

**Submission to the Senate Foreign Affairs,
Defence and Trade References Committee**

**Inquiry into Australia's overseas aid and
development assistance program**

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Dr Benjamin Herscovitch
Research Fellow
The Centre for Independent Studies
PO Box 92
St Leonards
NSW 1590
Phone: +61 2 9438 4377
Email: bherschovitch@cis.org.au



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The arguments outlined in this submission to the Senate Foreign Affairs, Defence and Trade References Committee inquiry into Australia's overseas aid and development assistance program will be explored further in a forthcoming Centre for Independent Studies publication proposing reforms to Australia's Official Development Assistance (ODA) program.

Recommendations

1. That the strategic goals of Australia's ODA be amended to include the domestic policy reforms needed to enable economic growth in aid-recipient countries.
 - Addressing term of reference (a)
2. That Australia's ODA in Afghanistan be scaled back dramatically in light of increasing instability and violence and the absence of a viable long-term international commitment to security.
 - Addressing term of reference (b)

Recommendation 1

That the strategic goals of Australia's ODA be amended to include the domestic policy reforms needed to enable economic growth in aid-recipient countries.

In response to the *Independent Review of Aid Effectiveness* in 2011, the then Australian Agency for International Development (AusAID) acknowledged that aid is much less important for economic development than a country's domestic policies.¹ Despite this admission, domestic policy reform in aid-recipient countries does not feature among Australian ODA's five strategic goals: saving lives; promoting opportunities for all; achieving sustainable economic growth; improving governance; and providing humanitarian and disaster relief (see Appendix A).²

Given that Australian ODA's five strategic goals do not include necessary domestic policy reforms in aid-recipient countries, a sixth strategic goal should be added: providing the expertise required to redesign and restructure ineffective domestic policies, and thereby facilitate the reforms needed to enable economic growth. Including domestic policy reforms as a strategic goal would not only improve the effectiveness and efficiency of Australia's ODA and give taxpayers better value for money, but would also offer aid-recipient countries the best chance of achieving sustainable economic development and ending their dependence on overseas assistance.

The Australian aid program's fourth strategic goal touches on the need for domestic policy reform. Among other things, it calls for improvements to existing governance structures through better services and increased government efficiency and effectiveness. However, economic development often requires overhauling existing governance structures instead of simply improving their current performance.

Consider, for example, the dire need to reform landownership and management systems in many Pacific nations.³ Unless collectively owned communal land is privatised, many recipients of large sums of Australia's ODA in the Pacific, including Papua New Guinea and the Solomon Islands, will not develop the dynamic private sectors necessary to escape poverty (see Appendix B). Given that governance structures in developing nations often need to be reformed rather than made more efficient, the Australian aid program's five strategic goals should be supplemented with the goal of encouraging and facilitating the domestic policy reforms needed to enable economic growth.⁴

* As well as capping aid spending at \$5 billion (adjusted for inflation), the Coalition government has determined that AusAID will lose its status as an independent government agency and will be fully amalgamated with the Department of Foreign Affairs and Trade (DFAT). See Greg Sheridan, '[Rational approach to aid long overdue](#),' *The Australian* (21 September 2013); Michelle Grattan, '[DFAT secretary's tough message about AusAID integration](#),' *The Conversation* (3 November 2013).

Recommendation 2

That Australia's ODA in Afghanistan be scaled back dramatically in light of increasing instability and violence and the absence of a viable long-term international commitment to security.

Of Australia's ODA budget of approximately \$5 billion for 2013–14, vast sums will be funnelled to countries where dire security problems undermine the immediate benefits of development projects and jeopardise their long-term effectiveness (e.g. Afghanistan, Pakistan, Iraq, Palestinian Territories, etc.).⁵ In light of the connection between underdevelopment and poor security (i.e. aid is often most needed in unstable nations), it is unreasonable to expect Australia's ODA to be exclusively channelled to peaceful countries.⁶ However, the particularly precarious and deteriorating security environment in Afghanistan suggests that Australia's ODA will be used neither efficiently nor effectively there.

AusAID delivered more than \$700 million worth of ODA in Afghanistan between 2001 and 2013; another \$150 million was provided by other government departments.⁷ Despite the honourable efforts of AusAID and other government departments and agencies, the medium- to long-term benefits of this massive aid spending are likely to be derisory. Irrespective of the rights and wrongs of the coalition invasion of Afghanistan in 2001, it is now clear that the international community's post-invasion security and reconstruction strategies were poorly conceived and executed.⁸ With the drawdown of the International Security Assistance Force (ISAF) at the end of 2014, Afghanistan is likely to degenerate into either an 'indefinite stalemate' between the Afghan National Security Forces (ANSF) and the Afghan Taliban, or a slow collapse of the government in Kabul and an eventual return to Taliban rule.⁹ Given these conditions, Afghans and Australian taxpayers alike can expect a poor return on the \$131 million worth of aid that Australia will deliver in Afghanistan during financial year 2013–14.¹⁰

Of course, ODA should not be withheld from Afghanistan simply because there is no guarantee that it will successfully promote development.[†] However, with an emboldened Taliban set to control the south and east of the country by the beginning of 2015 and exert a destabilising effect across the rest of the war-torn nation, Australian efforts to improve human rights, educate women and girls, and increase literacy levels are likely to prove futile.¹¹ With endemic violence and an eventual return to Taliban rule plaguing Afghanistan in the absence of a viable long-term international commitment to security, Australia's ODA should be scaled back dramatically.¹²

[†] Such an overly exacting benchmark would arguably curtail all Australian ODA spending.

Appendix A: Australian ODA's five strategic goals¹³

1. Saving lives:
 - improving public health by increasing access to safe water and sanitation;
 - saving the lives of poor women and children by providing greater access to better maternal and child health services; and
 - supporting large-scale disease prevention, vaccination and treatment.

2. Promoting opportunities for all:
 - giving more children access to education;
 - empowering women to participate in the economy, leadership and education; and
 - enhancing the lives of people with disabilities.

3. Sustainable economic development:
 - ameliorating food security;
 - improving incomes, employment and enterprise opportunities; and
 - reducing the negative impacts of climate change and other environmental problems.

4. Effective governance:
 - improving governance to deliver better services, increase security, and enhance justice and human rights.

5. Humanitarian and disaster response:
 - providing more effective preparedness for and responses to disasters and crises.

Appendix B: Domestic policy reform and China's economic renaissance

Papua New Guinea and the Solomon Islands are endowed with massive reserves of valuable natural resources, such as timber, minerals, fishing stocks, and fertile agricultural land. Yet they have GDP per capita of approximately US\$2,200 and US\$1,800, respectively.¹⁴ For the Solomon Islands, that is barely US\$700 more than it was 20 years ago; for Papua New Guinea, the increase is less than US\$1,200 in the same period.¹⁵

This economic stagnation contrasts sharply with China's economic renaissance. During Mao Zedong's reign as Great Helmsman, China's economy was a sclerotic mess. Under the shackles of economic collectivisation and centralisation, GDP per capita stagnated at around US\$100 and millions of Chinese lacked the basic necessities of life.¹⁶ China's tentative steps towards economic liberalisation after Mao's death in 1976 marked the beginning of one of the greatest explosions of prosperity in history.¹⁷

The initial impetus for China's frenetic economic development was the de-collectivisation of agricultural production under Deng Xiaoping.¹⁸ Recognising that communal farming had mired China in famine and poverty, Deng gave official blessing to experiments with private family farming.¹⁹ Coupled with other liberal economic reforms, such as business-friendly special economic zones, the result was 35 years of uninterrupted economic expansion, during which annual economic growth rates averaged 10% and GDP per capita surged to more than US\$5,500.²⁰ In fewer than 40 years, 600 million Chinese were lifted out of poverty and the largest middle-class of any nation emerged.²¹ Propelled by cautious but consistent free-market reforms, China's economic resurgence continues: By 2050, China will be the source of nearly 20% of the world's middle-class consumption, and is predicted to boast by far the world's largest economy.²²

China does not owe this breakneck economic development to international aid or charity. Instead, it is primarily a product of domestic policy reforms that progressively accorded individuals more economic freedom. China's precise reform path since the 1970s may not be immediately applicable to Papua New Guinea and the Solomon Islands—vastly different developing nations with vastly different barriers to prosperity. But one lesson from China's spectacular economic rise is relevant: Domestic policy reforms, and especially land reform, must be a central plank of effective development.

Given Papua New Guinea's and the Solomon Islands' poor development outcomes—lower GDP per capita than more than 125 of the world's countries—and their location on Australia's doorstep, it is no surprise that they receive a massive chunk of Australia's aid spending.²³ In 2013–14 alone, they will together receive nearly \$540 million (more than 10% of Australia's annual ODA budget).²⁴ Notwithstanding the value of the roads,

hospitals and schools financed with Australian aid dollars, loosening the grip of the Wantok ('one talk') kinship system and reforming the related regime of collective landownership and management are prerequisites for prosperity in both nations.²⁵

Wantok arrangements can provide a valuable safety net by compelling the group to meet individual needs and provide collective economic and physical security.²⁶ However, they also foster a culture of clientelism that sees elected representatives and officials pursue the narrow interests of their communal group at the expense of society-at-large.²⁷ By leaving political systems in the grip of patronage, Wantokism breeds corruption and makes it harder to instigate necessary reforms, which in turn has a corrosive effect on economic growth.²⁸

The commercial incentive that leads to business creation and underpins economic growth is also severely undermined by a system of collective landownership and management that impedes the sale of land and bars individuals from profiting from their efforts to add value to property.²⁹ As in pre-Deng China, collective landownership and management stymies the efficient use of private property by stifling individual entrepreneurship: The incentive to develop and efficiently use property quickly evaporates if it is impossible to profit from it individually.³⁰ Domestic policy reforms, such as overhauling collective landownership and modifying the Wantok kinship system, will therefore be essential for nations like Papua New Guinea and the Solomon Islands to achieve economic self-reliance.

Background: The Centre for Independent Studies

The Centre for Independent Studies (CIS) is Australasia's leading independent public policy think-tank. Founded in 1976, our work is informed by a commitment to the principles underpinning a free and open society:

- individual liberty and choice, including freedom of association, religion, speech and the right to property;
- an economy based on free markets;
- democratic government under the rule of law; and
- an autonomous and free civil society.

CIS research covers a wide range of social, economic and foreign policy issues affecting Australia and its region. With its funding derived from donations from individuals, companies and charitable trusts, as well as subscriptions and book sales, the CIS prides itself on being independent and non-partisan.

'Independent' in our name means:

- we are non-partisan;
- our research is not directed by our supporters; and
- we are financially independent of government.

Endnotes

- ¹ AusAID, [An Effective Aid Program for Australia: Making a Real Difference—Delivering Real Results](#) (Canberra: Commonwealth of Australia, 2012), 13–14. See also AusAID, [Independent Review of Aid Effectiveness](#) (Barton: Commonwealth of Australia, 2011).
- ² AusAID, [An Effective Aid Program for Australia](#), as above, 4.
- ³ Helen Hughes, [The Pacific is Viable!](#) Issue Analysis 53 (Sydney: The Centre for Independent Studies, 2004), 1, 4.
- ⁴ AusAID, [Helping the World's Poor Through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16](#) (Canberra: Commonwealth of Australia, May 2012), 7.
- ⁵ 'Five billion dollar aid budget to focus on the region,' <http://aid.dfat.gov.au/publications/Pages/five-billion-dollar-aid-budget-to-focus-on-the-region.aspx>.
- ⁶ Oxfam, [Whose Aid Is It Anyway?: Politicizing Aid In Conflicts And Crises](#) (Oxford: Oxfam International, February 2011), 8.
- ⁷ 'Afghanistan,' www.ausaid.gov.au/countries/southasia/afghanistan/Pages/home.aspx.
- ⁸ See, for example, Kenneth Katzman, [Afghanistan: Post-Taliban Governance, Security, and U.S. Policy](#) (Congressional Research Service, 23 October 2013); Stephen Biddle, [Ending the War in Afghanistan](#), *Foreign Affairs* (September/October 2013); Jayshree Bajoria and Zachary Laub, [The Taliban in Afghanistan](#), *Council on Foreign Relations* (6 August 2013); Charles Krauthammer, [Obama expended blood on Afghan war, but no political capital](#), *The Australian Financial Review* (18 January 2014).
- ⁹ Stephen Biddle, [Ending the War in Afghanistan](#), as above; Jayshree Bajoria and Zachary Laub, [The Taliban in Afghanistan](#), as above.
- ¹⁰ 'Five billion dollar aid budget to focus on the region,' as above.
- ¹¹ Jayshree Bajoria and Zachary Laub, [The Taliban in Afghanistan](#), as above; AusAID, [AusAID Annual Report: 2012–13](#) (Canberra: Commonwealth of Australia, 2013), 114–119.
- ¹² AusAID, [An Effective Aid Program for Australia](#), as above, 4.
- ¹³ As above.
- ¹⁴ The World Bank, 'Data,' <http://data.worldbank.org/>.
- ¹⁵ As above.
- ¹⁶ As above.
- ¹⁷ Cary Huang, [Party Central Committee's third plenum raises reform expectations](#), *South China Morning Post* (14 October 2013).
- ¹⁸ Paul R. Gregory and Kate Zhou, [How China Won and Russia Lost](#), *Policy Review* 158 (1 December 2009).
- ¹⁹ As above.
- ²⁰ The World Bank, 'Data,' as above.
- ²¹ Toh Han Shih, [China's formula to reduce poverty could help developing nations](#), *South China Morning Post* (29 March 2013).
- ²² Homi Kharas, [The Emerging Middle Class in Developing Countries](#) (Paris: OECD Development Centre, January 2010), 29; Karen Ward and Frederic Neumann, [Consumer in 2050: The Rise of the EM Middle Class](#) (London: HSBC Bank, 15 October 2012), 29; [India to surpass China, will become world's largest economy by 2050: Report](#), *The Economic Times* (28 March 2012).
- ²³ The World Bank, 'Data,' as above.
- ²⁴ 'Five billion dollar aid budget to focus on the region,' as above.
- ²⁵ AusAID, [AusAID Annual Report: 2012–13](#), as above, 40–51.
- ²⁶ Gordon Leua Nanau, 'The Wantok System as a Socio-economic and Political Network in Melanesia,' *The Journal of Multicultural Society* 2:1 (2011), 32, 35, 42.
- ²⁷ As above, 50.
- ²⁸ Helen Hughes, [The Pacific is Viable!](#), as above, 5.
- ²⁹ As above, 4.
- ³⁰ Paul R. Gregory and Kate Zhou, [How China Won and Russia Lost](#), as above.