

CHAPTER 4

## Where Australia will work, and why



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Over the past ten years, Australia has focused its aid on the Asia–Pacific region. This has been a deliberate policy — focused effort is required to strengthen impact. The Government will continue to concentrate its efforts to be effective; this cannot be done if Australia’s work is spread across too many regions.

Australia’s leadership has been required to respond to a range of emerging issues and unforeseen events affecting the region, including natural disasters (particularly the Indian Ocean tsunami), the Asian financial crisis, the rise of HIV/AIDS and other pandemics, and failing governance and instability, particularly in the Pacific.

Australia’s aid focus on the Asia–Pacific region, which was supported by a recent review of the aid program by the OECD, will continue. The reasons for maintaining this focus are as follows.

- The region faces considerable **challenges to its development**. It is home to the greatest number of poor; disparities are increasing between and within countries; it is susceptible to the development of new pandemics; competition for resources is intensifying; and a number of countries are navigating through the critical early stages of democracy.
- Australia shares with its neighbours a close interest in promoting **regional stability and prosperity**. This can best be assured if all countries in the region grow economically, reduce poverty and are managed effectively and if there is a high level of regional cooperation.
- Australia’s aid can capitalise and build upon the deep political, economic, security and people-to-people **links** between Australia and the region. These are becoming more important as the region grapples with an increasingly complex development agenda.
- Australia’s aid focus **complements the efforts of other donors**, who are concentrating on Africa and who are looking to us to enhance Australia’s regional leadership role. Australia is a world leader on development in Asia and the Pacific.

The organising themes and effectiveness strategies (outlined in Chapter 3 and explained in more detail in Chapters 5 and 6) will guide the Government’s country and regional development strategies. However, some broad policy directions will be adopted for the countries and regions in which Australia invests. These are outlined below.

### 4.1 Asia

The key development challenges facing Asia are in sustaining and sharing growth and managing threats. To sustain growth, Asian countries will need to overcome infrastructure constraints, advance microeconomic reform, strengthen their market orientation and build their human capital. They will also need to manage critical environmental challenges. To share growth, the lagging regions of Asia will need to catch up, and income gains need to be translated into better health and education outcomes. To manage threats, Asia will need to be alert to a range of risks, from pandemics to human trafficking.

Australia's aid to Asia will remain small relative to the size of many Asian economies. Outside East Timor and Indonesia, Australia's aid plays a strategic role. To maximise impact, Australia will provide aid to help its partners address their central challenges, and will be smart about how it uses aid. Emerging needs and priorities will inevitably alter the shape and level of Australia's assistance to Asia. Done properly, the aid program will reap rewards beyond the financial value of the contribution.

### Indonesia — a long-term commitment

Assisting Indonesia to meet its development challenges requires a long-term commitment in a number of key areas. Investments designed to help Indonesia cement its democratic institutions and build security and prosperity are good for poverty reduction and clearly in Australia's national interest. The \$1 billion AIPRD initiative underlined this commitment.

Australia will maintain high levels of assistance to Indonesia and continue to extend support for infrastructure, basic education, health and HIV/AIDS, rural development, and small and medium enterprise growth. The Government will work in partnership with Indonesia to plan and design carefully a number of large-scale development investments to follow the AIPRD.

### Philippines — strengthened engagement

The Government assesses the development challenges of the Philippines as particularly serious. The Philippines is falling behind in international competitiveness, governance remains weak, and instability is a concern, particularly in the south. Economic management in the wake of the Asian financial crisis has not been as strong as in Indonesia. The public debt to GDP ratio of the Philippines is still around 100 per cent, whereas Indonesia's has been almost halved. Further deterioration in the performance of the Philippines economy would have serious implications for the people of that country, some 46 per cent of whom live on less than US\$2 a day, and could lead to greater instability. Such an outcome would also have wider regional impacts through greater people movement and transnational crime and, potentially, by creating an even more conducive environment for terrorist networks.

Efforts towards development in the Philippines will be intensified. More analytical resources will be devoted, and research and policy dialogue — particularly in conflict management, reconstruction and nation building — will be stepped up. Increased financial resources will be sourced mainly through the health, education, infrastructure and incentive initiatives, as outlined in Chapter 5. The sheer scale and the nature of the issues confronting development in the Philippines will require Australia to work closely with the multilateral development banks and other major donors, such as the United States and Japan.

### Southeast Asia — a focus on lagging and vulnerable regions

Australia will place a particular focus on Asia's lagging and vulnerable regions, especially the southern Philippines and eastern Indonesia, given their high rates of poverty. Australian aid will aim to improve governance and support community-based development. To overcome basic infrastructure bottlenecks, Australia will consider support for employment-intensive public works schemes. In this regional context, helping to strengthen security and prosperity in the East ASEAN Growth Area (90 per cent of the population of which lives in eastern Indonesia and the southern Philippines) will be a significant focus of this work. Australia will collaborate closely with regional institutions, the multilateral development banks and key donors.

The Mekong region will remain a focus for the aid program. Thailand, Vietnam and southern China are all growing rapidly. Vietnam has had great success in reducing poverty and there is potential to support Vietnam's acceleration to 'aid graduation' over the coming years, particularly through incentive-based approaches. The Mekong region also contains vulnerable countries such as Cambodia and Laos. The Government will support programs to strengthen the region's integration, in partnership with the multilateral development banks because of the magnitude of the task. As circumstances permit, opportunities to improve the humanitarian situation in Burma will be pursued.

On 12 January 2006, Australia and East Timor signed a treaty establishing a framework for the exploitation of Timor Sea oil and gas resources, including equal sharing of future revenues. The additional revenue to East Timor provided for under this treaty will help secure development and economic prosperity for one of Australia's closest neighbours. Australia will assist East Timor to build the institutions and policies it needs for the effective utilisation of the future oil and gas revenues.

### India and China — engaging with the regional powers

While China and India are developing countries, they are in a different category from others in the region. Australia will not have a role in financing their development, but they remain of great strategic importance to Australia and to the region's development. The aid program will maintain an engagement centred on core shared priorities and areas in which Australia has particular skills and expertise. This will include HIV/AIDS, clean energy, trade and transboundary threats. One important part of this engagement will be through scholarships targeting future leaders. In India, Australia will pursue partnerships (including delegating responsibility for the delivery of Australian aid) with other key donors, such as the World Bank and the United Kingdom's Department for International Development, to take advantage of their support and on-the-ground knowledge and capacity. Australia will also seek opportunities for cooperation with China in the Pacific, as China's regional aid presence is now significant and growing.

### South Asia — selective partnerships

Australia has expanded its engagement with Pakistan through a new scholarship program and an \$80 million contribution to the post-earthquake reconstruction effort. With Asian poverty increasingly concentrated in South Asia, and with South Asia increasingly integrated with East Asia, Australia will look to expand its engagement in other South Asian countries, particularly Bangladesh, focusing on functioning states and education initiatives, and appropriate regional programs. This engagement will be shaped around specific issues such as education, in order to avoid dissipation of effort. Channelling support through other donor programs and mechanisms will be explored to maximise impact and reduce fragmentation.

## 4.2 PNG and the Pacific

The Government is deeply concerned about the future of the Pacific region, in particular Melanesia and some of the microstates (for example, Nauru). While some countries are performing better than others, in the absence of improved domestic government performance and sustained economic growth the likely future for the region is one of deteriorating services and increasing levels of poverty. On top of this, HIV/AIDS is now stalking PNG, and will devastate the country if left unchecked.

Small states can perform better if they are integrated with the global economy. Integration of the Pacific island economies will require policies to promote trade, investment and competition. It will also require better functioning governments, higher levels of human development, and more extensive infrastructure. Even with the best policies, however, a number of the small island states will continue to be dependent on aid for many decades to come.

In comparison with its role in Asia, Australia is a big and normally the lead donor in PNG and the Pacific. Aid can help promote economic integration and reform, and Australia will use integration as a key reference point for aid in the Pacific region. To date, much of Australia's effort has been delivered bilaterally; however, Australia will increase support for regional governance solutions in the Pacific, as championed by the Prime Minister at recent meetings of the Pacific Islands Forum. Support will also continue for the pooling of functions to promote efficient and transparent provision of services.

Part of the integration agenda is labour mobility and migration. The aid program will be used to provide skills training for Pacific Islanders to enable them to broaden their employment opportunities both domestically and overseas. This is the thrust of the Prime Minister's announcement, in October 2005, that Australia will establish a technical training college for the Pacific (see page 39). Further analysis and research will be undertaken on the relationship between migration and development, especially in the Pacific. Australia's current policies migration in this regard will not change.

Expectations of development in the Pacific need to be realistic. Sustained 3.5 per cent growth in PNG (the average of the past three years) to 2025 would see GDP per capita at similar levels to the early 1990s, with most of the population surviving on less than US\$2 a day. In Solomon Islands, the 4.4 per cent real GDP annual growth achieved since 2003 would need to continue to 2025 for GDP per capita to reach the same level as in 1980. History suggests that such sustained high growth rates are unlikely in either country. The outlook for the microstates in the Pacific is even bleaker.

Australian aid to the Pacific will continue to operate within very long timeframes. Change will be slow and incremental, and Pacific partner governments will be set up to fail if demands for reform and progress are framed merely in the short term. The Government remains committed to working with its Pacific partners in support of their own sustained reform agendas and will not walk away with the job partly done. However, governments in the region should not expect that Australia will simply continue to provide unlimited assistance. Australia will help, but the Pacific island governments must face and tackle poor governance and corruption. And they must do it urgently.

### PNG — a performance-based partnership

Successive Australian governments, as a matter of deliberate strategy, have substantially reduced the allocation of aid to PNG in real terms since independence. Taking into account high population growth, Australian aid per capita is roughly one sixth of its 1975 levels in real terms. At the same time, Australia is committed to seeing PNG develop. While the proposed oil and gas pipeline between PNG and Queensland has the potential to provide much-needed revenue, particularly as existing projects come to an end, it is clear in PNG and elsewhere that resource windfalls do not automatically translate into broader growth and development gains. Significant effort and investment are required on governance, and additional aid will be needed to finance the increased emphasis on investing in people and supporting the drivers of growth, such as infrastructure, skills training and rural development. It will also be needed to tackle the HIV/AIDS emergency, which demands a crisis response, including through treatment.

However, an increase in aid will not be effective, and may even be counter-productive, if it is not accompanied by real reform and continued improved performance by the PNG Government. The Australian Government will put in place arrangements for a potentially substantial performance-based increase in the allocation of aid to PNG. This will be incorporated as part of the country strategy now under development.

### The Pacific — integration, regional approaches and incentives

Aid allocations to the Pacific have increased substantially in recent years and do not warrant wholesale increases. Australia will continue to focus on the Melanesian countries of Solomon Islands and Vanuatu, which require sustained support and where expectations should have a long-term timeframe. Additional support will be provided to implement new regional initiatives, such as skills training (see page 39), implementation of the Pacific Plan (see page 56) and related regional governance initiatives. Australia will remain ready to support improvements in performance in the Pacific with additional funding and to respond in the event of instability or other crises. While maintaining law and order in Solomon Islands is a priority, the expatriate police force will be reduced gradually as conditions allow, and some of the released funds will be redirected to economic and social investments. Australia's commitment to the development and prosperity of Solomon Islands is long-term and unstinting. Much has been achieved since 2003, but the focus of activities will continue to shift from stabilisation to ensuring long-term growth, development and stability.

Vanuatu, despite some political instability, has managed to maintain a commitment to and make progress in implementing some of the core elements of its Comprehensive Reform Program. This has been recognised by the United States Government's allocation of US\$65 million over five years from the performance-based Millennium Challenge Account. But high population growth and weak political governance continue to threaten progress. Fiji has enjoyed greater economic prosperity than most Pacific countries but faces serious challenges, particularly in the contracting sugar and textile, clothing and footwear industries. Prospects of political instability are seen by many as a potential brake to further investment and development. Australia will maintain a very strong commitment to supporting both Vanuatu and Fiji. Similarly, the aid program will continue to support good governance and growth policies in Samoa and Tonga, though recent Tongan Government decisions have brought into question its commitment to economic and public sector reform.

## 4.3 Africa and the Middle East

### Africa

Australia plays an important niche role in Africa. Australia's record in responding to humanitarian needs is strong, and the aid program has relevant knowledge to offer, particularly from its experience with the challenges of fragile states, trade policy and HIV/AIDS. Australia's contributions to multilateral organisations, the World Bank, and the Heavily Indebted Poor Countries initiative constitute a significant investment in Africa. Given Australia's capacity limits and the need for selectivity, enhanced support for Africa will be provided primarily through an expansion of support through multilateral channels and delegation to key bilateral donors. The Government does not believe Australia should substantially increase its bilateral role as a development partner in Africa. This is not to dismiss Africa's development challenges — they are compelling — but recognises that, given the global concentration of donor effort in Africa, Australia is better placed to focus on its own region. Australia will, however, maintain a pragmatic engagement with Africa, based on humanitarian programs and on issues of shared interest. Sharing knowledge, lessons and insights from developments in Africa is of special interest for Australia's efforts in the Pacific islands and fragile states. The Government will look to develop common approaches and programs with South Africa in southern Africa.

### Middle East and Afghanistan

Conflict in the Middle East is of global significance and its resolution of critical importance. Nowhere is the complexity and impact that security has on economic and social development more evident. Australia's aid effort in the Middle East has consisted of ongoing humanitarian and peace-building efforts in the Palestinian Territories, and responses to conflict situations in Iraq and Afghanistan. The Government has a strong track record of managing the aid program to ensure flexible responses to emergencies and, where required, contributions to international initiatives — the reconstruction effort in Afghanistan is a prime example of this. This capacity will be maintained and enhanced.