

THE IMPACT OF COVID-19 ON AUSTRALIAN FOREIGN AID TO SOUTHEAST ASIA AND THE PACIFIC

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Australia is not a generous international citizen: less than one cent of every dollar of federal spending is devoted to foreign aid (Development Policy Centre 2019). When Australia's comparative affluence is taken into account Australia is an outlier, miserly even by the standards of the OECD (Wood 2017).

Nevertheless, its size and proximity ensure Australia dominates the aid landscape in the Pacific. In 2017, Australia gave nearly four times as much to the region as New Zealand, the second largest donor, and nearly five times as much as China. Aid matters in the Pacific. The region is home to nine of the world's 15 most aid-dependent countries. In places, the value of aid is equivalent to nearly 50 per cent of all economic activity in some years. Even in less-dependent states like Papua New Guinea, aid often plays an important role in social spending (Lowy Institute 2019). Aid is less important in Southeast Asia, and Australia is less dominant. Even so, aid remains relevant in poorer parts of the region, particularly in times of crisis. In 2017, Australia was still the second largest OECD donor in the Philippines and third largest in Indonesia (Lowy Institute 2019; OECD 2019).

In both Southeast Asia and the Pacific, Australian aid will have an important role to play as the COVID-19 emergency is felt amongst its neighbours. Will Australia be ready to play this role and will it play it well?

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Two issues have plagued Australian aid since 2013: quantity and quality. The Abbott government slashed aid spending. Adjusted for inflation, the government's aid budget has fallen by over 30 per cent since 2013. There was no need for this: Australia's debt problem was never acute, and aid is a trivially small slice of government spending. Needless to say, Australia would be better able to help now if it devoted more effort to giving. But on this front, there is some good news in the sense that Australian aid, particularly to its nearest neighbours, is unlikely to fall further in the short to medium term. The reason for this is simple - China.

Chinese aid is an increasing presence in the Southeast Asia and the Pacific. Chinese aid is far from perfect. Geo-strategy and subsidies to Chinese firms motivate much of China's giving. However, Chinese aid is not the peril it is often made out to be (Dornan and Brant 2014; Rajah *et al.* 2019). This has not prevented alarm bells from ringing in Australian political circles though. There is much that could be said about this, but it does mean Australia will be reluctant to sacrifice the influence its own aid brings. As a result, we are unlikely to see further cuts to Australian aid for the time being, absent a complete domestic economic collapse.

That leaves the issue of aid quality. Aid is sometimes discussed as a single undifferentiated endeavour that can either do no harm or, conversely, do nothing but harm (*eg.* Hughes 2003; Moyo 2010; Sachs 2006). The reality is more complex. When aid is given well, it often helps people in developing countries, when given poorly it fails to help and sometimes even harms. Aid quality varies between donors, and individual donors' aid gets better and worse over time (Birdsall and Kharas 2014). Australian government aid has always been imperfect (for critique from different perspectives, see: Anderson 2008; Hameiri 2009; Hollway *et al.* 2011), yet at its best it has helped. Unfortunately, Australian aid arrives at the current moment confronted by two major impediments to high-quality giving: a lack of Australian expertise and geo-strategy. A further problem, albeit likely only in the medium term, is the issue of so-called structural adjustment programs imposed on developing countries. I address each issue in turn.

In 2013 the Australian Government Aid Agency (AusAID) was fully integrated into the Department of Foreign Affairs and Trade (DFAT). No coherent justification was ever provided for this major policy change but its consequences were quickly felt. Both quantitative and qualitative studies have found aid quality fell with integration (Moore 2019; Wood *et*

al. 2017). One clear consequence of integration was a fall in aid expertise. Although some experienced aid workers remain, integration has meant more of Australia's aid is managed by career diplomats. Because giving aid well is not easy, it requires specialist skills. Yet, Australian aid is increasingly being managed by people with few of the requisite skills. As the author of one study put it:

DFAT runs on smart generalists...That is a very valuable skillset...but it's not enough to shape and manage complex programs. It can also be an impediment to assembling and effectively managing the depth of specialist expertise needed to deliver the cutting-edge assistance critical to accelerating development and forging deep relationships (Moore 2019: 2)

This is a general issue, but one that will be felt acutely in the COVID-19 crisis and the complex challenges it brings: working out how to respond in countries like Papua New Guinea and Indonesia, where little accurate information exists about the spread of the epidemic; working with border lockdowns in place; helping countries cope with major economic shocks; trying to anticipate whether conflict may be inflamed by the crisis. Problems like these make for a very difficult aid response. Expertise is no panacea. Some expertise remains in the aid program, but more is needed.

Another consequence of the integration has been a change in the ethos of Australian aid giving. Australian aid has never been entirely altruistic: an element of national interest has always shaped aspects of the aid program's work. But surveys of expert aid stakeholders run before the integration, two years after and again in 2018, reveal a broad consensus that Australian government aid has become much more focused on advancing Australian interests since the aid program was integrated into DFAT (Wood *et al.* 2017; Wood *et al.* 2019). More focus on Australian interests does not mean entirely focused: almost all respondents to recent surveys still thought some aid is focused on helping developing countries. But people felt the focus has become blurred. The most concerning manifestation of the changing ethos of Australian giving has been increased use of aid to pursue geo-strategic goals, which, in recent years, has primarily meant countering China. As noted, concerns with China have halted falling aid volumes, but they have come at a cost to aid quality. Internationally, there is good evidence that geostrategic giving reduces aid's effectiveness in helping people in developing countries (Dijkstra 2018; Dreher *et al.* 2016). Geo-strategic giving may potentially reduce the help Australian aid provides in the difficult circumstances of the COVID-19 response.

The potential risk is, I should emphasise, only a potential risk at this point. To date, China seems to be using its aid to enhance soft power – its public reputation in developing countries. Possibly, Australia’s response will follow in kind, and reputations are more readily boosted if aid is given well. Australian policymakers may also simply decide that genuinely helping neighbours in crisis is more important for the Australian interests than contests with China. These are real possibilities, but the entanglement of Australian aid and geo-politics remains a concern.

Finally, there is the question of structural adjustment – aid given on the provision that major policy changes are made by the recipient. Contrary to conventional wisdom, donors often have limited power to change policy in recipient countries. At present, aid is usually too small a share of developing country government revenues to afford donors enough leverage to force major change. The rules are different, however, in a crisis. The relevant crisis in this instance is not likely to be the epidemic itself but rather the economic challenges that will come in its wake. In the Pacific in particular, government debt is quite high in many countries, and likely to grow substantially in a global economic downturn. Most Pacific countries lack the means some larger countries have of enabling sustained borrowing in troubled times. Deficits will likely lead quickly to serious fiscal constraints. Under these circumstances, donor assistance is essential, and donors have considerable power to ask for policy change in return. Some policy change may be unavoidable. But, in the past, aid donors have been prone to policy over-reach, imposing policies that have been pro-cyclical, have led to fire sales of government assets, and have harmed human development (Forster *et al.* 2019; Stiglitz 2002).

Some donors have moved on from the worst excesses of structural adjustment (e.g. World Bank 2017). And even the most hard-line donors are unlikely to push for major structural adjustment during the height of an epidemic. But, in subsequent years of economic turmoil in countries in Southeast Asia and the Pacific, the possibility of unreasonable donor demands is not far-fetched. Structural adjustment has typically been the domain of multilateral lenders, not donors like Australia. However, as an important donor in both regions, Australia will have a voice in policy conditions associated with emergency loans and grants, even when these are made by other donors. Ideally, Australia will push for nuance, compassion, and for an appreciation of the fact that major change needs to come through domestic democratic processes. My experience with the aid program in recent years leads me to think that the aid professionals who

still work in it would agree with this. The question will be whether their arguments will hold the day, both with their political masters and in multi-donor discussions.

Australia is not a generous international citizen, yet the foreign aid it gives could play a major role in helping address the impacts of COVID-19. Aid can help fund COVID-19 testing. Aid can provide equipment to keep medical workers safe. Aid can strengthen struggling government health systems. Aid can offer an economic safety-net as people struggle with the economic crisis. Aid can bolster government spending as governments struggle. While this is particularly true in the Pacific, Australian aid will also have a role to play in parts of Southeast Asia. There are reasons for concern that Australia's aid response will be inadequate: depleted expertise, a preoccupation with China, and membership of a community of donors that have not always responded to crises well. There are also reasons why these concerns may be overstated, as I have outlined. The quality of Australian aid will matter in coming years, but quality is not guaranteed. People who want Australian government aid to be both ethical and effective will have to monitor it very closely.

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