threats like Zika virus and chikungunya have garnered attention in recent years. The issue of infectious disease in Southeast Asia is severely dangerous. It has caused thousands of deaths annually. ASEAN has reported that in Southeast Asia, as of 10 May 2023, the death toll of COVID-19 was around 367,407 deaths out of around 35 million confirmed cases, the death toll due to dengue was 148 out of 99,614 infected cases, and the death toll due to measles was 17 out of 2,547 infected cases.[8] There are also significant economic losses linked to public health emergencies; however concrete data and estimates are not available.

Inadequate sanitation infrastructure and limited access to clean water in some areas contribute to the persistence of waterborne diseases. The region's socioeconomic disparities also play a role, with marginalised populations facing greater challenges in accessing healthcare services and preventive measures.[9] The emergence of novel infectious diseases, as exemplified by the COVID-19 pandemic, underscores the need for robust systems and preparedness. Countries like Vietnam and Thailand were initially praised for their successful COVID-19 containment strategies, including early and decisive actions, robust testing, contact tracing, and public compliance with health protocols. However, disparities in healthcare infrastructure and access to medical resources highlighted existing inequalities. The region faced difficulties in securing an adequate supply of vaccines, leading to disparities in vaccination rates among different countries. COVID subvariants are increasing and are driven by several XBB subvariants for example in Singapore, including XBB.1.5, XBB.1.9, XBB.1.16, and XBB.2.3, which are emerging at different times but presenting as a single confluent outbreak that began in early March 2023.[10]

COVID and other infectious disease outbreaks emphasise the importance of improving national and regional public health networks and connections through ASEAN and beyond to share information, resources, and coordinate responses. The region's resilience was tested, but collaborative efforts played a crucial role in navigating the complexities of the global health crisis. Infectious diseases will continue on various scales and if mismanaged will spread and create regional and global crisis. Moving ahead, a focus needs to be on strengthen healthcare systems, improve preparedness for future health crises, enhance surveillance systems, and continue regional cooperation to foster a more resilient and united response to shared challenges. Additional public and private investment in public health is crucial, particularly addressing public health governance at all levels, including local, district, province, national and regional levels.

International health organisation such as the WHO and international partners such as the US, Australia, Japan and China can further provide assistance related to combatting infectious diseases in Southeast Asia. A focus should be on technical assistance, capacity building, epidemiological surveillance, emergency response, access to medicines and vaccines, advocacy and policy, and research and development.

DEMOCRACY AND THE RULE OF LAW

While Southeast Asia has been backsliding in democracy as a whole, there has been an increase in democratic practices in some countries, particularly Malaysia and the Philippines. According to the Freedom House in March 2023, Malaysia and Philippines increased three points on a 100 scale to 53 and 58 respectively which designated the two countries as Partly Free.[11] In contrast, democracy is eroding in Myanmar, Thailand, and Cambodia. The military led government in Myanmar has used the military to crackdown and oppress dissent and execute pro-democracy activists. By July 14, 2023, it was estimated that around 23,800 people had been arrested.[12] It is also reported that the military junta uses various approaches, including killing, torture, detention, and disappearance leading to the death of around 2,940 people and the destruction of 330 townships by March 2023.[13]

Likewise, Thai politics remain dominated by the military, particularly after Prayut Chan-o-Cha staged a coup against the elected democratic leader Yingluck Shinawatra in 2014. Thai politics showed signs of leaning toward democracy with the rise of Pita Limjaroenrat's Move Forward Party among young and urbanist voters in 2023.[14] However, the military-dominated parliament blocked Pita from becoming prime minister despite gaining victory in the general election, preventing the country from achieving any meaningful democratic reform. In Cambodia, the ruling party known as the Cambodian People's Party (CPP) further consolidated its power, while jailing members of the opposition parties, and putting pressure on civic freedom.[15] Even though the new government of Cambodia from Hun Sen to his son Hun Manet has not taken any repressive measures since taking office in July 2023, the future prospect of the Hun Manet government resorting to violence remains uncertain.

Regarding the rule of law, ASEAN adopted the ASEAN Charter in 2017 representing a significant shift of ASEAN in dealing with the rule of law. However, the approach mainly focused on diplomacy and adhered to the ASEAN Way of non-interference and consensus. There is no clear definition of the rule of law. For example, Article 1.7 of the Charter stated that "strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms". However, ASEAN does not have a specific approach to deal with human rights issues and strengthen rule of law among its member states.

In order to facilitate meaningful progress, it is time for ASEAN to strengthen its institution, particularly on human rights issues. The development should make it possible for ASEAN to interfere in domestic issue of its member states regarding human rights violations. The reform is needed for ASEAN to solve internal issues of the organisation particularly linked to Myanmar. In addition, an increasing focus should be on improving justice systems with a focus on reducing corruption. Also, separating the rule of law from democracy could be seen as advantage as it is more likely for the rule of law to increase in comparison to democracy as many countries in Southeast Asia are staying firmly in authoritarian regimes driven by family or political dynasties while there have been some minor positive changes linked to the rule of law across some countries. Key upcoming elections and trends to follow in the next few years are the upcoming election in Indonesia in 2024 and Singapore in 2025 with current Singaporean Prime Minister Lee Hsien Loong having announced his plan to relinquish his leadership responsibility prior to the election.

CLIMATE CHANGE IN SOUTHEAST ASIA

Global warming has become a major concern in the Asia-Pacific region particularly in Southeast Asia. In 2021, the Intergovernmental Panel on Climate Change raised concerns that Southeast Asia is experiencing the fastest speed of global warming, and it could reach 1.5 C, a dangerous level, by 2030.[16] Without stable and predictable weather, rice production in ASEAN is under threat. The recent rise of temperature to 45 in Thailand, Myanmar and Laos and 40 degrees celsius in Cambodia, Vietnam and Malaysia led to a prolonging rice planting season.[17] Global warming could greatly affect the socio-economic development in the region as the region consists of many rice producing countries such as Indonesia, Vietnam, Thailand, Myanmar, and the Philippines. The region is producing around 26% of global rice and exports around 40 percent of total rice, demonstrating the impacts beyond the region.[18]

In October 2021, ASEAN released the ASEAN State of Climate Change Report. The paper highlights ASEAN's approach for 2030, which aims to utilise mitigation and adaptation to achieve net-zero emissions by 2050. However, achieving net-zero emissions is far from being materialised. ASEAN does not have a common mechanism and approach to reduce greenhouse gas emission. But the ASEAN State of Climate Change Report should be seen as a common aspiration of ASEAN members to reach net-zero emissions. For instance, in 2021 ASEAN shared common concerns of global emission. However, the paper was focused mainly on deforestation and forest degradation as the main source of global emission instead of coal power plants. On the contrary, fossil fuels such as oil, gas and coal are the main contributors to global warming and yet very critical for economic growth. This implies that ASEAN does not have a common position regarding greenhouse gas emissions.

Overall, there is a lack of financial support in pursuing renewable and clean energy in Southeast Asia. While the US and Western countries warned countries in the region of the consequences of Chinese investment in Southeast Asia, they have shown little commitment to support countries to move to renewable energy. In 2022, the US and Western countries announced their support of Indonesia and Vietnam to move from coal power plants to renewable energy under the Just Energy Transition Partnerships (JETP). The partnerships will assist Indonesia and Vietnam with around US$35.5 billion. However, there has been no financial distribution from that so-called partnership yet.[19]

In the next few years, climate change is continuing to increase with more extreme floods and droughts particularly in mainland Southeast Asia and along key river basins such as the Mekong River Basin and related tributaries, alongside more intense cyclones in Indonesia and the Philippines with urbanisation also playing a major role and being impacted.

Key opportunities lie in linking climate change more actively to the Sustainable Development Goals and further ensuring the ASEAN framework and national policies on climate change are implemented and appropriately financed. Forecasting of disasters and climate related events, for example droughts and floods on the Mekong River, through regional intergovernmental organisations such as the Mekong River Commission, should be expanded further to minimise impacts on people and communities.[20] An increase of sharing data and creating networks across countries and the region will further support addressing upcoming key challenges and support creating more resilient communities.

A stronger focus needs to be placed on climate financing while enhancing research and development.[21] This means that ASEAN should work on the sustainable finance mechanisms through ASEAN based on the ASEAN Taxonomy for Sustainable Finance. This can be done through the joint ASEAN green development bond issuances, with the support from the international finance institutions like the ADB. A good start here is to learn JETP between Vietnam and EU members. Through JETP, Vietnam is set to receive around $8 billion from its partners to focus on finance, technology, and capacity building. In addition, ASEAN should adopt a common resolution encouraging member states to set targets for greenhouse gas emissions along with the reduction of coal power plants in Southeast Asia.

Figure 16: Southeast Asian national climate policies and CO_2 emissions per capita (in brackets)

Source: Griffith Asia Institute. Data drawn from Worldometer and Climate Policy Database, 2023.

DIGITAL ECONOMIES IN SOUTHEAST ASIA

The digital economy is growing in Southeast Asia as in the rest of the Asia-Pacific region, with people adopting technology for use in their daily lives and transactions. By 2022, there were 400 million digital consumers in Southeast Asia, contributing around US$130 billion revenue.[22] While Singapore is performing very well according to the ASEAN Digital Integration Index, Cambodia, Laos, Myanmar are the least developed digital economies based on the index within Southeast Asia. Regardless of this diversity, ASEAN is progressing in its cross-border payment system, in which all ASEAN member states can retain their own currency while working to use digital payment within all ASEAN countries.

Many Southeast Asian countries have adopted their own digital payment method, known as Quick Response Code (QR code), making it easier for online transactions with lower risk of Covid-19 infection. While Cambodia has been perceived as lacking behind the digital economy, the country has managed to improve its online transactions. By 2020, there were only around 482.14 million online transactions, estimated to be US$95.31 billion. The number increased to 707.57 million transactions, estimated to be US$234 billion by 2025.[23]

During the 43rd ASEAN Summit in Jakarta in 2023, ASEAN countries reached an agreement to enhance cross-border payment. The digital payment scheme will use the Indonesian Standard QR Code as the regional payment system, known as QRIS.[24] Many other countries such as Cambodia, Laos, Vietnam, and Brunei are working to strengthen its domestic local payment so that the dream of adopting a cross-border payment scheme can be materialised. For instance, the National Bank of Cambodia signed an agreement with the Bank of the Lao PDR and the State Bank of Vietnam. The agreement will make it possible for consumers using Khmer Riel to purchase products in Laos and Vietnam using their domestic account.[25] Against this backdrop, it is expected that ASEAN will be able to achieve its cross-border payment. Such payment will help ASEAN to strengthen its economic integration among its member states further contributing to the standing of Southeast Asia as third largest economy globally.[26]

Key trends and opportunities include the governance of the digital economy, including the governance of digital currencies in each country, alongside increasing growth of online business and online platforms within Southeast Asia and beyond, alongside transactions via QR code. Albeit it is a major achievement to agree on a secure and resilient cross border payment system, ASEAN countries should focus on the following key priority developments. Firstly, ASEAN should enhance cooperation in the banking sector among its member states. Secondly, there should be more cooperation on technological development and information. This will ensure that transitions are more secure and efficient. Without this, ASEAN cross-border payment can be prone to hacking and scamming. Thirdly, financial integration does not reach full potential across all Southeast Asian countries and all citizens within the populations yet. A focus needs to be on reducing the digital divide, particularly ensuring digitalisation includes all people, including people in rural communities, the poor, ethnic minorities, the elderly and other marginalised groups. Lastly, a focus should be on regulating online business and related legislation. This provides opportunities for more collaborative work between academic, government and business to fight against scams.

SUMMARY AND RECOMMENDATIONS

Albeit its challenges, Southeast Asia is a fast-growing region with a lot of potential, particularly driven by its young populations, an increased uptake of digitalisation and connectivity, alongside growing innovation, and entrepreneurship. As the third largest economy globally and due to its significant geopolitical location, developments in Southeast Asia are crucial to follow due to its impact beyond the sub-region. As the region continues to evolve, its role in shaping the Asia-Pacific region and beyond, will become even more evident. Addressing the five key trends (geopolitics and foreign policy, public health, democracy and rule of law, digital economy, and climate change) and highlighted recommendations over the next few years is important.

Overall, ASEAN should focus on investing in research and development in the areas of digitalisation, public health prevention and crisis reediness, green technology and legal international best practices regarding maritime management.

ASEAN should also invest in building more capacity of workers in the key trend areas and explore joint financing mechanism that enables ASEAN to invest in the five highlighted areas. This will be crucial for Southeast Asia in achieving a sustainable, inclusive, and economic prosperous subregion with the ability to accelerate growth and progress for its population and beyond.

RECOMMENDATION 1

Accelerate the green energy transition in Asia Pacific

Work under the assumption that state-owned enterprises (SOEs) will continue to play a significant role in the power sector across Asia. Greening state-owned power companies requires a different engagement strategy than aiming to convince private investors to set up new power facilities. Rather, it requires support in strategic and governance capacity development for SOEs including their ability to mobilise new equity and debt financing to:

1. Territorial conflict in the South China Sea
2. Increase dialogue and negotiations to conclude the legal binding Code of Conduct in the South China Sea.
3. Advocate for a free and open sea by involving QUAD, including Australia, India, Japan, and the US.

RECOMMENDATION 2

Public health challenges and crises

Additional support by WHO and international partners focusing on technical assistance, capacity building, epidemiological surveillance, emergency response, access to medicines and vaccines, advocacy and policy, and research and development.

1. With closer collaboration among all levels of governments, including local, district, province, national and regional levels.
2. Stronger collaborative efforts and network across the region focusing on better surveillance and healthcare systems.
3. Increased private and public investment in public health, including clinics and hospitals.

RECOMMENDATION 3

Democratic backsliding and the role of rule of law

1. Strengthen ASEAN's options to interfere in domestic affairs of its members if serious human rights violations occur.
2. Improving justice systems to reduce corruption and strengthen the rule of law.
3. Strengthening freedom of speech and the role of media to address democratic backsliding and the rule of law.

RECOMMENDATION 4

Climate change, including increasing floods, droughts, rising temperature and cyclones

1. Stronger push for the effective and appropriate implementation of ASEAN-related and national frameworks on climate change.
2. Focus on forecasting of floods, droughts and severe weather events, including sharing meteorological data among ASEAN countries.
3. Develop joint climate financing to assist most vulnerable ASEAN members and communities.
4. Support ASEAN members to reduce reliance on coal power plants with a stronger focus on renewable energies.

RECOMMENDATION 5

Increasing online transactions and businesses

1. Enhancing banking sector among member states, including governance of digital currencies.
2. Stronger collaboration on technological development and information, particularly linked to security and efficiencies.
3. Focus on bridging the digital gap between urban and rural populations and across all ASEAN countries.
4. Develop regulations and guidelines to govern online transactions and businesses.
5. Increase collaboration between academia, government and businesses to address key challenge

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Confronting labour market challenges in South Asia: An SDG perspective

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INTRODUCTION

South Asia represents a region with multiple contradictions. On the one hand, it is home to two of the world's most rapidly growing economies in the world (Bangladesh and India). On the other hand, the region bears the unenviable distinction of having a significant share (24 per cent in 2019) of the world's poor.[1] In terms of progress towards attaining the Sustainable Development Goals (SDGs) by 2030, the record is uneven, with some countries doing well (such as Bhutan), but with others lagging (such as Pakistan).[2]

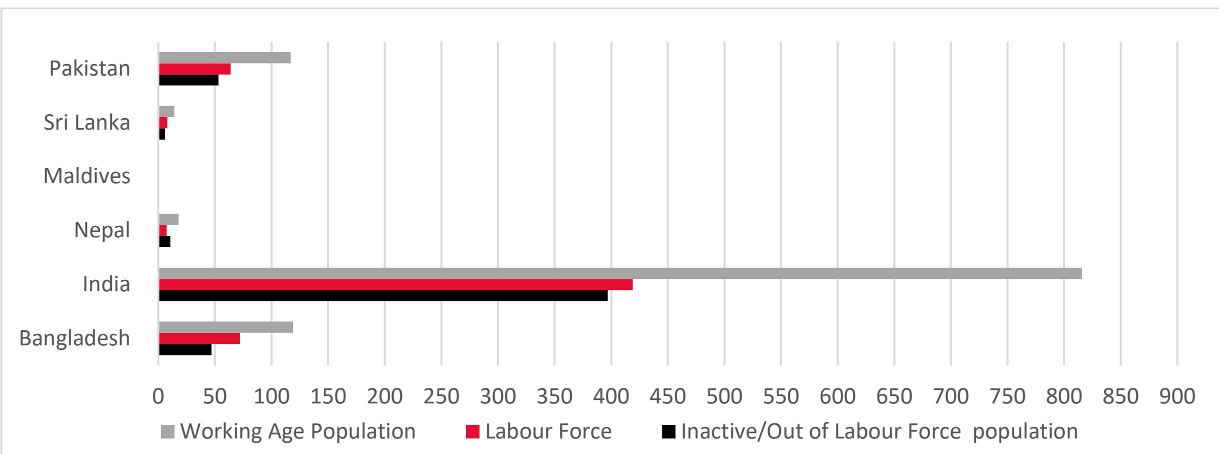
Significant progress towards attaining the SDGs in South Asia is hampered by the manifold labour market challenges that the region faces. Despite rapid economic growth in several countries, the growth of decent jobs, especially for young men and women, has not matched with the growth of the labour force. Major employment challenges exist, gender disparities are widespread, the incidence of low real wages is considerable reflected in a good deal of working poverty, while the social protection system is inadequate. The labour market challenges such as sluggish growth of jobs, low level of real wage, gender pay gap, a big bulge of youth who are not in education, employment and training, a huge share of vulnerable employment and weak social protection systems in turn are evolving against systemic risks posed by climate change. At the same time, changes in technology encapsulated in digitisation and automation at the workplace are creating new opportunities in juxtaposition with threats of job losses and insecure working conditions.

Policymakers will have to make a resolute commitment to deal with the salient labour market challenges facing the region. Failure to do so will in turn lead to a failure to realise the aspirations of the SDGs. This article reflects on the interlinkages between key labour market and employment indicators with respect to the relevant SDGs (SDG 1, SDG 5, SDG 8, and SDG 10). In terms of themes, the article reflects on (1) employment (2) wages (3) social protection (4) gender disparities (5) green economy and (6) digitisation.

EMPLOYMENT AND THE LABOUR MARKET

The labour market dynamics of South Asia are complex in nature due to a heavy influence of informality and the enormous number of people who enter the labour force every year. According to the World Economic and Social Outlook Report (2022) of the International Labour Organization (ILO), every year about 18-20 million people join the working-age population in South Asia.[3] In 2023, the growth of jobs in South Asia was expected to nearly halve to 1.6 per cent from 3 per cent in 2022. Figure 1 depicts the country-wise situation of three crucial indicators of South Asia. The aggregate working-age population in the region stands around 1.084 billion of which around 571 million are in the labour force. It means, that out of the total working-age population in the region, around 513 million people (47 per cent) are out of the labour force, or they are inactive. Hence, creating employment at a sharply increasing rate for a) absorbing the new entrants into the labour force and b) bringing the inactive population into the labour force is the crux of South Asia's employment challenges. To solve this "joblessness", the South Asian economies should adopt National Employment Policies (NEP) geared towards decent job creation, especially by promoting broad-based employment opportunities for young men and women.

Figure 1: Working age population, labour force and out of labour force population by date up to 2023 in South Asia (in millions)

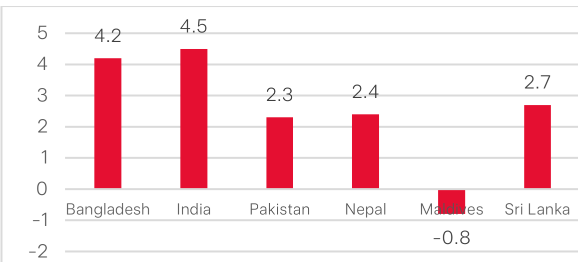


Source: ILOSTAT, https://ilostat.ilo.org/topics/employment/

The SDG-compliant labour market indicators are anchored in the notion of economic growth and decent work (SDG 8). Economic growth is driven by two key sources: (a) factor accumulation and (b) factor productivity. Labour productivity in turn is a key aspect of factor productivity, given the efficiency with which the capital stock is used and the level of technology. When it comes to South Asia, the preponderance of the informal sector also causes a low level of productivity of the workers resulting in a high incidence of working poverty.

Figure 2 displays trends in labour productivity in real terms (constant US dollars) for the 2011-2022 period. India and Bangladesh have the highest labour productivity growth for the relevant period (more than 4 percent) which is consistent with their status as among the most rapidly growing economies in the developing world. The other South Asian economies have moderate labour productivity growth rates, while Maldives has experienced a decline in labour productivity.

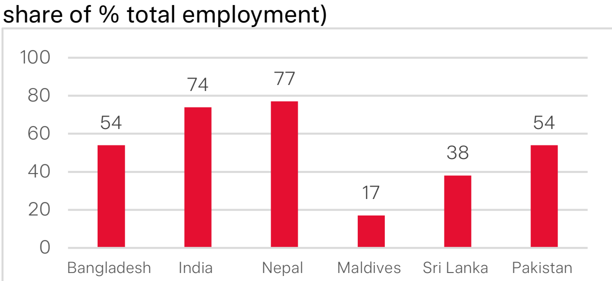
Figure 2: Annual growth rate of real GDP per employed person (GDP constant 2010 US $) (%), 2011-2022



Source: ILOSTAT, https://ilostat.ilo.org/topics/labour-productivity/

The region has a high level of informal employment with Bangladesh, India, Pakistan, and Nepal having around 85 per cent of informal employment. Maldives has the lowest incidence of informal employment (less than 50 percent) followed by Sri Lanka (less than 70 per cent).[4] High level of informality results in vulnerable employment.[5] Figure 3 depicts the share of vulnerable employment out of total employment by countries in the region. With this high level of share of vulnerable employment, the region has poor working conditions, weak employment contracts, low productivity, low real wages, and a fragile state of labour rights.

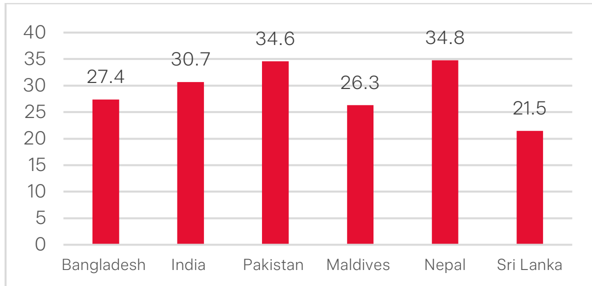
Figure 3: Share of vulnerable employment 2021 (as a share of % total employment)



Source: Authors' estimates based on https://ilostat.ilo.org/topics/informality/.
Note: Vulnerable employment is defined as contributing family workers and own-account workers as a proportion of total employment.

The South Asian countries have the advantage of enjoying a demographic dividend compared to the countries of the global north. However, a large share of youth who are not in education, employment, or training (NEET) poses a critical threat to resilient economic growth for the region. Figure 4 illustrates country-wise share of youth population who are NEET.

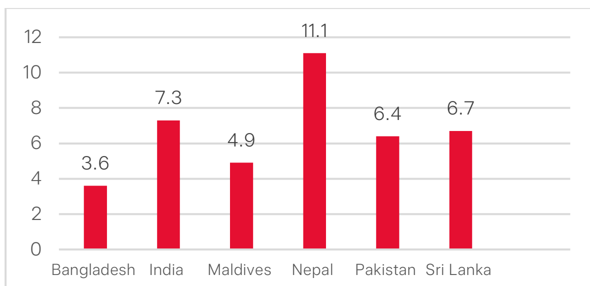
Figure 4: Share of youth not in education, employment or training, total (% of youth population) in different years (2017-21)



Source: ILOSTAT, https://ilostat.ilo.org/topics/sdg/

Figure 5 reflects the unemployment rates of the South Asian countries. Bangladesh has the lowest unemployment in the region while Nepal has the highest level of unemployment with 11.1 per cent. Considering the size of the labour force, the Indian unemployment rate of 7.3 per cent suggests that the country has a huge population who are unemployed.

Figure 5: Unemployment Rate as of latest available estimates (2022)

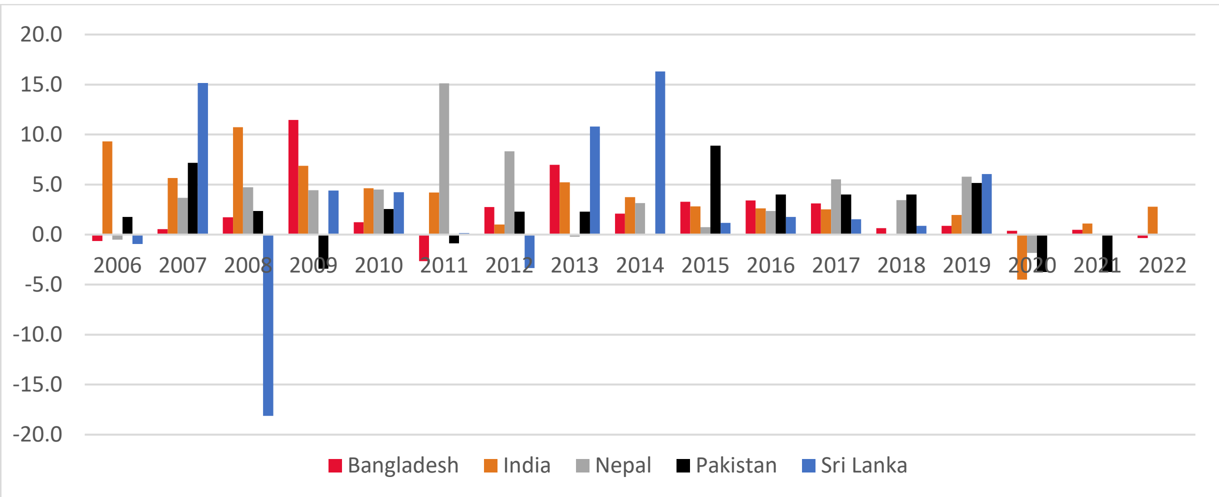


Source: ILOSTAT, https://ilostat.ilo.org/data/

WAGES AND THE WELFARE OF WORKERS

Wages are key determinants of several crucial SDG targets. Working poverty and social protection under SDG 1; gender pay gap under and productivity under SDG 8 and labour income share under SDG 10 are among the most critical ones where wages play a significant role. Moreover, wages have implications on ILO's crucial convention such as C 154 (Collective Bargaining), C 87 (freedom of association and protection of workers) and C 98 (right to organise and collective bargaining). The growth of real wage has always been a big challenge for several countries of South Asia. Figure 6 depicts that often South Asian countries have been experiencing negative real wage growth rates in different periods. For instance, being one of the fastest-growing economies not only in the region but also globally, Bangladesh has been experiencing an average negative real wage growth rate of -5.29 per cent over the last two decades. [6]

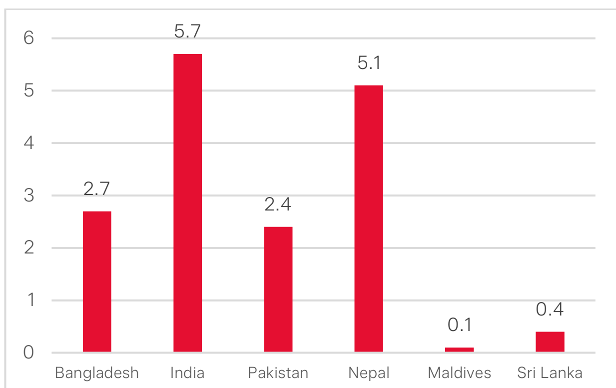
Figure 6: Real wage growth rate of South Asian Countries (2006-2022) with available data



Source : ILOSTAT, https://ilostat.ilo.org/topics/wages/

Besides real wages, a measure of the health of the labour market is the extent to which the living standards of workers are adequate. An internationally agreed approach is to assess whether earnings of the average worker are enough to meet the necessities of life. Ideally, this should be based on earnings data derived from regular labour force surveys. Unfortunately, this is difficult to obtain in the case of South Asia (as well as in other developing regions of the world). Therefore, a proxy that is used by the SDGs monitoring framework is the incidence of the employed population that lies below a global poverty line of USD 1.90 per day. This yields the notion of 'working poverty' which is negligible in Maldives and Sri Lanka and highest in India (5.7 percent) followed by Nepal (5.1 percent). Bangladesh and Pakistan have low levels of working poverty (less than 3 percent) as depicted in Figure 7. Regardless of the initial level, an encouraging trend is that working poverty has fallen over recent years in all the South Asian countries under review.

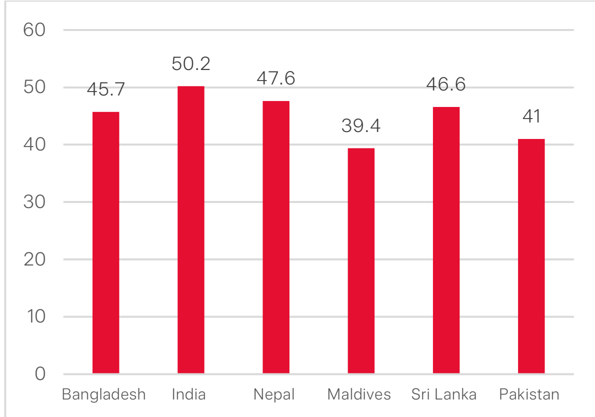
Figure 7: Working poverty (%), latest available year, 2022



Source: ILOSTAT, https://ilostat.ilo.org/topics/working-poverty/

Average weekly working hours of employed population provides additional insights. Both excessive hours of work and inadequate hours of work are undesirable. Figure 8 illustrates the mean of average weekly working hours of South Asian countries where India stands with the highest mean of average hourly working hours (50.2 hours) followed by Maldives (47.6 hours), Pakistan (46.6 hours and Bangladesh (45.7 hours). There is thus evidence of excessive hours of work when judged against the standard metric of 40 hours of work a week.

Figure 8: Mean of Average Weekly Hours of Actual Work (2005-2022)



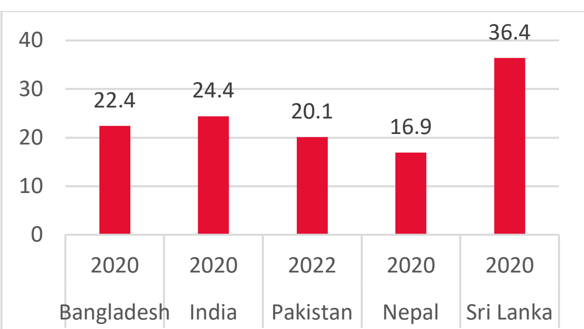
Source: ILO Modelled Estimation for World Economic and Social Outlook 2023.

SOCIAL PROTECTION FOR ALL

Social protection provided by governments seeks to shield individuals and families and households from various vicissitudes in life – such as spells of involuntary unemployment, income losses due to health breakdowns, old age, external shocks and so forth. The UN system is committed to a 'social protection floor' (SPF) – a goal in which all countries rich and poor, can provide various social benefits to a minimum standard. Currently, at the global level, about four billion people are without any form of social protection. What is the state of play in South Asia?

Figure 9 shows the proportion of the population covered by at least one social benefit. Sri Lanka has the highest coverage, Nepal the lowest. Even then, social protection coverage rates are well below the benchmark of a universal SPF. Attaining the aspirations of SPF is thus a major challenge in South Asia.

Figure 9: Population covered by at least one social benefit (%)



Source : ILOSTAT, https://ilostat.ilo.org/topics/social-protection/

In terms of numbers of programs, one study based on a 2020 evaluation found that 'Bangladesh has the most programmes (11), followed by Nepal (10), India (7), Maldives (7), Sri Lanka (6), Afghanistan (4), Pakistan (4) and Bhutan (2).'[7] Of course, the sheer number of programs does not necessarily enable one to arrive at any meaningful conclusion pertaining to the adequacy and effectiveness of social protection measures. One evaluation (Khondker and Kitsios, 2023) finds that, for the bottom 20 per cent of the poorest household, social protection coverage, benefit incidence and adequacy are quite low in the region although they have improved over time.[8]

When COVID-19 hit the various economies of South Asia there was a significant, albeit transient, increase in poverty. Governments in the region responded with time-bound expansion in selected aspects of the prevailing social protection system. These are shown in Table 1. Some measures – most notably cash-based transfers, public works, utility (that is reduced user charges for electricity gas and water) and financial support were used in all the South Asian countries under review, but other measures, such as wage subsidies to preserve jobs, were used sparingly.

Table 1: Changes to social protection during COVID-19: selected examples from South Asia

Type of policy support during COVID (2020-2021)	Bangladesh	Bhutan	India	Maldives	Nepal	Sri Lanka
Cash based transfer	✓	✓	✓	✓	✓	✓
Public works		✓	✓			
In-kind support	✓	✓	✓	✓	✓	✓
Utility and financial support	✓	✓	✓	✓	✓	✓
Health insurance support	✓		✓		✓	
Pension and disability benefits			✓			✓
Waiver/subsidy pertaining to social security contributions			✓		✓	
Labour market programs: wage subsidy	✓	✓				
Active labour market programs (training)				✓	✓	
Labour market deregulation	✓		✓	✓		✓

Source: Khondker and Kitsios (2022), chapter 4, in IMF (2022) 'South Asia's path to resilient growth', Washington DC, https://www.elibrary.imf.org/display/book/9781513587219/9781513587219.xml

In terms of financing social protection systems, a 2022 World Bank evaluation notes that South Asian countries spend an average of 0.9 percent of gross domestic product (GDP) on social safety nets, which is lower than the global 1.5 percent average among low- and middle-income countries (Figure ES.3). The benefits provided through social protection programs in the region are generally inadequate and do not contribute substantially to poverty reduction. The region has historically relied on categorical transfers (for example, for the elderly, people with disabilities, and marginalised groups); only a few countries have broad-based cash transfer programs that can be scaled up in response to shocks.[9]

Hence, scaling up the financing of social protection systems and moving in the direction of broad-based measures represent important policy challenges for South Asian countries. To overcome the challenges in improving the social protection system of the countries in the region, governments must increase the budget allocation and public spending on social protection.

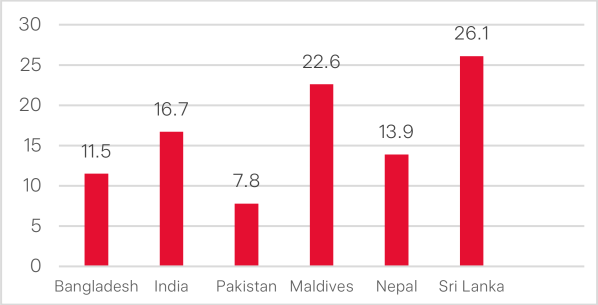
CLOSING THE GENDER GAP

Gender disparities in the workplace are significant and persistent around the world, especially in terms of major gaps in gender-specific labour force participation rates. It is widely agreed that a reduction in gender disparities is one of the hallmarks of an inclusive labour market. Two indicators on gender disparities are part of the SDG monitoring framework: (a) share of women in management and (b) the gender pay gap. Figure 10 corresponds to indicator (a) while Figure 11 corresponds to indicator (b).

In all cases, the representation of women in management is low. It is lowest in Pakistan and Bangladesh, followed by Nepal and India. Maldives has a female representation rate in management of more than 25 percent.

An unanticipated element of Figure 11 is that female workers earn a little more than men in Pakistan. Elsewhere the status quo prevails, that is, women earn less than men, with the gender pay gap ranging from 83 percent (Nepal) to 91 percent (Bangladesh). Unfortunately, there is no pertinent information on India.

Figure 10: Proportion of women in senior and middle management positions (%), various years, 2017 to 2022



Source: ILOSTAT, https://ilostat.ilo.org/topics/sdg/Figure 11: Gender pay gap (Female wages as % of male wages)

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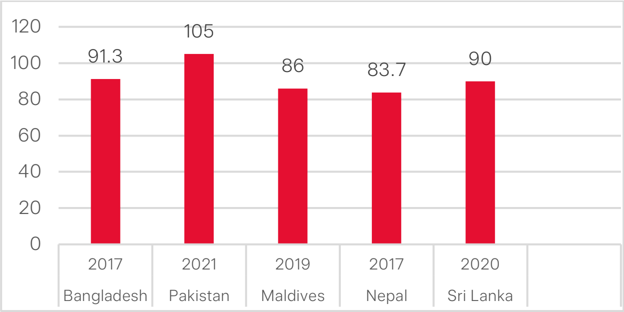


Source : ILOSTAT, https://ilostat.ilo.org/topics/sdg/

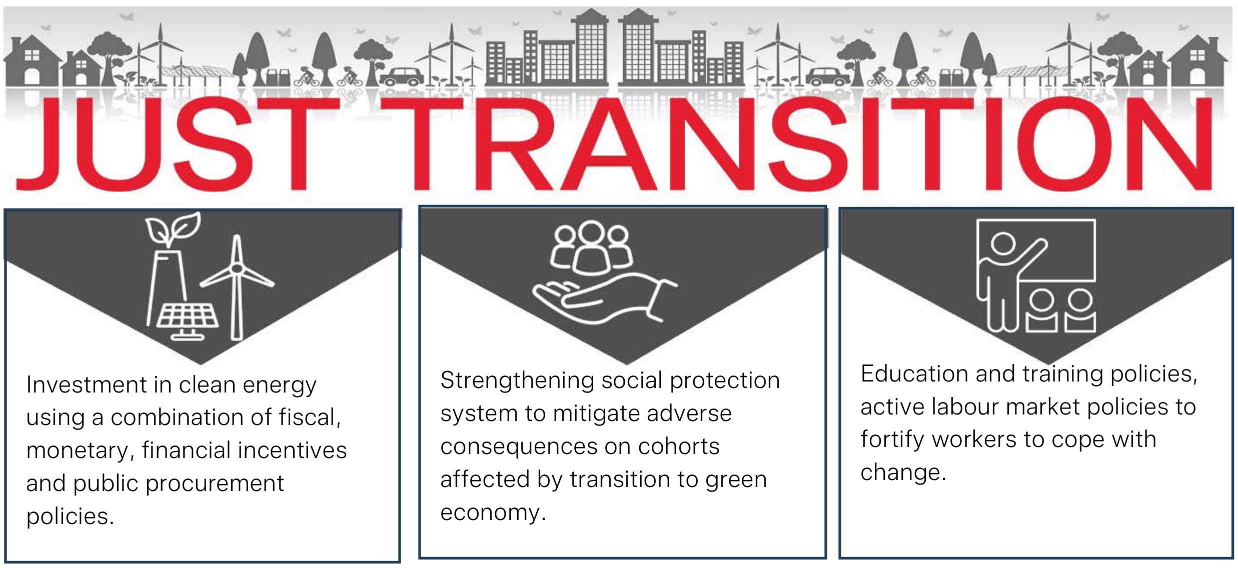
JUST TRANSITION TO A GREEN ECONOMY

The trade union movement, the ILO, and other international agencies as well as the broader scholarly community has proposed the framework of a 'just transition' (JT) to a green economy. This is particularly germane in an era when climate change, if left unabated, represents an existential threat to both rich and poor countries. Hence, there is a shared global vision that one should make the transition from fossil fuel intensive energy system to an energy system that relies heavily on renewables leading to the consolidation of a green economy. This is a particular form of structural transformation that will be the defining feature of the future for both poor and rich nations.

One can commence the discussion by recalling the core concept of JT as advanced by the ILO: 'A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'.

There are three pillars that make up JT (see Figure 12). They are meant to reap the benefits of a green economy (and hence mitigate climate change) while minimising the disruptions caused by movements of resources to new activities and sectors.

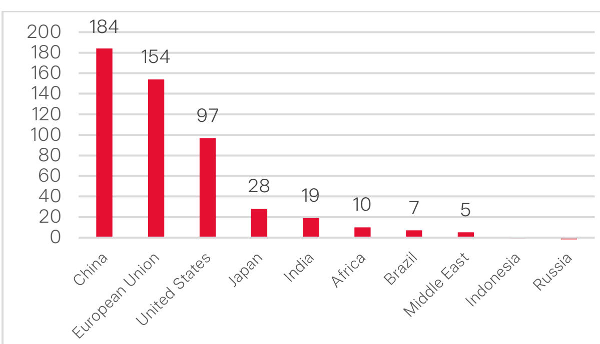
Figure 12: Three pillars of Just Transition



Source: Authors, Griffith Asia Institute

There is the challenge of dealing with the global divide with respect to investment in clean energy (pillar 1 of JT). China, EU, and USA are primarily leading in this sphere. The rest of the world, including Japan, is far behind. In some cases, there appears to be a decline in investment in renewables—such as Indonesia and Russia.

Figure 13: Units: billion USD (2022) Annual clean energy investment



Source: IEA Data and Statistics, https://www.iea.org/data-and-statistics

One growing trend in both rich countries of the West and China is the promotion of electric vehicles (EVs) and the phasing out of internal combustion engines (ICE) as a means of reducing greenhouse gas emissions. The key issue is whether this strategy is aligned with the JT agenda in South Asia. This is where the global divide in the transition to a green economy cannot be overlooked. China is unique among emerging economies in terms of boosting EVs. Even other systemically important emerging economies, such Brazil, India and Indonesia, lag far behind China in terms of EV ownership.

Car ownership rates are low in South Asia, given prevailing socio-economic conditions. There is limited access to electricity among the general population. EVs are more expensive than ICEs in the absence of subsidies, but the provision of such subsidies on a long-term basis might be beyond the fiscal capacity of many governments. In addition, they need to be supported by the installation of charging stations entailing expensive upfront investments. Without additional investments in the electricity grid, such charging stations will drain electricity supply from households and businesses.

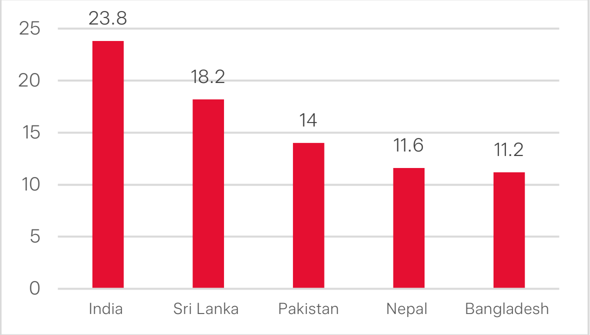
One also needs to be aware that a substantial increase in the production of EVs entails commensurate increase in the mining of requisite metals and minerals that are often located in poor countries, such cobalt-rich DRC. This in turn could have deleterious environmental consequences.

Boosting the use of privately owned EVs might not be fully aligned with the goals of JT in South Asia. Other options include the electrification of public transport and use of solar energy in the electrification of basic amenities. Not surprisingly, in India, several states, such as Assam, Andhra Pradesh and Madhya Pradesh, have opted for 100 percent electrification of public buses by 2030.[10] This is a goal that other South Asian countries can follow.

DIGITISATION AND THE LABOUR MARKET

Among many indicators of assessing digitisation in South Asian countries, the Digital Entrepreneurship Index[11] is a robust composite index used by the World Bank. According to the World Bank (2022)[12] Bangladesh and Nepal are at the bottom of the list of South Asian countries in this Index, while India and Sri Lanka have the most developed digital entrepreneurship ecosystems in the region (Figure 14). This indicates how the future of work is shaping up in the region in terms of adapting the 'fourth industrial revolution' (4IR) at the firm and enterprise levels. This will have certain impacts on the labour market including the short-term negative effects on low-skill jobs and workers. The medium-term effect will also be negative, such as millions of Ready-Made Garment (RMG) industry workers who lost jobs due to the integration of automation in Bangladesh are still unemployed as they do not have advanced skill sets. However, eventually, there are likely to be more jobs and economies of scale in many sectors because of the rapid adaptation towards technological transformation. Skills policies, employment policies and social protection policies in the region should reflect on the nature of technological transformation and their impact on the labour market carefully.

Figure 14: Digital Entrepreneurship Index South Asia (2022)



Source: World Bank (2022)

SUMMARY AND RECOMMENDATIONS

South Asia faces manifold labour market challenges that hobble the capacity of the countries in the region to make significant progress towards attaining the SDGs. These challenges are compounded by the risks posed by climate change and the tensions between job creation and job displacement engendered by rapid digitisation. Relying on growth alone will not resolve the labour market challenges confronting South Asia. One would need a resolute political commitment to an inclusive economic strategy that emphasises decent jobs for all, comprehensive social protection, living wages and secure working conditions, closing the gender gap, harnessing the benefits of digitalisation, and embracing just transition to a green economy.

The following recommendations are meant to facilitate policy dialogue among key stakeholders in the South Asian region on crafting a strategy to respond to the core labour market challenges discussed in this paper. Such a strategy, if successfully financed and implemented, will enable national governments to make substantial progress towards the attainment of the SDGs.

RECOMMENDATION 1

Comprehensive National Employment Policy (NEP) with Effective Implementation Strategy

Governments of South Asian countries should emphasise formulating comprehensive modern NEPs with a focus on high-growth sectors for employment generation. The NEPs should have active labour market policies and gender-inclusive strategies with an integrated approach that is aligned with the major development strategies of the countries. NEPs should be supported by implementation strategies/action plans using a 'whole-of-government' approach.

RECOMMENDATION 2

Increased coverage of social protection schemes

South Asian Countries should increase budgetary allocation as a share of GDP in social protection programs and schemes. Unemployment insurance, employment injury schemes, and schemes for women and disabled persons should be the key priorities for designing and implementing national social security strategies.

RECOMMENDATION 3

Formulation of modernised labour inspection system

South Asian countries should have modernized labour inspection systems with transparency and accountability in place for improved and effective compliance with respect to mandated minimum wages and safe working conditions.

RECOMMENDATION 4

Strong labour governance and institutes

Strong labour governance with ratification and implementation of ILO conventions, especially those pertaining to the right to collective bargaining and freedom of association, is crucial for South Asian countries. Social dialogue and tripartite participation of government, employers, and workers are pivotal for having robust labour governance in countries in South Asia.

NOTES AND REFERENCES

1 World Bank (2023) "Where in the world do the poor live? It depends on how poverty is defined", https://datatopics.worldbank.org/world-development-indicators/stories/where-do-the-poor-live.html#:~:text=Extreme%20poverty%20has%20now%20moved,middle%2Dincome%20countries%20are%20located.

2 Sustainable Development Report, The Overall Performance of all 193 UN Countries, this is based on an overall SDGs index. See https://dashboards.sdgindex.org/rankings

3 https://www.ilo.org/global/research/global-reports/weso/trends2022/lang--en/index.htm

4 A detailed discussion of the international evidence on the informal economy can be found in Islam, I and Lapeyre, F (eds) (2021) Transition to formality and structural transformation, ILO, Geneva. https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_738685/lang--en/index.htm

5 Vulnerable employment is defined as contributing family workers and own-account workers as a proportion of total employment.

6 Global Wage Report 2020-21, ILO https://www.ilo.org/global/research/global-reports/global-wage-report/2020/lang--en/index.htm

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9 Johnson, K and Walker, T (eds) Responsive by design: building adaptive social protection systems in South Asia, World Bank, Washington DC.

10 IEA Data and Statistics, https://www.iea.org/data-and-statistics

11 The Digital Entrepreneurship Index ranks the relative strengths of digital entrepreneurship ecosystems across the sub-indices of Digital Infrastructure Governance, Digital User Citizenship, Digital Multi-sided Platforms, and Digital Technology Entrepreneurship.

12 World Bank (2022). South Asian Digital Economy: An Opportunity to Build Back Better Digitally, Washington DC, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099230004062228270/p1723000e5e0d20908c790a5ffdda147f1

ACRONYMS AND ABBREVIATIONS

4IR	Fourth Industrial Revolution
ABAC	APEC Business Advisory Council
ACEN	Renewable energy platform of the Ayala Group
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
ADIZ	Air Defense Identification Zone
AFI	Alliances for Financial Inclusion
AI	Artificial Intelligence
AIIB	Asian Infrastructure and Investment Bank
AOSIS	Alliance of Small Islands States
APEC	Asia-Pacific Economic Cooperation
ARC	Australian Research Council
ASEAN	Association of Southeast Asian Nations
BoEP	Base of the Economic Pyramid
BRI	Belt and Road Initiative
BRICS+	Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran and the United Arab Emirates
BYD	Build Your Dreams
CATA	Coal Asset Transition Accelerator
CBAM	Carbon Border Adjustment Mechanism
CCTV	Closed Circuit Television
CEO	Chief Executive Officer
CFA	Commercial Finance Association
CGAP	Consultative Group to Assist the Poor
CIIE	China International Import Export
CIT	Corporate Income Tax
COC	Code of Conduct
COFA	Compacts of Free Association
COP	Conference of Parties to the UN Framework Convention on Climate Change
COP28	28th Conference of the Parties
CPP	Cambodian People's Party
CRA	Contingent Reserve Arrangement
CRC	Cooperative Research Centre
CROP	Council of Regional Organisations of the Pacific
CSEAS	Center for Southeast Asian Studies
CSR	Corporate Social Responsibility
CUFE	Central University of Finance and Economics
DFS	Digital Financial Services
DOC	Declaration on the Conduct of Parties in the South China Sea
DRC	Democratic Republic of Congo
EAI	East Asian Institute
EEZ	Exclusive Economic Zone
ESG	Environmental, Social and Governance
EU	European Union
EV	Electronic Vehicles
EY	Ernst and Young
FHEA	Fellow of Higher Education Academy
FinTech	Financial Technology
FISF	Fanhai International School of Finance
FSS	Financial Services Space
FX	Foreign Exchange
G7	Group of 7
GAI	Griffith Asia Institute
GBS	Griffith Business School
GDI	Global Development Initiative
GDP	Gross Domestic Product
Gen-AI	Generative Artificial Intelligence
GFANZ	Glasgow Alliance for Net Zero
GHG	Greenhouse Gas
GIFP	Green Investment and Financing Partnership
GSI	Global Security Initiative
GW	Gigawatts
ICCTF	Indonesian Climate Change Trust Fund
ICE	Internal combustion engines
ICT	Information communications technology
IEA	International Energy Agency
IESR	Institute for Essential Services Reform
IIGF	International Institute of Green Finance
ILO	International Labour Organization
IMF	International Monetary Fund
IoT	Internet of Things
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
JET	Just Energy Transition
JETP	Just Energy Transition Partnerships
JT	Just Transition
KFW	Credit Institute for Reconstruction
LMI	Low and Middle Income
LMIC	Low- and Middle-Income Countries
MA	Master of Arts
MBA	Master of Business Administration

MHMRC	National Health and Medical Research Council
MOF	Ministry of Finance
MP	Member of Parliament
MSC	Microsave Consulting
MSME	Micro, small and medium enterprises
NDB	New Development Bank
NDCs	Nationally determined contributions
NDRC	National Development and Reform Commission
NEET	Not in education, employment or training
NEP	National Employment Policy
NGO	Non-Government Organisation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PBOC	People's Bank of China
PDP8	Power Development Plan
PGII	Partnership for Global Infrastructure and Investment
PhD	Doctor of Philosophy
PRC	People's Republic of China
PRF	Pacific Resilience Facility
PV	Present Value
PV	Photovoltaic
QR code	Quick Response Code
QRIS	Indonesian Standard Quick Response Code
RCEP	Regional Comprehensive Economic Partnership
RegTech	Regulatory Technology
RMB	Renminbi
RMG	Ready Made Garment
SCO	Shanghai Cooperation Organization
SDG	Sustainable Development Goals
SEA	Southeast Asia
SMU	Singapore Management University
SOE	State Owned Enterprises
SPF	Social Protection Floor
TCFD	Task Force for Climate Related Financial Disclosures

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