



# Abt Associates Submission to the Australian Foreign Policy White Paper 2017

## Better Leveraging Australian Aid for Foreign Policy Ends in the Asia-Pacific

### 1. Introduction

- 1.1 In 2013, Foreign Minister the Hon. Julie Bishop MP called for the “...alignment of Australia’s foreign, trade and development policies and programs in a more coherent, effective and efficient way”<sup>1</sup>. This was accompanied, soon after, by the launch of an agency Strategic Framework, which identified DFAT’s purpose – as an agency now fully responsible for aid and development – making “...Australia stronger, safer and more prosperous by promoting and protecting [Australian] interests internationally and contributing to global stability and economic growth...”<sup>2</sup>
- 1.2 Almost four years on, it is timely to examine what more can be done to better leverage Australian aid and development expertise for Australian foreign policy ends. As the Abt Associates public submission to the 2017 *Australian Government Foreign Policy White Paper*, this paper does so in three ways. First, it outlines key geopolitical trends affecting Australia’s engagement in the Asia-Pacific over the coming 10-15 years. Second, it unpacks the role of aid and development in achieving Australia’s foreign policy goals in this region (as defined by its national interest). Lastly, it provides practical suggestions for Australia to reposition the aid program to better meet Australian foreign policy needs in the near and medium term.

### 2. Strategic Operating Context: Australia’s Near Neighbourhood

Australia faces a range of significant geopolitical trends that will shape, if not determine, how it engages with the Asia-Pacific region over the coming 10-15 years:

- 2.1 **The resurgence of nationalism:** From the United Kingdom’s decision to exit the European Union, to America’s abandonment of the Trans Pacific Partnership, states are increasingly exercising the “...right of all nations to put their own interests first”<sup>3</sup>. While incentives for collective action, in the form of regional or multilateral institutions and trade deals, have certainly not disappeared – they have been dealt a significant blow with the inward retreat of several, powerful states on the international stage. Australia must now consider the extent to which it honours traditional alliances and continues to engage through the Bretton Woods architecture.
- 2.2 **Dominance of Asia:** It is no secret that the locus of global growth and population is increasingly centered in Asia. With Asia holding six of Australia’s top ten two-way trading partners<sup>4</sup>, a growing Asian presence through new international bodies such as the Asian Infrastructure Bank, and an increasing portion of Australia’s overseas born and migrant population coming from Asia<sup>5</sup>, Australia and Asia’s future will remain closely entwined over the coming century. Such trends present both opportunities and threats for Australia – as well as growing pressure to adeptly navigate both its traditional security alliances and trade and economic partnerships<sup>6</sup>.
- 2.3 **More and different players in the South Pacific:** Engagement by external powers in the South Pacific is not new, and has taken many forms and motivations. Regardless of intent, it is apparent that the encroachment of some presents geo-political concerns to Australia, with the 2013 *Australian Defence White Paper* calling the “...growing reach and influence of Asian neighbours...” in the South Pacific a

<sup>1</sup> Hon. Julie Bishop MP, Minister of Foreign Affairs, 2013, Office of the Minister for Foreign Affairs. Available at: [http://foreignminister.gov.au/releases/Pages/2013/jb\\_mr\\_131101a.aspx?ministerid=4](http://foreignminister.gov.au/releases/Pages/2013/jb_mr_131101a.aspx?ministerid=4)

<sup>2</sup> Australian Commonwealth Department of Foreign Affairs and Trade. Available at: <http://dfat.gov.au/about-us/department/Documents/strategic-framework-2015-2019.pdf>

<sup>3</sup> President Donald J. Trump, January 2017, ‘Inaugural Address’. Available at: <https://www.whitehouse.gov/inaugural-address>

<sup>4</sup> Australian Commonwealth Department of Foreign Affairs and Trade. Available at: <http://dfat.gov.au/trade/resources/trade-at-a-glance/Pages/goods-by-country.aspx>. Data based on the DFAT STARS database and ABS catalogues 5368.0 (June 2015), 5368.0.55.004 and unpublished ABS data

<sup>5</sup> Australian Bureau of Statistics, 2014-15 Migration Data and 2016 Demographic Data. Available at: <http://search.abs.gov.au/s/search.html?query=migration&collection=abs&form=simple&profile=default>

<sup>6</sup> Comments made by US Army Colonel Tom Hanson in September 2016 regarding the need for Australia to ‘choose’ where its greatest allegiances lie. Quoted online in ‘Foreign Policy’ <http://foreignpolicy.com/2016/09/01/time-to-choose-between-u-s-and-china-american-officer-tells-australia/>

“challenge”<sup>7</sup>. Yet, foreign engagement also presents opportunities. Achieving sustained growth and stability in the South Pacific—22 countries and territories and a population of 9 million—cannot be achieved by national governments and bilateral donors alone. As the impact of Foreign Direct Investment on growth is lower than most other development contexts<sup>8</sup>, Australia and Pacific island countries will require partnerships with non-traditional donors, private sector and state-sponsored enterprises to leverage the scale of services and infrastructure needed to transition themselves to upper income status.

2.4 **The unfinished “State-Building” endeavor:** Australia’s Melanesian neighbours are all new ‘states’, in the sense that they only achieved statehood and adopted Westminster-style forms of government from 1970 onwards. Often incorrectly called ‘failed states’, these countries are still negotiating the social, economic and political structures that will take them from lower to upper income status. Indeed, since World War II only eight countries have moved from patronage-based systems of government, to ones where laws and property rights are enforced and politics is consensual—and none of these countries were priorities for international donors<sup>9</sup>. Furthermore, almost all countries that passed through middle income status in the last two decades—such as South Korea and Singapore—experienced significant periods of political instability and even violence: as power was renegotiated. In many cases, growth occurred in the absence of ‘good governance’. It is thus reasonable to expect that things may get worse in Australia’s near neighbourhood – in the form of violence, unstable parliaments and patronage-based public services—before they get better. Such trends will have implications for how Australia balances its commitment to international norms and regional engagement.

2.5 **Graduation and the changing poverty landscape:** The pattern and distribution of the world’s poor is changing fast. Over the next decade or so, it is likely that the bulk of the world’s poor will be a long way from Australia. Most of Australia’s South East Asian (SEA) neighbours have now achieved Middle Income status, and it is likely that India, China and Australia’s major SEA partners (with the probable exception of Myanmar) will succeed in the next few years in pulling the vast majority of their populations over the poverty line. And as economies grow, concerns persist as to whether the rapid decline in poverty in some regions will affect women and men equally: what gender impacts will arise from the new development landscape?<sup>10</sup>

2.6 But this achievement to middle income status should not obfuscate the continuing significant challenges facing Australia’s key Asian neighbours, challenges that matter to Australia. The problems of inequality, low productivity, rapid urbanisation, youth unemployment, inability to manage infectious disease outbreaks, pressures for state fragmentation and religious radicalisation, do not disappear once a country reaches a certain GDP per capita. Economic growth, married with state fragility has significant implications for where and how Australia’s aid program should work.

2.7 **Transboundary threats—climate change and disease:** The effects of climate change and health threats will continue to be borne unevenly by the Asia-Pacific region—with many of the world’s smallest and most isolated island states in the South Pacific. According to the Pacific Islands Forum Secretariat, these “...countries are amongst the least able to adapt and to respond; and the consequences they face, and already now bear, are significantly disproportionate to their collective miniscule contributions to global emissions”<sup>11</sup>. The past decade has also shown that highly mobile microbes can weaken even a robust nation and devastate less-prepared countries. Investments in health regulations and strengthening the capacity of developing countries to fight global health threats will not only improve the well-being of Australia’s Asia-Pacific neighbours, but also protects Australia’s borders.

<sup>7</sup> Quoted in Hayward-Jones, J. n.d. ‘Big Enough for All of Us: Geostrategic Competition in the Pacific Islands’. Lowy Institute. Available at: <https://www.lowyinstitute.org/publications/big-enough-all-us-geo-strategic-competition-pacific-islands>

<sup>8</sup> According to Feeny et al, “...a 10 per cent increase in the ratio of FDI to host Gross Domestic Product (GDP) is associated with higher growth of approximately two per cent in all countries on average. The impact in Pacific countries falls to between 0.1 to 0.4 per cent”. Available at: [http://sustineo.com.au/sites/default/files/publications/spdi\\_1-11\\_growth\\_fdi\\_in\\_the\\_pacific.pdf](http://sustineo.com.au/sites/default/files/publications/spdi_1-11_growth_fdi_in_the_pacific.pdf)

<sup>9</sup> North, Wallis and Weingast. December 2012. ‘Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History’.

<sup>10</sup> ESCAP & UN Women, 2017, ‘Women’s Economic Empowerment in the Changing World of Work—an Overview for Asia and the Pacific’, Bangkok UN Women.

<sup>11</sup> Pacific Islands Forum Secretariat, n.d., ‘Climate Change’. Available at: <http://www.forumsec.org/pages.cfm/strategic-partnerships-coordination/climate-Change?printerfriendly=true>

### 3. Achieving the National Interest: What can Aid and Development Offer Foreign Policy?

- 3.1 Simply stated, Australia's national interest in the Asia-Pacific is clear and unambiguous: to promote security, stability, growth and open and strong diplomatic and commercial ties with its near neighbours<sup>12</sup>. By virtue of their population size, trading capacities, political influence and geographic proximity, Indonesia and Papua New Guinea have been—and will continue to feature as—two of Australia's key relationships in this region.
- 3.2 In pursuit of Australia's national interests, its aid and development portfolio has—to date—often been used in a very transactional and segmented manner to directly feed foreign policy outputs. While valid in and of itself, such an approach overlooks the far greater role aid and development can play in supporting Australia's national interests.
- 3.3 Looking forward, the effective utilization of the aid program will hinge on how well Australia can balance its tendency towards diplomatic *short-termism*, with an effective calculation of *long-term risk and reward*. On one hand, the Australian aid program can be used to deliver foreign policy goals in a transactional manner. However, an overemphasis on this approach, while delivering short-term favour and access, overlooks the potential which aid has to promote Australia's long term strategic relationship with Asia-Pacific countries. Take, for example, the rush to provide foreign experts to a developing country to undertake public financial management, rule of law and other critical government tasks immediately after a crisis. While the short-term impact of these advisers might be positive (government capacity increases, violence is contained etc)—it can have unintended long-term consequences. Sometimes supplementing capacity with foreigners can hollow out local capacity that does exist, disempower public servants and cause negative sentiment towards the foreign donor. In the worst case, it can also lead politicians to simply work around the bureaucracy and use their own—less accountable means—to allocate budget and make decisions. Over the long term, such a system is not in the interests of Australia, who wishes to support strong states that can fairly and accountably enforce rules and maintain stability.
- 3.4 There is potential to use Australian aid in much more *agile and responsive ways*—by seizing on political openings and opportunities. Traditionally aid projects are designed to be very rigid: with outcomes, inputs and outputs all locked in up-front and for years on end. More recently, however, the aid world has found new ways to design much more agile aid programs to allow them to shift and change in response to the political context that they are operating. For example, quickly changing approaches to capitalize on reforms windows that introduce more competition in the telecommunications market<sup>13</sup>. In these instances, there can be a neat alignment with both poverty reduction goals (more people can access technology cheaper) as well as other aid, trade and national interest imperatives.
- 3.5 Now under the mandate of DFAT, there is scope to much more closely integrate *aid and development with other parts of the Department, as well as Whole-of-Australian-Government (WoG) objectives*. For example, the longitudinal analysis and tools used by many aid managers to understand and track political settlements and social change in foreign countries can complement the traditional trade-craft of diplomats. Similarly, poverty reduction goals can often be better achieved with the support of other WoG efforts—such as more ambitious and far-reaching migration, remittance and seasonal worker policies for countries vulnerable to the effects of climate change, or the combined efforts of the Australian Federal Police (AFP), DFAT and other enforcement agencies to combat illicit financial flows thereby combating corruption in developing economies.
- 3.6 To achieve the Australian national interest, Australia also needs to be perceived by our neighbours as a *trusted partner*: the 'partner of choice' who nations will turn to when things go wrong. Aid is an important tool to build this relationship, but it can also be a source of distrust when delivered in a paternalistic or non-consultative manner. Trust is built when senior diplomats and Government ministers form strong, productive and collaborative working relationships built around the principles of genuine partnership. Foreign aid needs to be matched with strong local understanding and deep policy engagement. It needs to align with partner government policies and procedures, our neighbours need to be able to direct how aid is used in their own country. These practices also make it more likely that aid programs will be able to

<sup>12</sup> Hon. Julie Bishop MP, Minister of Foreign Affairs, Speech at the 2017 Australasian Aid Conference, Australian National University, Canberra, 15 February 2017.

<sup>13</sup> The Asia Foundation, 2011, 'Built on Dreams, Grounded in Reality: Economic Policy Reform in the Philippines'. The Asia Foundation. Philippines.

tackle entrenched problems, and that their impact will be sustained well after donors have left and aid projects have ended.

#### 4. Practical Considerations

- 4.1 In order to reorient the business of Australian aid, and enable it to deliver on a much more holistic set of WoG objectives, be more nimble and responsive, and to better manage long-term risks and reward—the following practical considerations are made:
- 4.2 **Invest more in choosing the ‘right’ tool for the problem at hand, rather than always reverting to aid.** Arguably the biggest opportunity of an integrated development and foreign policy department is the ability to bring a range of tools together in a strategic manner to pursue a clear national interest. It isn’t clear that this opportunity has been realized sufficiently to date. Problems such as corruption or fostering sustainable revenue sources for micro states, will all require concerted approaches by Australia of which aid is only one tool. Domestic policy settings around FDI from illicit sources, immigration and labour mobility policies may all be more effective instruments, or at least important complementary instruments to aid investments. The Government would be better served focusing on important problems and developing robust strategies that use multiple instruments to solve them, rather than thinking only about aid programs. Of course DFAT is already doing this to some extent, but we believe this approach could be greatly expanded, with systematic support to ensure they are considered.
- 4.3 **Be much more creative and clear in distinguishing between how aid is used in rapidly advancing middle and upper middle income economies, and how it is used in lower income, fragile contexts.** For example, in advanced Asian economies Australian aid needs to be all about leveraging recipient countries’ own resources in key areas that help them overcome economic, social or political barriers to their continued growth. Whereas, in Melanesia, the focus of Australia’s aid program may be much more centered on supporting the fundamental planks of state building (e.g. citizen accountability) as well as supplementing government capacity in key areas where that is mutually agreed.
- 4.4 **Find new and creative ways to communicate the value of the aid program to the Australian public,** including: through greater use of social media; stories about how the aid program helped lift women and men out of poverty; a much clearer and evidence-based explanation of where aid is directly supporting trade or Australian domestic interests, and; the timely and transparent sharing of aid expenditure and aid project documentation (e.g. designs, evaluations).
- 4.5 **Use or create high-level and WoG decision making mechanisms to consider the costs and benefits of major Australian aid investments and to monitor their performance.** Such mechanisms can not only integrate the aid program better into other WoG operations, but also serve as a mechanism to ensure that the aid program is being used in the most effective and efficient way possible to not only achieve poverty reduction goals—but also national interest goals too.
- 4.6 **Consult more with domestic Australian businesses and stakeholders who have a mutual interest in aid program strategy, design and implementation.** For example, fruit growers wanting to better match the supply of seasonal workers with their workforce demands, or local youth groups wanting to build closer ties with you women’s and men’s groups in other Melanesian countries.
- 4.7 **Dedicate more resources to analysis and research on our region.** In particular, DFAT needs to secure staff time to analyze current and long-term political, economic and social trends in our neighbourhood—and be able to communicate this information in a way that directly informs *both* foreign policy-focused communications and decisions (e.g. briefings/ senior official meetings) *as well as* aid program design and review. In addition to supplementing DFAT’s own analytical capacities, Australia should be more systematically investing in greater knowledge and analysis of development trends in our neighbourhood through transparent external bodies, such as universities and think tanks. This also gives other institutes, separate to the Australian Government, the chance to promote accountability and transparency of government performance, which is a critical long term plank for state building.
- 4.8 **Use evaluation and review to know if aid is impacting issues in the national interest.** Regular independent program evaluation, internal peer-review and monitoring help the Australian Government know whether its aid program is delivering on its goals and in the national interest—and, where it is found not to be, can identify more effective ways of reorienting it.

- 4.9 **Develop DFAT staff capabilities to manage aid projects and reduce risk:** At minimum, women and men staff at Post responsible for managing aid projects should be trained and equipped in (1) Australia's bilateral priorities for that country (2) relationship building and stakeholder management (3) contracting and procurement (4) performance monitoring and financial management and (5) analysis and development theory. That training should mainstream gender so that, for example, women-owned firms can compete on an equal footing with men's businesses for government tenders in public procurement processes. Preparation should ideally occur before deployment, with staff supported by dedicated internal or external gender-responsive aid program design, evaluation and sector expertise when at Post. Developing these capabilities will reduce the risk of fraud and reputational damage to the Australian Government.
- 4.10 **Deliver aid in more agile and responsive ways.** This means re-thinking the way that aid projects are designed, contracted and managed. This challenge is not unique to DFAT and there are many lessons that can be applied from recent DFAT programs as well as from recent DFID and USAID experience<sup>14</sup>.
- 4.11 **Mainstream gender equality into all policy, programs and interventions** in corporate operations and all policy and programs in the DFAT mandate (foreign policy, economic diplomacy, aid for trade, development and public diplomacy), ensuring that the Department becomes the Gender Champion for other nations to admire and Australians to be proud of.

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<sup>14</sup> For current examples see: Independent Commission for Aid Impact, What Works. Available at: <http://icai.independent.gov.uk/reports/> Doing Development Differently. Available at: <http://doingdevelopmentdifferently.com/> The Development Entrepreneurship agenda. Available at: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9384.pdf>