From the Institute Director

Articles Published 9 December - 15 December:

Strategic Analysis Paper

Global Implications of New Groundwater Research:
In this paper, FDI Research Manager Mervyn Piesse provides an analysis of a new study on global groundwater. The study suggests that global groundwater supplies are replenished at a slower rate than previously thought. Unless the governance of groundwater is expanded it is possible that some aquifers could be exhausted with considerable ramifications for global food and water security.

Strategic Weekly Analysis

- Indonesia: Will anything come of the Paris conference?
- China-Africa Co-operation and Food Security
- Africa Seeks Fairer Deal at Paris Climate Summit
- Dam Divides Ethiopia from Its Neighbours
- Failure to Address Australia’s Urban Expansion Could Impact Its Future Food Security

Articles to be Published 16 - 23 December:

- Strategic Analysis Paper:
  - Soil Structure and the Physical Fertility of Soil
**Strategic Weekly Analysis:**
- Indonesia: Chinese-Japanese Competition Heats Up in Asia
- Australia: Rising Obesity Rates and Talk of a GST on Fresh Food
- Iran: Water Crisis Worsens but Foreign Investment Could be Key to Solution
- India Pushes to Save the Doha Development Round at the WTO Meetings

This will be the last publication of weekly analyses for this year. We trust you have found our pares and analyses over the year interesting and thought-provoking.

We wish you a happy festive season and a safe and rewarding New Year.

I trust that you will enjoy this edition of the *Strategic Weekly Analysis*.

**Major General John Hartley AO (Retd)**
*Institute Director and CEO*
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**Indonesia: Chinese-Japanese Competition Heats Up in Asia**

*Following its last bid to build a high-speed rail link in Indonesia, Japan has won another to build a similar link in India. At the same time, Indonesia has offered it a conciliatory US$13 billion worth of investment in 2016.*

**Background**

China recently won a bid over Japan and France to build a railway link between Jakarta and the city of Bandung. This came as a blow to Japanese investors who completed a feasibility study that took approximately ten years and cost US$3 million. China’s willingness to waive any funding guarantees from the Indonesian government and thereby accept the financial risk of the project eventually won them the deal, a proposition that was criticised as ‘unrealistic’ by the Japanese. Following this, Japanese investors have since reportedly threatened to relocate factories and reconsider investment plans. Japanese Transportation Minister, Akihiro Ota, has also said that Japan would re-evaluate its overall investment in Indonesia.

**Comment**

The decision to stick with China’s bid may ensure a political boost for Widodo. Beijing has promised that the project will be completed by 2019, around the time of the next presidential elections. The success of such a large project will do well to reflect Widodo’s promises of economic reforms and commitments to increase investment in the face of a
slowing economy. The project is also a key part of Widodo’s election promise to improve Indonesian infrastructure, a promise which he has so far struggled to deliver.

The Japanese-Chinese competition behind the opposing railway bids went well beyond economics. As noted by one observer, China’s bid and its willingness to take on financial risk for the project reflects Beijing’s eagerness to realise its One Belt One Road (OBOR) strategy under the New Silk Road initiative. Through this, China seeks to extend its influence throughout the Asian region through the use of soft power. This intent led to the creation of the Asian Infrastructure Investment Bank (AIIB), which is headed by China, in October 2014. It appears that the AIIB was set up to counter the influence of the Asian Development Bank (ADB), which is heavily influenced, in turn, by Western countries (particularly the US and Japan). Following the creation of the AIIB, Japan announced that it would commit US$110 billion to the ADB, fuelling speculations of competition between AIIB and the ADB.

There is a risk that Japan’s threats to reconsider investment plans in Indonesia could come to fruition. Japan recently won a bid to build India’s first high-speed rail line, which will link India's financial capital of Mumbai with Ahmedabad, a major economic and industrial hub. India could also be seen as a more attractive destination for investment, as many economic reforms are still needed within Indonesia. This may lessen the attraction to continue investment within Indonesia. There is, however, reason to believe that Japan will not abandon its investment ventures in Indonesia altogether. The past ten years have seen Japan increase foreign direct investment outflows towards Indonesia while cutting back on investments in India since 2008. Additionally, the Indonesian Capital Investment Coordinating Board has recently set a target to attract US$13 billion in investment commitments from Japan in 2016. This may be the conciliatory prize needed to maintain Japanese interest in Indonesian investment opportunities.

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Australia: Rising Obesity Rates and Talk of a GST on Fresh Food

At a time when tax reform is high on the political agenda, data released by the Australian Bureau of Statistics (ABS) indicates Australians are becoming more obese.

Background

Statistics released from the ABS in December 2015 show that in 2014-15, 63.4 per cent of Australian adults – or 11.2 million people – were overweight or obese. This figure is a 0.6 per
cent increase on 2011-12 numbers. Similarly, 27.4 per cent of children were overweight or obese, with a 1.7 per cent increase since 2011-12. The figures are a timely release after the Federal and State Governments commenced Council of Australian Governments (COAG) talks about tax reform on 11 December. In the lead up to discussions, some policy makers and politicians have suggested applying the Goods and Services Tax (GST) to fresh food products.

**Comment**

ABS statistics indicate that in 2014-15 almost 50 per cent of Australian adults and 68 per cent of children met the Australian Dietary Guidelines for recommended servings of fruit. Only seven per cent of adults and, more alarmingly, 5.4 per cent of children met the daily intake guidelines for vegetables. As few as 5.1 per cent of adults and children met the intake guidelines for both fruit and vegetables and only one in three Australians had enough daily exercise. The prevalence of some chronic health conditions associated with poor eating patterns, such as diabetes and heart disease, is also rising. At the start of the millennium, one in 30 Australians suffered from diabetes; in 2014, that number had increased to one in 20.

Extending the GST to fresh food products is unlikely to reduce growing rates of Australian obesity. Applying the tax to fruit, vegetables, meat, seafood and dairy products is instead likely to encourage consumers to purchase cheaper “junk food”. Applying the GST, current at ten per cent, on fresh food products would cost Australian consumers $6.3 billion a year, while applying an increased GST figure of 15 per cent would increase that amount to $9.45 billion a year. The applied tax on fresh foods would be most likely to affect low-income earners, with GST modelling indicating that the lowest 20 per cent of income earners would have their purchasing power reduced by two per cent.

The 2010 *Global Burden of Disease* study notes that poor diet is the largest contributor to disease in Australia. According to the Department of Health’s *Australian National Diabetes Strategy*, diabetes directly costs the health system $1.7 billion per year. The indirect costs are as high as $14 billion per year and include reduced productivity, early retirement and premature death. Healthy eating is crucial to the reduction of diet-related disease and minimising the direct and indirect costs associated with being overweight and obese. Any change to the tax system that targets fresh food will undermine efforts made by the government and health sector to reduce obesity and improve Australian eating patterns.

Rather than making it more difficult for Australians to have a healthy diet, the health system could benefit from increased education programmes promoting the importance of a healthy lifestyle and invest in preventive health. The recently re-modelled Healthy Eating Pyramid more accurately reflects what foods should be eaten daily, with the ‘Eat More’ layer split between vegetables and legumes, grains and fruits. Spreading nutritional advice with tools such as the Healthy Eating Pyramid and continual improvements to Australia’s *Health Star Rating System* are likely to reduce the propensity of Australians experiencing diet-related disease.

With almost two-thirds of the Australian adult population classified as overweight or obese, State and Federal Governments must make curbing this epidemic a policy priority. While the
COAG meeting did not decide on a model for tax reform, adopting proposals to tax fresh food in the near future could seriously hinder progress in reducing adult and childhood obesity. Prevention is better than cure; at a time when obesity is a major health risk for millions of Australians, making a healthy diet more unattainable is likely to worsen the situation.

**Madeleine Lovelle**

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**Iran: Water Crisis Worsens but Foreign Investment Could be Key to Solution**

*Over 500 Iranian municipalities face water scarcity due to inefficient water infrastructure and unregulated domestic use. After years of self-regulating policies, foreign investment could help alleviate this crisis.*

**Background**

The Iranian water crisis has little improved since FDI previously reported on it in 2013. A drying climate and inefficient water infrastructure have continued to be major problems. There is an increasing disparity between the supply and demand of water. Increasing water usage among the affluent population is met with high evapo-transpiration rates of a naturally dry country. Currently, domestic use stands at 70 per cent higher than the global average and previous attempts to increase water security have failed. Iran’s water was previously managed on a communal basis but after the Islamic Revolution the government took a central role in its distribution. The centralised-planning approach to water has seen an increase in the exploitation of private water rights. With little to no metering to ensure withdrawal limits are not breached, this has caused a 50 per cent reduction in groundwater availability. Issa Kalantari, the former Minister of Agriculture, stated that the water crisis is the main problem that threatens Iran. The Iran–Iraq relationship and Iran’s nuclear programme often overshadow the significance of the water crisis. If the water crisis is not addressed, it has been suggested that Iran could be a completely dry and arid country by 2045.

**Comment**
Iran has no notable watersheds and relies heavily on fossil and imported water. The population is concentrated in the north as the rest of the country is arid and relatively inhospitable. Getting water where it needs to go is a very difficult task. The pipelines that currently exist are too inefficient to meet growing demand, leading to water scarcity. Groundwater use remains the most viable source of water for Iran. The capital city, Tehran, has seen groundwater levels plummet over the past year by over 1.5 meters. Further declining groundwater levels will counteract any potential increase in rainfall and further contribute to the water crisis.

Reform in the Iranian agriculture sector is key to addressing water scarcity. The physical geography of Iran is not conducive to agriculture and yet this sector of the economy receives roughly 90 per cent of the country’s water supplies. Contributing just 13 per cent of Iran’s GDP and accounting for 23 per cent of employment, the agriculture sector requires a major overhaul for it to remain sustainable. Under Islamic Republic rule, the goal of self-sufficiency is a major principle. Iran is trying desperately to meet this goal, but as 71 per cent of precipitation evaporates, it is not feasible for Iran to be a self-sustaining country. Decreasing farming opportunities have already forced many to migrate to the cities.

Thus far, Iran has tried to solve the water crisis by itself. With limited outside influence the solution in the past was to create dams to increase water capacity. Iran is currently third globally in terms of dam construction. There are more than 500 dams currently operating with approximately 100 more under construction and 400 in the design or feasibility-study stages. This is a remarkable feat given their size, but a changing climate has meant that the problem is not one of capacity but supply. As a result of the long-standing mismanagement of water, Iran has increased its efforts to expand co-operation with foreign countries to tackle its water crisis. An unlikely ally has been Japan which has recently allocated US$1 million ($1.37 million AUD) in project funding to reduce Iran’s non-revenue water. Post World War II, nearly 80 per cent of Japan’s water generated no revenue; today this value has dropped to less than four per cent. Iran currently stands at 26 per cent non-revenue water levels and Japan’s investment and knowledge will be invaluable. This money is to reduce non-revenue water in Khansar, a region in central Iran where up to 60 per cent of water is lost. Iran needs to open up its economy to foreign investment and innovation; only then will it be able to tackle its water crisis in any meaningful way.

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India Pushes to Save the Doha Development Round at WTO Meetings

India receives backing from 47 countries to push for the WTO to focus on outstanding agricultural issues in the Doha Development Round

Background

The tenth World Trade Organisation (WTO) Ministerial Conference commenced on 15 December in Nairobi, with trade ministers from 47 countries urging WTO members to redouble efforts to conclude unresolved matters of the Doha Development Round. India is leading the push to continue the Doha Development Agenda, which focuses on agriculture in developing countries, and hopes that the four-day meeting will find a permanent solution to some of its food security issues. Developed countries, including the United States, Japan and European Union members, however, are pushing for the 14 year old agenda to be scrapped or reformed. Failure to come to an agreement at this year’s meetings could spell the end of the WTO’s position as a relevant negotiating forum.

Comment

India and other developing countries have a lot at stake at this year’s WTO meetings. The Doha Development Round, launched in 2001, is viewed as favourable to developing countries. The Doha Round aims to reduce the subsidies and tariffs used in rich countries that harm food production and security in poorer countries. Through the Special Safeguard Mechanism (SSM), proposed under the agenda, developing countries would have a means to protect farmers from surges of imports of subsided products or a dip in global commodity prices, by allowing them to raise tariffs temporarily. The purpose of such measures is to level the playing field in the global trading system that currently favours rich nations. India is concerned that the Trade Facilitation Agreement (TFA), largely agreed on during the Bali negotiations in 2014, will harm food security. The agreement limits the value of food subsidies at ten percent of the total food grain production, and allows for member countries to sanction countries that go beyond the limit. India currently runs a large food procurement programme that offers farmers a minimum supporting price to the farmers and subsidises food. It argues that limiting subsidies could have a devastating impact on food security, in a region which is home to 25 per cent of the world’s poor. India wants its concerns to be addressed before signing the TFA and has made it clear that it will not back down on its stance on both public stockholding of food grains, and the importance of the SSM.

The US, EU and Japan meanwhile are advocating the closure of the Doha Development Round, citing its failure to achieve tangible outcomes during the 14 year-long negotiations, with all attempts to reach consensus failing over the years. The lack of a framework for negotiations leading up to the WTO Ministerial Conference has made it more unlikely for a decision to be reached. If the Doha Round collapses, the future of the WTO will be at risk, and it is likely to lead to the dominance of multinational trade agreements such as Trans-
Pacific Partnership, that exclude India, China and a majority of the world’s developing countries from a large portion of trade.

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What’s Next?

- The Indian Space Research Organisation will launch six Singaporean satellites using its Polar Satellite Launch Vehicle rocket from the Sriharikota facility on December 16.
- The Philippines’ Supreme Court will decide on 16 December whether a new bilateral defence agreement with the United States can advance.
- The European Council will meet from 17-18 December.
- Australian Prime Minister Malcolm Turnbull will visit Japan from 17-19 December.
- Indonesia’s defence and foreign ministers will visit Japan, South Korea and Australia from 17-21 December.
- Russian Foreign Minister Sergei Lavrov may take part in talks on the Syria crisis in New York on 18 December.
- Spain will hold general elections on 20 December.

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