

"Australia, where the bloody hell are you?"

Preface

This JSCFADT inquiry is assessing Australia's international development cooperation within a substantially altered set of strategic circumstances. While it has been tasked to look at what has been achieved in the government's priority areas of trade, gender and innovation, a much bigger set of issues is also included in the terms of reference. These invite reflections on where development fits in terms of Australia's strategic goals; in the intersection between our reputation as a trusted partner and the influence we can generate; and how can we work locally to deliver sustainable gains that bolster our reputation and standing. This submission concentrates on those issues.

Introduction

"Rich, strong and afraid of the world" is the way Damien Cave of the New York Times recently characterised Australia's international stance (NYT, 9/5/18). That might be an overstatement, but Australians who talk regularly with overseas decision makers know that friends and allies, as well as Asia-Pacific neighbours are perplexed by what many see as Australia's international retreat. That alone erodes our reputation and influence.

Australia has taken numerous measures in recent times to better protect itself from both conventional and emerging threats. The defence budget has been boosted significantly; there are new powers, programs and resources for our intelligence efforts and also beefed-up border and homeland security. All of that is appropriate and necessary.

However, without countervailing measures, those efforts may distort how we are seen and even more importantly, how we see ourselves. We must not define the outside world primarily in terms of threats to be kept out, rather opportunities to be pursued and risks to be managed. Turning our back on the world, even unintentionally, would be ruinous. We must avoid a self-imposed siege.

There are three key reasons why Australia has not had a recession in over 27 years - all involve Australia becoming more integrated into global economic activity. Firstly, economic reforms in the Hawke/Keating and early Howard/Costello era opened up our economy and plugged it into global markets and supply chains. Secondly, high migration added millions of skilled workers to the labour force and expanded small domestic markets. Thirdly, the long boom in East Asian development, particularly in China, has fuelled huge growth in demand for our exports, first of Australian primary produce, but now increasingly of services.

Building community support for the policies, programs and expenditure that underpinned each of those factors was core business across government - year in, year out. It was not subcontracted to think tanks, nor seen as the responsibility of NGOs. Budget processes were tough and rigorous, but also supported government-wide efforts to internationalise our economy and our society. We need to get back to the future.

Recognising development drivers - and risks

Today we risk forgetting why we are wealthy - and why this has been the most successful half century of human development in world history. Our success isn't just down to our own hard work and ingenuity, important as these are - and it certainly isn't due to increased self-reliance. It is a result of the choices we and others have made to be part of an integrating, ordered world, that provides opportunity and moderates power. We geared ourselves for that domestically by improving our competitiveness, infrastructure, education and skills and gave it strong support internationally through institution building in APEC, the G20 and the East Asia Summit.

However reducing the story line just to free trade would be a mistake. The market economics and trade and investment liberalisation that we championed through bodies like the Cairns Group and the WTO were embedded in an implicit global social compact often advanced in the UN that acknowledged increased solidarity between states and also between peoples. It also marked and a changed relationship between the two. The promise was not only prosperity, but also additional liberty from oppressive forces, whether abject poverty, military government or crony capitalism.

Regional cooperation and integration

In this development era, states like Australia worked hard to help their neighbours reap the benefits of openness and integration. In the Greater Mekong Subregion, we built the first bridges over the Mekong River, linking Thailand and Laos and isolated parts of Vietnam. We worked with the Asian Development Bank to help countries make the most of trade boosting, integrated transport and communications. Consequently, countries that had a long history of war and mutual suspicion came to see the practical payoffs of peaceful cooperation. They also came to see Australia as a heavily invested partner and stakeholder in regional development. That is a diplomatic asset we have allowed to depreciate deeply.

Democratisation ... under threat

While regional economic cooperation and integration have greatly expanded, so too - until recently - had democratic governance. Fitfully, over the last fifty years with a lot of encouragement and support, transparency and democratic decision-making advanced. No where more so than in Indonesia where former President Yudhoyono deftly moved the military out of the parliament and back to the barracks. As he did so, Australia was there, working very closely with his economic team to help make big reforms feasible, sustainable and inclusive. And to extend his signature community development policy initiative (PNPM) into every village in the country - providing local infrastructure, improving village administration and giving voice to women.

John Howard seized the political moment after the 2004 Indian Ocean tsunami and then AusAID and DFAT delivered a strategic development program of great quality and impact that brought our nations closer together. This is what development cooperation can do when well resourced, well led and with strong strategic intent.

More broadly our assistance has helped reforming governments throughout the region legitimise democratic government by improving governance and service delivery. The gains it has made in recent decades were not inevitable - nor are they irreversible. Autocracy is posing a very strong counter attack and is increasingly attractive to governments seeking to concentrate power - whether in Thailand, Cambodia or the Philippines. In Indonesia too there is an on going political struggle between modernisers who are largely in favour of openness and tolerance and others who are not.

Perhaps most worryingly, autocracy enjoys the growing support of many citizens who see a democratic alternative that appears weak, slow and indecisive on the one hand - and erratic and unreliable on the other. Our job in the West is to get our own affairs in order and to return to the task of promoting the systems, policies and governance that have delivered greater advances in human well-being than ever before. This is particularly true now that leading nations have retreated from that task. We must be particularly wary of the cause of openness being appropriated by those for whom it applies only to trade and even then, incompletely. We must be the champions others will not, or cannot be.

As we seek to advance this agenda we need to be very conscious that the space for civil society is markedly contracting throughout the region, with community organisations subject to much greater restrictions, monitoring and registration. This should greatly concern countries like Australia, but there is little evidence of concerted attempts to redress it beyond bilateral dialogue. Entirely new approaches are needed. The intensely adversarial nature of NGO-state relations needs to be reconstructed in ways that each can stay true to their roles, but enhance the work of the other.

Malaysia: challenge - and opportunity

The newest test case for good governance is Malaysia. It poses us several challenges, not least because our relations have sometimes been fractious and the new government feels we ought to have been more active previously in resisting the concentration of power. Malaysia is not a poor country, but remaking state institutions as independent, neutral and transparent bodies will be demanding. Malaysia's transition will shape not only its future prosperity, but also thinking in the region and beyond about the best forms of government and the best policies. Could we re-craft the way we work to offer useful, politically acceptable assistance to support this process?

Malaysia and Thailand present situations that should encourage us to rethink old aid 'graduation' policies that restrict us from using development cooperation in countries that have reached specific income thresholds. That mind-set wrongly assumes development is linear and purely income-determined. It sees aid as welfare that must be tightly targeted rather than cooperation that should be cleverly applied. We need to replace this crude approach to allow us to devote relatively small amounts of money to undertake knowledge creation, capacity building and institutional strengthening where it

is needed for development. In this way we can be helpful and influential, while underlining our reputation as a valuable partner.

The Nargis example

We have powerful examples of working differently. When Cyclone Nargis hit Myanmar in 2008 the military government was very reluctant to receive outside assistance, particularly from its critics. Australia saw the opportunity to assist ASEAN play a leading humanitarian coordination role that bit-by-bit helped open the gates to others. This strategic support allowed ASEAN to adopt an unusually proactive role and earned the quiet, but unstinting praise of Secretary General, Surin Pitsuwan.

More importantly still, it led to local and international effort combining to create new possibilities in Myanmar that helped nudge the government towards serious political reform. Our quiet efforts helped loosen one of the bolts that kept the military regime in place. This is what smart development cooperation can do. We must do more.

Where does international cooperation sit in a 'realist' universe?

While the value and results of international cooperation can be easily overstated, they can also be gravely underappreciated. Intense, decades-long international efforts to address human rights issues, environmental problems, gender and poverty have helped shape thinking and behaviours and more importantly still, reinforced a global modus operandi of international cooperation. When we talk of the 'rules-based order' we often forget that it is bigger than security and economic cooperation, paramount as these may be. Agreements here rest on and are advanced by a much broader base of cooperation that is now eroding.

Of course, in a rules-based system with multilateral anchor points, nation states still pursue their own interests, sometimes aggressively. They sign up to agreements half-heartedly. Rules are bent and not infrequently broken. Lip service is paid on many issues. But notions, norms and the practice of cooperation are instilled and confidence and trust built. In this system, small and medium states have many opportunities to state their case, band together for influence and successfully resist the most powerful.

This global enabling environment for our progress, prosperity and security - and that of our neighbours - is weakening and not just because of a shift in the balance of power. When a global leader repudiates alliances, reneges on negotiated agreements, rejects fundamental principles, policies and values, strategic calculations alter everywhere. Unilateralism is empowered, autocracy is emboldened, human rights become optional and cooperation is for losers.

A system where hegemony dominates and others must fall in line will significantly disadvantage most countries in the world, including Australia. That is especially so if the

new regime that prevails has little place for impartial legal systems, enforceable property rights, independent media and freedom of speech, association and assembly.

Some ask what difference a region without America will make? Perhaps it is more useful to consider what difference there will be if our shared values are displaced. It is the potential end of these norms that we now take for granted. Without them we will find doing business and interacting in all its forms much more difficult. Bigger and better defence forces cannot win this battle - it requires ideas, values, and vision. Persuasive power, projected through cooperation.

Defending the international system

It is quite inadequate for us to merely mouth liberal values and exhort their virtues. Our national interests require us to work intensely with our neighbours to embed them. This is the stuff of development cooperation - also, unfortunately, known as 'aid'. It is unfortunate because we misunderstand aid to be charity and are blind to its national interest dividends. Nowhere has this misjudgement been more evident or important than in Asia, where we have cut development assistance by around 40%, precisely when the threat to the current international system has substantially increased. When it comes to development our strategy must not be, nor appear to be "Exit Asia".

China - cooperation and contest

Disruption of the existing order is amplified by one of its causes - the seemingly inexorable rise of China and how we respond to it. As Michael Wesley recently noted (*The Pivot to Chaos: Australia, Asia and the president without a plan*, Australian Foreign Affairs, February 2018), all around Asia eyes have turned north and talk has shifted to how to manage relations with Beijing. There is both awe and apprehension. Pride in the re-emergence of an Asian global power, admiration for its progress and the model that has delivered it and a desire to hedge against domination.

Here as well as abroad, the public sees the changes in the balance of power and the structure of alliances and demands defensive measures. That is quite appropriate, but it is nowhere near enough to fully advance our interests. We must engage with China, accommodate its legitimate interests where they represent little threat and resist specific policies and actions where they damage our interests. And we need to work intensely with others to this end. Development cooperation allows us to do just this, in practical ways that develop deep contacts and trust, particularly between officials.

Australian policy and practice

The existing system of international cooperation has suffered from inadequate Australian maintenance in recent times, as well as from measures that have unintentionally undermined it. The current government is to be praised for the Foreign Affairs White Paper; a higher level of diplomatic, defence and development investment in the Pacific; and efforts to defend the international trading system. In addition, the new Colombo Plan has modestly helped improve regional people-to-people linkages.

Unfortunately, after many years of distraction in misguided wars in Central Asia and the Middle East, and a completely disproportionate downsizing of our development cooperation, this is just not enough. Staging the ASEAN-Australia Special Summit was a laudable achievement. However, few of our neighbours, bar Indonesia, experience regular, intensive, bilaterally focussed ministerial and head of government visits (except during crises). South East Asia needs to return to centre stage in our diplomacy.

Where to on development cooperation?

The international aid system is obsolete and decaying. It is not fit for purpose, to maximise development; unashamedly champion the policies and investments that will deliver it; or to support farsighted diplomacy. There are numerous examples of great programs, strong relationships and positive influencing, but the system as a whole is out-dated, structured around provider preferences and configured to minimise risk, not maximise results.

If we are to make the most of the considerable opportunities provided through development cooperation we would need to thoroughly renovate our approaches. We are not currently at a point where this is possible, so we need to proceed in a series of steps that will at least take us forward. The following five measures are critical.

Key areas for reform

1. Expand Australia's international cooperation by rebuilding the development budget on national interest grounds

When Tony Abbott's big aid cuts were first made in the 2014-15 budget, Australia was still below John Howard's ODA scale-up target of 0.35% of GNI. Since then, every year has brought a further reversal in real terms and as a proportion of our national income. From a peak position of 8th out of 30 in the league ladder, we are approaching the bottom third of ODA providers ranked by economic size. Italy and Ireland, outrank us, as does New Zealand. Australia should not take comfort from the fact that we remain ahead of Portugal and Poland.

The volume of money is not itself the key issue - though a third less in real terms makes a big difference in what we can do. The continuation of rolling cuts highlights a damaging disdain for regional development that stands out internationally and makes us look selfish and short sighted. It also plays havoc with the plans and budgets of partners.

Development risks in our region have risen significantly alongside growing international tensions, economic imbalances and the rising prospects of arms races and trade wars. With a vacuum in international leadership, national governments have incentives to assert themselves aggressively in disputes and local elites have more reason and opportunity to obstruct needed reforms and restrict socio-economic opportunity. Australia will be amongst the hardest hit if nationalistic, beggar-thy-neighbour policies become the norm. We should be at the forefront of efforts to forestall that.

2. Devote more serious policy time and resources to working with South East Asian countries

Important as the Pacific is, our interests are bigger and broader. The fate of all of the states of Oceania will ultimately be determined by what happens in Asia. Asian development is far from complete. Most countries have incomes per head a tenth of Australia's or less and 90% of the region lives on less than US \$10 a day.

Several countries including Indonesia, Vietnam and the Philippines are now trying to negotiate the "middle-income trap" and can make very effective use of well-designed technical assistance that addresses their top priorities. We should aim to be the bilateral partner who knows more about these issues and can add greater value than any other.

With most bilateral partners scaling back development cooperation in Asia there is a significant strategic opportunity for Australia to step into the breach. By responding to this gap, Australia can not only maximise South East Asian development, but also be a trusted partner of choice. To achieve this the Australian approach must change.

Government members have said that Asian countries do not want aid and do not need it. That is no doubt true in regards to clumsy old style aid projects or budget financing for middle income countries, but the need and demand for nimble, fast, highly-expert technical assistance is very high and offers us great opportunities.

3. Become a reliable, expert partner, supporting local priorities and leadership

Until recently OECD countries providing development assistance held the upper hand. They decided what is to be done, by whom and how. In a world where the Gates Foundation is the biggest supplier of international health assistance; the United Arab Emirates is providing a \$100m grant to the Global Education Partnership; and China has a reported \$42bn in play in the Greater Mekong Subregion, that can't hold. Old paternalistic models must go.

For development cooperation to be highly useful, valued and influential it needs to become much more customer focussed - better products, provided faster, cheaper and with fewer unnecessary conditions. Former World Bank Economist, Lant Pritchett, doubts aid providers are capable of this (*Can Rich Countries be Reliable Partners for National Development*, Centre for Global Development, February 2015). He points to a growing mismatch between the 'post-material goals' of rich country populations and the desire of poorer people and their governments for the growth, jobs, roads and power that are necessary for material progress.

So, if we are serious, we have to put our own preferences to one side and sidestep the latest development fads. We also need different modalities to be as useful as possible to our partners. In particular, we should stop preparing highly complex, intricate project designs, contracted out and then micro-managed by inexperienced Australian bureaucrats.

The better alternative is to have skilled Australian and developing country officials working together on an ongoing basis to bring world-class expertise from many sources to bear on priority problems. Expert Australian officials should be much more directly engaged in activity delivery and in the process build enduring relationships.

There have been Australian experiments with such models including in Indonesia, the Philippines and Timor-Leste. Getting the pre-requisites right is not easy, but when it happens the results can be better than most alternative methods. DFAT's Innovation Exchange has pioneered some new approaches, but a standing 'design clinic' that focuses on how to shape activities for enduring impact is warranted.

4. Improve departmental capability in development - enhance systems and skills

Managing development cooperation may be a job that can be done adequately by generalists - though even in administration, large risks accrue if scarce project management skills are absent. More important still in terms of maximising impact and influence are the knowledge and specialist skills to deliver highly valuable assistance.

There must be sufficient expertise at headquarters for policy and planning purposes and in the countries that matter most to us in Asia and the Pacific, globally recognised expertise at posts and smart, capable and empowered local staff. Developing relationships of respect, trust and influence requires deep reservoirs of expertise.

Surveys of external stakeholders have pointed to a deterioration in DFAT's skills and capacity and departmental officers have reported difficulty in filling dedicated positions. The Department knows that it has a capability problem at multiple levels and has recently developed a plan to address its skill needs. It is much too early to tell whether that plan will be adequate, but it needs to be monitored very closely.

DFAT cannot fully determine its skills needs until and unless it defines more clearly where development sits in the department's priorities and how it will be pursued. This requires a more rigorous approach to policy and organisational structure. Ultimately DFAT should arrive at a point where it is committed to being a global development thought leader with deep expertise in perhaps half-a-dozen areas. It can already claim the mantle in regards to small states - and should follow suit in terms of Asian middle-income country development. This in turn should drive what sectoral expertise is required.

5. Create a dedicated DFAT development group, equipped and empowered to drive high performance in line with a new international development policy

The path to influence through our development programs is to improve their quality, impact and targeting so that we deliver maximum value for our partners. This is the opposite of treating aid as largesse to be doled out according to whim.

Integration ups the ante. It requires us to think beyond aid to how diplomacy, international policy and development cooperation can be most artfully combined for impact. This necessitates having very strong development thinking capacity and mechanisms to deliver coherent approaches consistently. It is not clear that the department as presently configured is organised to this end.

The development policy area of DFAT needs wider and clearer responsibilities to coordinate departmental policy and activity beyond aid in pursuit of regional development. It also needs the authority and mechanisms to achieve this. This will be challenging as many of the relevant programs, policies and actions are vested in geographic, policy and corporate areas. Creating viable structures that will work in the DAFT culture will not necessarily be easy. Ideally resolution of these issues would be part of a bigger project of ensuring the department is best equipped and organised for the new challenges Australian diplomacy is facing.

An obvious starting point would be for the government to produce an integrated development policy in which aid is one of many tools. A stand-alone aid policy is anomalous in an integrated department. Producing a development policy would require further work on how different strands of diplomacy and international relations should be brought together, how policy coherence will be achieved, what coordination mechanisms are required and what will drive decision making. It would be an important tool for getting the most from our development efforts.

Conclusion

At this moment of great uncertainty in international affairs, Australia should recommit to the very things that have made us the envy of much of the world - to openness and inclusion, a mixed market economy that offers opportunity to all and protects the vulnerable - and to a robust and enlarging democracy.

We should take confidence from our own success and be a louder voice and a more active actor in support of openness, tolerance, reason and respect. Failure to do so will not only lead to further erosion of the international system that we rely on, but will also create a debilitating dissonance between our self image and our behaviour.

In a crowded, competitive landscape, we can distinguish ourselves as a champion of Asian and Pacific cooperation. By working with our neighbours as equals and supporting their development we can position ourselves for maximum impact and influence. By re-expressing and amplifying our own values in these ways we will bolster regional success and best serve our interests in the process.

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