

CHAPTER 7

AID AND ASSISTANCE TO THE INDIAN OCEAN REGION

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The Indian Ocean region is characterised by the number of littoral states which have underdeveloped economies and great disparities in both national and personal incomes. There are nations such as Australia and South Africa which have developed economies and others such as the oil rich Middle East States but generally the bulk of the region's littoral is composed of aid and development assistance recipient nations. The aid and assistance donors are, apart from Australia and the OPEC nations, from without the region.

### Australia

Australia has an ambition of achieving an allocation of 0.7% of its Gross National Product for disbursement as overseas development assistance. The Organisation for Economic Co-operation and Development set this target for its member countries and their figure at present is approximated at 0.36%. Australia, as pointed out by the Minister for Foreign Affairs in September 1976, is giving approximately 0.5% of the GNP in overseas aid. The Minister stated that Australia is reviewing its aid programs which are tied to internal economic factors and subject to the growth of the economy.

Australian aid is given on a bilateral and multilateral basis. The main avenue for bilateral aid to South and South East Asia is the Colombo Plan and for East African Commonwealth countries it is the Special Commonwealth African Assistance Plan. Some multilateral aid to the South Asian and South East Asian

countries in the Indian Ocean region is directed through Australia's membership of the Asian Development Bank, a contribution of \$A30 million over three years. In addition Australia committed \$A5 million to ASEAN supported economic development projects. Australia also contributes to other regional agencies such as the Economic and Social Commission for Asia and the Pacific (ESCAP) and the South East Asian Ministers for Education Organisation (SEAMEO).

As a contributing member to other international organisations and programs Australia's aid is applied to the Indian Ocean region, indirectly. Within the United Nations Australia contributes to its major organisations such as UNDP, UNICEF and UNHCR which have assistance programs in the region. Other Australian contributions go to the World Food Program, the FAO International Fertiliser Supply Scheme, the International Labor Organisation and the World Bank Group comprising of the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation. For the 1976-77 period Australia has allocated \$A61.3 million for multilateral aid, 15% of total overseas development aid and a 37% increase over the 1975-76 multilateral expenditure. The net allocation for Australia's official overseas development assistance in 1976-77 is \$A398,504,000.

Bilateral aid continues to be the cornerstone of Australia's aid program. Excluding Papua and New Guinea it is estimated that the 1976-77 bilateral aid expenditure will be \$A110.87 million with Indonesia as the principal recipient of Australian aid. The Australian Government in April 1976 pledged

a total of \$86 million in aid to Indonesia over a period of three years to June 1979. South East Asia continues to receive the bulk of the remainder of Australia's bilateral aid along with South Asia and a number of developing African countries. Aid is given in the form of food aid, bilateral projects, technical assistance and training for students in home countries and Australian training institutions. A breakdown of bilateral Australian aid to the Indian Ocean region for the period 1972-73 - 1974-75 appears in Appendix B. The number of Australian sponsored overseas students and trainees in Australia in 1974-75 from the Indian Ocean littoral is shown in Appendix C.

Historically Australian aid to the Indian Ocean region has been concentrated on South East Asia and South Asia with minor contributions to East African littoral states. Australia's proximity to our immediate north and the desire to see this area stable and developing should not preclude aid initiatives by Australia in other areas of the littoral over and above the token amounts that are presently made available. There exist on the East African coastline and in the Indian Ocean newly independent nations in need of development assistance and prepared to accept it from any quarter. Australia should, in its own interests and in the interests of regional stability, play a more active role in developing not only aid but better and less restrictive trade relations with these nations. It has become evident that it is not the amount of aid that can have the most significant impact on relations between donor and recipient countries but rather the type of aid and how it is applied. The Committee has heard evidence of the success of

modest Australian technical assistance given to meet a specific need or to complement an on-going project. This has resulted in more mutual benefit than straight out cash grants or gifts of goods and equipment given for no pre-determined reason or for an ill conceived purpose. Aid in the form of grants is not always the most effective and may never be used for what it was intended, often aid in the form of long term soft interest loans can be more effective if the undertaking for which the loan is intended has been appraised and on-going assistance is maintained on a consultative basis.

It has become obvious that the scale of aid is not necessarily the most important factor and where multilateral aid is somewhat impersonal, bilateral aid even on a modest scale can have immediate and tangible benefits and be well received.

The Committee has heard from representatives of recipient countries very appreciative reports on the effectiveness of small scale projects at the village or job site level where assistance and training are combined, catering for an existing need. Wherever possible Australian aid should seek to provide assistance in the fields where we have the expertise e.g. technical training, agriculture and animal husbandry, and we should also have the flexibility to redirect our type of aid if priorities alter in recipient countries. Australia can continue to broaden its aid potential through trade aid, namely by keeping under review tariff levels and restrictive quotas which may stifle trade with underdeveloped countries. While this trade may not be significant by Australian standards it can be of considerable benefit to less developed countries and the returns

to Australia more worthwhile than the monetary concessions we would make. Australia's overseas aid initiatives will make their most effective contribution by assisting the promotion of sound technology and expertise appropriate to needs in less developed countries, in so doing we help these countries in their progression to balanced and viable economies. The resulting benefits will lead to greater stability around the littoral and strengthen the prospects towards long term peaceful development.

#### United States

The United States Agency for International Development (AID) is responsible for the distribution of most US aid to the Indian Ocean region. The region in 1974 received approximately 17% of the total US bilateral official development assistance amounting to \$US486.72 million. South Asia accounted for about 70% of this aid with Bangladesh receiving 27%, India 21% and Pakistan 21%. East Africa and South East Asia received 14% each. Aid in grant form amounted to 40% and loans 60% and the loans contained a grant element of 68% giving a total grant component of 88% for US official development assistance in the Indian Ocean region.

US aid is directed into "development assistance programs" conducted by AID and PL 480 food aid (Public Law No. 480, the Agricultural Trade, Development and Assistance Act 1954). The AID programs give priority to food production and nutrition, population planning and health, education and human resources. The PL 480 food aid is used to make foodstuffs available to food deficit countries through a system of sales and donations. The program is directed towards needy countries although recent balance of payments support has gone to developing countries. When relations deteriorated between the US and India in 1975 aid was limited to the PL 480 form.

In the Indian Ocean region the major recipient of US aid in recent years has been Bangladesh, followed by Pakistan and India. In Eastern Africa it has been Ethiopia, Kenya and Tanzania. Indonesia has been the recipient of the most US aid in South East Asia, although the amounts have declined since Indonesia's oil sales earnings increased.

### Japan

Japanese bilateral official development assistance to the Indian Ocean region in 1974 amounted to \$US889.24 million or 54% of its total bilateral aid. It is significant that aid to Indonesia increased and was directed in loan form for petroleum related activities. Japanese bilateral aid is mainly in loan form with an overall grant element of 58% in the region. In 1974 South East Asia was the recipient of 75% of Japan's aid to the region with Indonesia receiving 44% of that allocation, yet in 1973 South East Asia received less than half of Japan's bilateral aid. It may be expected that with the experience of the

1973 oil crisis Japanese aid could be directed increasingly to the Middle East and the East African littoral states.

By 1974 project assistance accounted for 80% of total Japanese bilateral aid and most of that was used for the development of public works, mining, industry and construction. The major recipients of Japanese aid in the South East Asian littoral of the Indian Ocean are Indonesia, Thailand and Malaysia. In South Asia, India, Bangladesh and Pakistan. In the East African littoral states Ethiopia, Tanzania and Kenya but East Africa's allocation in 1974 amounted to less than 2% of the regional total.

#### Soviet Union

The Soviet Union's aid program is almost entirely bilateral and is predominantly composed of long term soft loans bearing around 2.5% interest. Trade credits are another form of assistance. While grants are not a significant feature of aid to non-communist countries, they make up a substantial amount of the aid given to communist countries. Soviet aid concentrates on industry, energy and transport with technical assistance provided for capital projects. Grants are for relief aid, education and medicine. The aid is tied to procurement and expert services from the Soviet Union. Loan agreements do not stipulate a grace period which depends not on the commitment date, but on the actual disbursement of funds.

In the Indian Ocean region India and Bangladesh have been the largest recipients of net disbursements of aid in the period 1972-74 receiving \$US184 million and \$US65 million



respectively. However in 1973 it is of interest to note that net disbursements of aid by the Soviet Union for the Indian Ocean region in 1973 amounted to -\$US37.1 million showing that recipients repayed a greater amount in principal and interest than was disbursed, yet the commitment for the same year was \$US600 million, exclusively to India and Pakistan. After a period of relative inactivity in South East Asia as an aid donor, the Soviet Union has agreed to aid Indonesia with the development of power plants and a bauxite project amounting to \$US100 million and \$US300 million respectively.

### China

Chinese bilateral aid differs from that of the Soviet Union in that it is almost exclusively in the form of grants and interest free long term loans. Where 90% of the Soviet Union's aid is tied to projects only around half of Chinese aid to non-communist countries is tied to project assistance. This proportion increases to two thirds if commodity assistance which is used to finance local project costs, is included. The remaining proportion of Chinese aid is used for budget support, relief assistance and for covering trade deficits with China.

In African countries typical Chinese aid projects are pilot farms and small-scale light industrial plants, although in Tanzania the Chinese built Tanzam railway is one of the major construction projects in Africa. The Chinese use large numbers of Chinese workers on their projects as well as local workers all existing under the same living conditions and using little modern technology. In Asian countries Chinese aid projects tend

to concentrate on road construction and the building of power stations. In 1973 total Chinese net disbursements of aid to the Indian Ocean region amounted to \$US107.2 million with South Asia receiving \$US46.5 million and East Africa \$US60.7 million. In 1975 Pakistan was the principal recipient of Chinese loans and grants, receiving \$US45.0 million. Somalia received \$US30.0 million and Tanzania \$US35.0 million. Allocations of \$US5.0 million or less were received by Burma, Sri Lanka and the People's Democratic Republic of the Yemen.

In general Chinese bilateral aid has decreased since 1973 and especially notable is the reduction of aid to Vietnam which since 1970 had consistently been the highest recipient. The completion of the Tanzam railway will probably mean a reduction of aid to that country. The total amount of Chinese aid has reduced from \$US426 million in 1974 to \$US379 million in 1975 and could serve as an indicator to an overall slowing down of the Chinese aid program.

### East European

Aid from East European countries follows a similar disbursement pattern to Soviet aid, it is almost entirely bilateral and directed to industrial and energy development projects. Both tend to give assistance to establishing export oriented undertakings especially where the production is for export to the donor countries. Aid to the least developed nations is concentrated on upgrading human resources and infrastructure with emphasis on agriculture and communications. East European aid is also tied to procurement and expert services from the donor countries.

In 1973 East European bilateral aid commitments to the Indian Ocean region totalled \$US185 million with India and Bangladesh the main recipients. In that same year net disbursements to the region amounted to \$US19.3 million, mainly to Bangladesh while East Africa received \$US0.9 million.

#### Canada

Canada has a bilateral aid program which concentrates on giving assistance throughout the entire developing world and the Indian Ocean littoral nations thereby receive approximately 63% of Canada's total bilateral contributions. Distribution is determined by need, consequently South Asian nations are large recipients. There is an above average concentration on agricultural development with Canadian aid programs.

#### West Germany

German aid programs are directed towards industrial development. The Indian Ocean region receives approximately one third of Germany's bilateral aid disbursements, directed mainly to South Asia and Indonesia.

#### United Kingdom

In contrast to the Canadian aid program the U.K. concentrates on giving assistance to Commonwealth countries and those in the Indian Ocean region receive around one half of the total U.K. bilateral aid commitment. India is the main recipient followed by Pakistan, Bangladesh, South East Asian countries, Kenya, the Seychelles and Mauritius.

## France

French aid is directed to assisting former colonies and the Indian Ocean region receives less than 10% of its total bilateral aid. Most former French colonies are situated on the West African coast.

## Scandinavia

The Indian Ocean region receives approximately one half of total aid contributions from Scandinavian countries. Their aid programs in the region concentrate on India, Bangladesh and Tanzania, little is directed to South East Asia. The aid emphasis is on social welfare and agriculture.

## Netherlands

The Netherlands directs one half of its bilateral aid to the Indian Ocean region. Indonesia with its former colonial ties is the main recipient, others are India, Pakistan and Bangladesh.

## Italy

Italian aid to the Indian Ocean region is balanced by the recipients repaying previous Italian loans.

## OPEC Countries

The increased earnings from higher oil prices in recent years have enabled the OPEC group of countries to become aid

donors. Their contributions are concentrated mainly on Arab and Moslem nations although Iraq and Iran have given assistance to India. Pakistan and Bangladesh are major recipients while in East Africa Somalia is the major recipient.

### Regional Development Organisations

There is considerable scope for the establishment of regional development organisations within the Indian Ocean littoral. Such organisations comprising of regional member countries with local contributions and mulilateral contributions from non-regional countries can initiate and administer aid programs and development projects in member countries. The work of such organisations in member countries is often better received by the recipient and is also less offensive to national pride than a donor-recipient form of aid can be in certain circumstances.

The success of the Asian Development Bank in such undertakings is a prime example of how multilateral aid can be effectively used amongst member countries both in the form of technical assistance and soft loan oriented projects. The work of the A.D.B. in the Indian Ocean region is limited to South and South East Asian member countries but the growth of similar organisations such as the East African Development Bank and the African Development Bank should be supported and encouraged to enable them to make an effective contribution to development in their member countries. Even if our contribution is modest it can provoke commitments, and stimulate participation, from other nations.