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**Asia's Rise and the Politics of Australian Aid Policy**

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## **Abstract**

The economic rise of developing Asia has generated new debate over the geographic orientation, strategy, organisation, and collaborative relationships of the Australian aid program. This paper examines this debate, Australian government responses, and the politics underlying these responses. It points to, among things, the different ways in which the Labor Party and the Liberal-National Coalition have dealt with these issues, reflecting their different constituencies and foreign policy philosophies. The paper also assesses the future trajectory of Australian aid policy, in particular, the extent to which it is embracing the Chinese model of aid.

## Introduction

Over the past decade and a half, aid policy-making in Australia has been transformed from a matter of ‘low politics’ to one of ‘high politics’.<sup>1</sup> In part, this is because—in contrast to previous eras—stark differences have emerged between the Australian Labor Party and the Liberal and National Coalition, the country’s major political party groupings, over aid spending. This has particularly been the case since the then newly-elected Abbott Coalition government cut the aid budget dramatically in 2013-2014 to help address a structural imbalance in the federal government budget, more than reversing a large increase in aid spending that had occurred between 2005 and 2013 with bipartisan support.<sup>2</sup> In part, it is because new fora for public discussion of aid policy issues have emerged as a result of the establishment of the Lowy Institute for International Affairs in 2003 and the Australian National University’s Development Policy Centre in 2010, both of which produce influential online blogs and other publications covering aid policy issues. Most importantly for our purposes, however, the growing conflict over and political salience of Australian aid policy has also reflected the economic rise of China, India, Indonesia and other developing countries in Asia and the tensions and challenges this has generated in relation to a series of key aid policy issues.

Broadly speaking, the economic rise of these countries has generated new debate over three specific aid policy issues. The first has been the geographic orientation of the Australian aid program. In this case, debate has centred on whether the aid program should continue to focus, as it has historically, on countries in the Asia-Pacific region, notwithstanding the fact that many now have middle income status. The second issue has been the Australian aid program’s strategy for promoting development in Asia. In this case, debate has focused on whether aid should seek to encourage economic growth or wealth redistribution and the provision of public goods. The third issue has been how Australia should respond to the emergence of non-OECD countries—especially China—as donors. The key questions here have been: Should Australia cooperate or compete with these donors? and Should Australian aid policy remain relatively autonomous of foreign and trade policy or be completely subordinated, as in many non-OECD countries? The Abbott government’s cuts to the aid budget have seen public debate over aid policy focus increasingly on the size of the aid program. But these three issues have remained important topics of debate reflecting the fact that they have a strong bearing on the purpose of Australian aid and the interests it serves.

This paper examines the nature of debate over these issues, the way in which Australian governments have responded in policy terms, and the politics underlying these responses. It suggests that, regardless of whether the Labor party or the Liberal-National Coalition has been in government in Australia, Australian aid policy-makers have responded in a way that

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<sup>1</sup> I use these terms to distinguish between ‘major, contentious policy issues (often crisis engendered)’ and ‘routine, politics-as-usual policies’ (Walt and Gilson 1994: 367).

<sup>2</sup> Less dramatic differences over the size of the budget emerged in the run-up to the 2007 federal election when Labor promised to increase aid spending to 0.5 percent of GNI by 2015 in contrast to the Coalition’s commitment to merely double aid spending by 2010. The 2013-2014 cuts are expected to reduce Australia’s aid budget to .22 percent of GNI by 2016-2017 (Howes and Pryke 2014). For Labor’s post-2013 position on aid policy, see Plibersek (2015).

has privileged business, diplomatic and security concerns over concerns to do with social justice. This has reflected the relatively privileged access that business, diplomatic, and security interests have had to the aid policy-making process compared to development NGOs and other supporters of the social justice agenda. However, the paper also suggests that the Labor Party and the Liberal-National Coalition have dealt with these issues differently, reflecting their different constituencies and philosophies with regards to foreign policy. Broadly speaking, the Labor party has been more sympathetic than the Coalition towards a geographically broadened aid program, socially inclusive development policies, collaboration with non-OECD donors (specifically China), and greater institutional autonomy for aid policy.

In presenting this argument, the paper begins by examining the nature of the aid policy-making process in Australia, identifying the main participants in this process, and discussing their interests and agendas. It then examines debate over the three issues mentioned above, the way in which Australian governments have responded, and the politics underlying these responses. In the final section, the paper examines how Australian aid policy is likely to evolve in the future.

### **Aid Policy-Making in Australia**

Aid policy-making in Australia has been informed by three main competing agendas. The first of these, the neo-liberal agenda, has entailed the use of Australian aid to promote the ‘post-Washington consensus’ (PWC), a set of measures that blends economic deregulation with institutional reform to create ‘good governance’ and programs to ensure social conditions conducive to market-oriented economic reform in developing countries (Jayasuriya and Rosser 2001). Australia’s business community has been the most influential advocate of this agenda, reflecting the fact that adoption of the PWC in developing countries has promised to create new opportunities for Australian businesses and make their existing investments in these countries more profitable (Allen Consulting Group 2007; Australian Chamber of Commerce and Industry 2005; 2007; 2013). Other supporters of this agenda have included professional economists at a variety of Australian government, academic and business organisations, most notably the Crawford School at the Australian National University) and the Centre for International Economics (CIE), a Canberra-based consultancy (Rosser 2008). Many officials at the Australian Agency for International Development (AusAID)—which until its integration with the Department of Foreign Affairs and Trade (DFAT) in 2013 was the government body responsible for managing the Australian aid program—have also supported the neo-liberal agenda as have many DFAT officials.

The second agenda that has informed Australian aid policy-making, the social justice agenda, has been characterised by a concern with issues such as the basic needs of the poor, the protection of human rights, and the equality of income and wealth distribution. In contrast to the neo-liberal agenda, this agenda has posited that states in developing countries should intervene in targeted ways to address these problems rather than rely on the so-called ‘trickle

down' effect, as neo-liberals advise (Oxfam 2001; APHEDA nd; Kilby 2007; World Vision 2002). Other concerns have included debt forgiveness for developing countries, reducing the risk of international financial instability by reducing international capital mobility, and the creation of a fairer international trading system through reform of the World Trade Organisation and more widespread use of 'fair trade' principles (World Vision 2002; Oxfam 2001). The main proponents of the social justice agenda have been development NGOs such as Oxfam Australia, a secular development NGO that currently espouses a rights-based approach to development, and World Vision, a Christian development NGO concerned with social justice issues. The Australian Council for International Development (ACFID), the national umbrella organisation for development NGOs, has also supported this agenda as have some academics in Australian universities operating within the 'critical tradition' in development studies, members of progressive minor political parties such as the Australian Democrats and The Greens, and minority elements within the major political parties (Rosser 2008).

The third—and most influential—agenda that has shaped Australian aid policy-making has been the government-of-the-day's diplomatic and security agenda. While members of Australia's development NGO community and critical development academics have generally argued in favour of an autonomous aid program exclusively focused on reducing poverty and promoting sustainable development, advocates of this agenda have sought to ensure that aid policy is aligned with foreign and security policy. They have explicitly sought policy coherence between different portfolios—not around development objectives as recommended by the OECD (2005)—but rather diplomatic, trade and security policy objectives. The key proponents of this agenda have been officials in DFAT; the country's security and military forces; some public commentators on foreign affairs, most notably Greg Sheridan at *The Australian* newspaper (see, for instance, Sheridan 2013); and former diplomatic and security officials now at independent think tanks such as the Australian Strategic Policy Institute and the Lowy Institute (see, for instance, Independent Task Force 2011; Gyngell *et al* 2009; Oliver and Shearer 2011).<sup>3</sup>

For their part, the major political parties in Australia have been most strongly influenced by the first and third agendas reflecting the structural and instrumental power of the business community in Australia and the dominance of realist thinking within both parties in relation to diplomatic and security policy. When in government, both the Coalition and Labor have sought to use aid policy to pursue diplomatic, security, and economic objectives as well as developmental ones and have typically subordinated the latter to the former (Davis 2006). At

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<sup>3</sup> It should be noted that the Lowy Institute has also employed some former AusAID officials, most notably Anne Maree O'Keefe, a former Deputy-Director General of the agency, making it a platform not just for the views of former diplomatic and security personnel but also aid officials. That said, the Institute's linkages appear to be predominantly to the diplomatic and security services rather than the foreign aid program. In this respect, it can be contrasted with the Development Policy Centre at the ANU's Crawford School which is led by two former senior AusAID officials. Between them, the Lowy Institute and the Development Policy Centre have constituted a forum through which intra-bureaucratic debates play out in the public domain via the agency of former diplomatic, security and development officials. To the extent that the Australian Strategic Policy Institute, an independent think tank with close links to the security forces, has participated in aid policy debates, it has also played a role in this respect.

the same time, both have viewed neo-liberal economic policy reform as the most effective way of promoting economic growth and poverty reduction in developing countries (Rosser 2008). The Liberal party's close links to the business community have made it particularly sympathetic to the neoliberal agenda, although commitment to this agenda has been bipartisan.

However, there have been some differences between the major political parties in their respective approaches to aid policy reflecting their different political bases and philosophies, particularly in relation to foreign policy. As a number of commentators have noted, Labor has generally been more idealist and multilateralist in its approach to foreign policy than the Coalition (Dalrymple 2003; Saul 2011) and more concerned to promote greater social inclusion at the global level and address global environmental problems such as climate change. This has reflected its political base in the trade union movement, the values associated with that movement, and the party's electoral support among the lower classes and progressive elements of the middle class. The Coalition, by contrast, has preferred to focus on pursuit of Australia's economic and security interests and do so on a bilateral rather than multilateral basis. This has reflected its relatively close relationship with the Australian business community, this community's substantial engagement with the Asia-Pacific region, and scepticism about the effectiveness of multilateral institutions, particularly the United Nations, in addressing global problems. The result has been that, *at the margins*, Labor has been more willing than the Coalition to use aid for poverty reduction and sustainability-related objectives rather than economic and security-related ones; deliver aid through international organisations, particularly United Nations' (UN) agencies, rather than on a bilateral basis; pursue UN-sponsored agendas such as the Millennium Development Goals (MDGs); and invest aid in social and environmental programs as well as ones related to economic growth and trade. The current division between the major parties over the size of the aid budget can be traced in part to these underlying philosophical and political differences, particularly with regards to the MDG agenda (a key element of which is increases in foreign aid), although it has also reflected differences in the two parties domestic policy agendas, particularly with regards to issue of budget sustainability. In very broad terms, the Coalition has been more inclined to achieve a balanced budget through cuts to government expenditure while Labor has been more inclined to do by increasing taxation.

Two final points need to be made about the nature of the aid policy-making process in Australia. The first is that it is an executive-dominated process. The Australian parliament has had little role in foreign policy-making because foreign policy decisions have rarely required enabling legislation or parliamentary approval (Gyngell and Wesley 2007: 145). Accordingly, only a small group of people has been involved in aid policy-making—members of the Cabinet (particularly the Minister for Foreign Affairs), Parliamentary Secretaries that deal with international development issues, senior AusAID officials, and a few trusted outsiders. The latter have typically included neo-liberal economists and representatives of the business community but excluded figures associated with development NGOs and academics working within the critical tradition in development studies. The executive-dominated nature of the aid policy-making process has also restricted the access of

minor political parties such as the Democrats and the Greens to the aid policy-making process (Rosser 2008). The second point is that the Australian government has tended to be a consumer rather than producer of development policy ideas and, as a result, to follow international trends in aid policy, especially within the OECD. Among international development actors, the World Bank, the UK Department for International Development (DFID) and the OECD Development Assistance Committee (DAC) have been the key sources of policy ideas, although, as we will see below, Canada and New Zealand have had a significant influence recently in relation to the administrative structure of Australia's aid program (Negin 2013; Callick 2013).

In the following three sections, I examine how contests between the aforementioned competing agendas and the interests embedded in them have played out in relation to the three policy issues mentioned at the outset of the paper related to, respectively, the geographical distribution of Australian aid, its strategy in Asia, and Australia's response to non-OECD donors.

### **The Geographical Distribution of Australian Aid**

Developing countries in Asia have historically been amongst the main recipients of Australian aid, with Indonesia, the Philippines, Vietnam, Lao PDR, Cambodia, Timor Leste, Afghanistan, Pakistan, China and India being particularly important in this respect. As Figure One shows, Asian countries have collectively accounted for 30-40 percent of Australian aid in recent years.

INSERT FIGURE ONE ABOUT HERE

As economies within the region have grown—and in particular as some countries have gone from low to middle income status and from aid recipient to donor—some commentators on the Australian aid program have begun to question this geographic orientation. Perhaps the most prominent of these has been Hugh White, Professor of Strategic Studies at the Australian National University. In a series of newspaper articles, blogs and presentations, White argued that aid is no longer an effective or appropriate way for Australia to engage Asia given the region's rising economic power and falling poverty. Instead of relying on aid as a modality of engagement, he has suggested, the government should support other modalities such as Asian language programs, some of which—Indonesian being the most prominent example—have struggled to survive within the Australian university system in recent years because of low student demand (White 2011a; 2011b; 2012; 2013). Much of his commentary focused on Australia's aid program to Indonesia, a country he noted now has, by some measures, a larger economy than Australia and which is widely predicted to become one of the top 10 economies in the world in coming decades (see also Roggeveen 2012). In a similar vein, *Crikey's* Paul Farmer (2007) and *The Australian's* Greg Sheridan (2012) have questioned Australia's aid program to China on the grounds that its economy is now so large that it no longer requires subsidisation by foreign donors and can solve its problems with poverty by itself.

At the same time, a number of development NGOs have argued that Australia's aid program should give greater attention to other parts of the world, most notably sub-Saharan Africa, the region where least progress has been made against the Millennium Development Goals (MDGs). In its 2007 Policy Platform, for instance, the Make Poverty History (2007: 12) campaign stated that because:

the majority of the least developed countries are in Africa, there is a compelling case for the Australian Government to apply some of the aid increase to Africa. While Australia's focus on the Asia-Pacific region is understandable, the sheer scale of development challenges facing Africa renders it worthy of greater, albeit carefully with targeted, attention.

Similarly, ACFID (2004) argued in its 2004 submission to the DAC Peer Review of the Australian aid program that "the strategic focus" of the program on the Asia Pacific was "distorting the program" away from less developed countries (LDCs) such as those in Africa (see also TEAR 2011). Following the announcement of severe cuts to the aid program in the Abbott government's first budget in 2014, it further argued that 'the scale of development needs in Africa remains extremely high', that the government should 'continue to ensure important investments there', and that there also remains 'a clear need' for development assistance in Latin America and the Caribbean (ACFID 2014:18). These NGO perspectives have not entailed support for the withdrawal of aid from Indonesia or other Asian countries as White proposed. But they have implied a shift in aid away from Asia towards other parts of the developing world.

On the other side of the debate, figures such as Stephen Howes (a former AusAID chief economist and now Director of the Development Policy Centre at the Australian National University), Andrew Hewett (Head of Oxfam Australia) and Tim Costello (Head of World Vision) have argued that the Australian aid program should continue to provide substantial aid to Asia, including the region's middle income countries for four reasons: (i) poverty remains widespread within the region notwithstanding the region's economic growth in recent decades; (ii) aid is an effective instrument for promoting poverty reduction even in middle income countries; (iii) Australia benefits from reduced poverty within Asia; and (iv) it is therefore in Australia's national interest to continue providing substantial levels of aid to Asian countries (Howes 2012a; 2012b; 2012c; Hewett and Costello 2011; World Vision 2010; 2011).<sup>4</sup> While Australia's business representative organisations have not participated directly in this debate, they have generally voiced support for the aid program's focus on the Asia-Pacific region where Australia's business interests are concentrated (Australian Chamber of Commerce and Industry 2005).

In part, this debate has emerged because of competing bureaucratic interests in Canberra. At the same time that Australia's aid budget was ramped up sharply between 2005 and 2013,

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<sup>4</sup> Oxfam's position with regards to the geographic orientation of the aid program has been unclear. In its submission to the 2011 aid effectiveness review, it expressed support for a broadening of the program to sub-Saharan Africa so long as key risks were well-managed and the expansion was driven by a concern to promote reduced poverty (Oxfam 2011). However, in a co-authored op-ed piece with Tim Costello, Hewett emphasised the need for Australia to continue providing aid to Asia (Hewett and Costello 2011).

concern emerged about declining government funding for DFAT. This concern emerged initially under the Howard government and continued into Labor's period in government. In major public reports published in 2009 and 2011, the Lowy Institute for International Policy, for instance, suggested that the country's diplomatic service was now so underfunded that it could not perform its role properly, and, in the second report, called on the government to cut funding from the aid program to better support the diplomatic service (Gyngell *et al* 2009; Oliver and Shearer 2011). For some commentators, arguments about wasteful geographical allocation of Australian aid have been a useful foil to make a case for better funding for the diplomatic service. For instance, while White has called for aid funding to be redirected to provide better support for Asian language programs, Sheridan has suggested that the shift in funding should be in favour of the diplomatic service (Sheridan 2012). On the other side of the debate, Howes' and others' defence of Australia's aid funding to Asia has given voice to the interests of the aid program in maintaining its growing proportion (up to that point at least) of the government budget.

But the emergence of this debate has also reflected the different approaches of Labor and the Coalition towards foreign policy, in particular, the former's relatively idealist and multilateralist orientation. Both Labor and the Coalition have asserted the primacy of the Asia-Pacific as a destination for Australian aid, reflecting the continued dominant influence of diplomatic, security, and business interests over their respective approaches to aid policy (Sercombe 2006; Government of Australia 2011b; 2014; Dodd 2012). However, in recent years the Labor Party has supported an expansion of the aid program to other parts of the world, especially Africa, on the grounds that doing so is necessary to ensure that Australia contributes effectively to global poverty reduction efforts and in particular the achievement of the MDGs (Government of Australia 2011b). Labor's critics have suggested that this shift was driven entirely by its plans—associated with its leader from 2006 to 2010, Kevin Rudd—to secure a seat on the United Nations Security Council. But it is clear that Labor began to rethink the geographic orientation of the aid program before Rudd even became leader and that Australia's contribution to achievement of the MDGs was a key consideration in this respect (Sercombe 2006). The emergence of a division between Labor and the Coalition over aid to Africa has opened up space for a broader public debate about the geographic focus of the aid program while the executive-dominated nature of the aid policy-making process meant that each could implement its desired approach while in office, typically in the wake of commissioned reviews of the aid program in which conservative economists and representatives of the diplomatic and business communities have played the central roles (Rosser 2008).

In terms of policy, the upshot of this situation has been a continued emphasis on the Asia-Pacific as a destination for Australian aid regardless of which political party has been in power but shifts with regards to the geographic expansion of the aid program when there have been changes of government. During the Howard Coalition government (1996-2007), the aid program was heavily concentrated on the Asia-Pacific with geographic expansion beyond the region limited primarily to Iraq following the US invasion of that country in

2003.<sup>5</sup> During the Rudd-Gillard Labor government (2007-2013), there was a significant scaling up of the country's aid programs in sub-Saharan Africa and Latin America and the Caribbean, the former in particular. The Gillard government also decided in 2011 to close down Australia's aid programs in China and India following a recommendation to that effect by the Independent Review of Aid Effectiveness (Government of Australia 2011b) and moves by the Indian government in the early 2000s to reduce the number of aid donors operating in India. Since the election of the Abbott Coalition government in 2013, things have swung back in favour of geographic concentration on the Asia-Pacific, with large cuts being made to Australia's aid program to Africa and its program to Latin America and the Caribbean being phased out completely (ACFID 2014: 17-18).

In sum, then, the economic rise of developing Asia has not resulted in reduced Australian aid engagement with middle income countries within the region, with the notable exceptions of China and India, and a shift towards increased engagement with poorer countries outside the region, particularly in sub-Saharan Africa. Indeed, the historic focus of the aid program on the Asia-Pacific has been reinforced. This reflects the dominance of diplomatic, security and business interests in Australian aid policy-making as well as the implications of changes in government for global development initiatives (such as the MDGs) to influence Australian aid policy.

### **Development Strategy for Asia**

With Australian governments of both political persuasions deciding to maintain the geographical focus of Australia's aid program on the Asia-Pacific, a public debate has also emerged about Australia's development strategy within the region given its growing prosperity and, in particular, the fact that many developing countries have now achieved middle income status.

Historically, Australian aid to Asia has focused on promoting economic growth, building effective institutions, reducing poverty, combating disease, and improving education. However, as income levels within the region have risen, some commentators have argued that this approach has become increasingly outdated (Wesley *et al* 2011). In one paper, Anne Maree O'Keefe (2012), a former senior AusAID official and prominent public commentator on Australian aid policy issues, for instance, argued that inequality in Asia was now the most important concern:

...the battleground has changed. Rather than the poor living in low income countries, the majority of them (60%) are living in newly emerged economies. So the question of inequity *within* increasingly wealthy countries becomes the focal point and demands a new relationship between development partners.

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<sup>5</sup> Despite the continued focus on the Asia-Pacific, there were significant shifts in aid allocations within the Asia-Pacific region as a result of the US 'War on Terror', the end of Indonesia's occupation of East Timor, the onset of violent conflict in the Solomon Islands, and the 2004 tsunami. Country programs to the Solomon Islands, Pakistan, and Indonesia all experienced big increases while large new country programs were created for Afghanistan and Timor Leste.

Such ideas have been echoed by figures in the development NGO community and academics working in the critical tradition in development studies. In its submission to the 2011 independent review of aid effectiveness, for instance, ACFID (2011: 9) argued that “Human prosperity can no longer be equated with untrammelled economic growth” and called on the government to more effectively “tackle inequality”. Similarly, Oxfam’s (2011: 2) submission called on the government to revise the official objective of the aid program to “to reduce poverty and *inequality* in line with Australia’s role as a good international citizen” (emphasis added) (see also World Vision 2010). In the academic community, scholars such as Patrick Kilby (2007; 2011) have been prominent proponents for the aid program to give greater attention to inequality.

Against this view, representatives of Australia’s business community have continued to emphasise the importance of economic growth and trade liberalisation to promoting poverty reduction. In its submission to the 2011 aid effectiveness review, the Business Council of Australia, for instance, emphasised the need for “open and competitive markets” in developing countries (Government of Australia 2011a: 153) and in a subsequent submission to the Gillard government’s Asian Century Task Force, called on the government to more actively promote trade and investment liberalisation within the region. Similarly, in a report released in the lead up to the 2013 federal election, the Australian Chamber for Commerce and Industry (2013: 41) argued that “the principal means for alleviating poverty is economic development” and that it was accordingly “supportive of Aid for Trade approaches, where aid investments assist to improve trade facilitation and market access for Australian products and services”. These arguments have also received some support from conservative economists (e.g. Duncan and Quang nd).

Both the major political parties have sided with the business community and conservative economists in this debate, reflecting the business community’s instrumental and structural power and the relative political weakness of proponents of the social justice agenda. Regardless of which side of politics has been in power, the writing of Australia’s development strategy has been entrusted largely to representatives of the business community and conservative economists while proponents of the social justice agenda have been largely excluded from the process (Rosser 2008). As a result, Australia’s main aid policy documents in recent years—the 2006 aid white paper (Government of Australia 2006), the government’s response to the 2011 independent review of aid effectiveness (Government of Australia 2011b), and the Abbott government’s June 2014 statement on aid policy (Government of Australian 2014)—have consistently portrayed economic growth as the most effective way of poverty, both in general and in relation to Asia in particular.

The responses of Labor and Coalition governments to this issue have varied slightly, however, as a result of the major parties’ different political bases and philosophies with regards to foreign policy. Under the Howard Coalition government, economic growth was presented as more or less the only route to poverty reduction regardless of aid recipient countries’ income status (AusAID 2006). Under the Rudd-Gillard Labor governments, the focus shifted towards increased investment in health and education programs (Smith and McMullan 2008), and in the case of middle income countries in Asia, increased engagement

at the policy level in these sectors rather than a focus on service delivery (Baxter 2013). Economic growth was still presented as the principal route to poverty reduction but only if it was “broad-based”. Under the Abbott Coalition government, the emphasis has shifted back in favour of unqualified support for economic growth. Although its 2014 statement of aid policy envisages continued significant investment in health and education programs, it has aid for trade its flagship sector. The policy statement states that the government will increase aid for trade initiatives to 20 percent of the aid budget by 2020 (Government of Australia 2014: 28; Sheridan 2013).

In sum, then, the economic rise of developing Asia has not led to a fundamental shift in the development strategy pursued by Australian aid policy-makers in relation to Asia, notwithstanding the fact that inequality—rather than economic growth rates—is increasingly being seen as the key obstacle to further poverty reduction within the region. The focus has remained on economic growth, reflecting the powerful influence of the Australian business community and its close relationship with the Liberal party in particular. It was only during Labor’s two terms in office from 2007 to 2013 that economic growth as a poverty reduction strategy was qualified in any way and, then, only by the condition that it be “broad-based.” Commentators advocating redistributive measures to reduce poverty and their sympathisers within the development NGO community and critical academic circles have lacked the political influence and access to the aid policy-making process to translate their ideas into policy.

### **Responding to Non-OECD Donors**

Over the last ten years or so, the role of non-OECD donors in development assistance has increased dramatically. According to the World Bank (2011: 129), aid from non-OECD donors totalled US\$12-15 billion in 2008, of which around half came from Arab countries. However, two of Asia’s ‘rising powers,’ China and India, also contributed significantly to this figure, with China being particularly important. The World Bank (2011: 129) estimates that Chinese aid amounted to between US\$1.4 billion and \$3.0 billion in 2006/2007, although it states that this is probably an underestimate. The focus of Chinese aid activities has thus far been on sub-Saharan Africa (Brautigam 2009), but China has also been active in the Asia-Pacific and, in particular, countries that have historically been major recipients of Australian aid such as Indonesia, the Philippines, Timor Leste and the small island states of the South Pacific (GSDRC 2012: 9-10; Hanson and Fifita 2011; Li and Qin 2011). In Timor Leste, for instance, China has provided funding for prestige projects such as the construction of a new presidential palace and foreign affairs ministry building as part of an apparent strategy aimed at establishing a ‘sphere of influence’ in the Southeast Asian region down the track (Rosser 2011: 191).

Non-OECD donors have provided aid on very different terms to OECD donors. In particular, their aid has had fewer strings attached in terms of changes to recipient countries’ policies and institutions, provoking some commentators to describe them as ‘rogue’ donors (see, for instance, Naim 2007). This has been the case in particular with China—the conditions

attached to Chinese aid have centred on support for China's position on the status of Taiwan, access to recipient countries' natural resources, and the employment of Chinese workers on aid-funded projects rather than deregulation of recipient countries' economic policies, privatization of their state-owned assets, and/or adherence to OECD norms of 'good governance' (Kilby 2013: 1005-1008). Non-OECD donors have also tended to provide aid as part of larger package deals that have included loans and investment in infrastructure and other projects (Mawdsley 2012: 84). China's decision to endorse the international aid agreement produced at the 2011 High Level Forum on Aid Effectiveness in Busan, South Korea, after initially indicating that it would not do so, suggests that it and other non-OECD donors may increasingly adhere to emerging international aid policy norms. But it is notable that China only signed up to the agreement after wording was inserted making its compliance voluntary, so the extent of its commitment to these norms remains to be seen (O'Keefe 2011; Tran 2011).

The growing role of non-OECD donors in the Asia-Pacific, China in particular, and their different ways of operating have sparked debate in Australia about how it should respond to their growing role, in particular, whether Australia should cooperate with China on joint development projects or align itself with other DAC donors in competition with China's aid program (Hanson and Fifita 2011; Sheridan 2011; Hayward-Jones 2013). For the most part, the different views on this issue have reflected different judgements about what approach best serves Australia's 'national' (understood as its diplomatic and security) interests rather than any concern about how to best promote development and poverty reduction within the region. On one side, commentators such as Greg Sheridan (2011) have suggested that collaboration will be ineffective because China's aid is geared towards "a variety of strategic purposes" that do not include "enhancing Australian influence". On the other side, analysts at the Lowy Institute have argued that enhanced development cooperation with China will "help to maximise the benefits of China's new role in the region, while helping to minimise the negative consequences that do flow from some of China's commercial and development activities" (Hayward-Jones 2013: 17; Hanson and Fifita 2011).

However, the emergence of this debate has also reflected concern within development NGO and critical development studies circles that Australia could end up in a race-to-the-bottom competition with China that serves to undermine the poverty/development focus of the aid program. In a submission to the 2011 Aid Effectiveness Review, Patrick Kilby (2011: 4), for instance, argued:

The question for Australia as it increases its aid program is how to avoid an aid race with China and how to engage in policy in a way that is constructive, and in cooperation with China rather than in competition. The issue is not just about issues of good governance, transparency and the like, but also maintaining a sharp focus on the MDGs and respecting human rights, so that the advances that have been made in aid policy over past 50 years are not jeopardised. AusAID in this context needs to be more engaged with China as a donor in a way that is respectful of the Chinese program and what it is seeking to achieve. If a basis of trust can be built then China may be more inclined to support the strategic thrust of the AusAID program rather than be an aid competitor to it.

A related aspect of the debate has centred on the formal links between aid policy, on the one hand, and foreign and security policy, on the other. Although Australian aid policy has

always been very heavily influenced by foreign, trade and security policy, it has historically had a degree of autonomy stemming in part from AusAID's status (for much of its existence) as an independent agency within DFAT and between 2010 and 2013 as an executive agency. The growing role of China and other non-DAC donors in the Asia-Pacific has provided a pretext for groups supportive of greater integration between aid, foreign, and security policy to push their case. For instance, the Independent Task Force (2011: 14) on aid and security commissioned by the Australian Strategic Policy Institute and the Foundation for Development Cooperation in 2011—a Task Force dominated by former members of the Australian military and experts on security issues—noted in its report that:

The island Pacific is becoming a more contested space. China is fast growing in importance as an aid donor, investor and trade partner, while others – the United Arab Emirates, Russia, and Georgia, for example – are creating new Pacific links for themselves with small aid commitments. Australia has compelling security interests in remaining predominant in this region.

Accordingly, the Independent Task Force proposed that the government “put more effort into explaining how Australia’s aid contributes to national security by preventing the development of potential threats to Australia” and carry out a periodic “diplomacy and development review” that assessed the “links between the overall ODA effort and national security” (2011: 15).

Supporters of the social justice agenda at development NGOs and universities have responded by asserting that the aid program should focus on development objectives such as poverty reduction and the MDGs and be run by “an independent Department for International Development Cooperation, headed by its own Cabinet-level Minister”, as in the UK (Oxfam 2011). An independent department is needed, they have argued, to ensure that the aid program “maintain[s] a clear focus on poverty alleviation and [is not] used as a vehicle to promote Australia’s strategic and commercial interests” (AidWatch 2010). Yet their exclusion from the aid policy-making process has meant that their concerns have only been heeded to the extent that they have intersected with the Labor Party’s idealist and inclusive orientation.

Under Howard, the government’s impulse was to try to compete head-to-head for influence with China, reflecting its realist understanding of foreign affairs and China’s emergence in particular. Explaining the government’s decision to dramatically scale up the aid budget in 2005, Howard argued: “If we just throw up our arms and go away”, he told *The Sunday Telegraph*, “you’ll end up with these places being taken over by interests very hostile to Australia” (Johnson 2007). However, perhaps because China’s growing activities as a donor in the Asia-Pacific were only just becoming apparent, the government appears to have had no further strategy for responding to them. For instance, it made no moves to more firmly integrate aid policy with foreign, trade, and security policy: AusAID remained an autonomous agency while the official objective of the aid program remained focused on poverty reduction.<sup>6</sup>

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<sup>6</sup> In the 2006 aid White Paper, the Howard government stipulated that the official objective of the Australian aid program was ‘To assist developing countries to reduce poverty and achieve sustainable development, in line with Australia’s national interest.’

Under Rudd and Gillard, the government's strategy shifted more in favour of collaboration with China, reflecting its idealist orientation to foreign policy and unwillingness to completely jettison poverty reduction and the MDGs in favour of diplomatic and security concerns. The main result was the signing of a *Memorandum of Understanding for a Development Cooperation Partnership* between AusAID and China's Ministry of Commerce in April 2013 providing for collaboration between the two organisations in a range of sectors including global poverty reduction, health, water, environmental sustainability, economic and fiscal reform, food security and humanitarian assistance. Underlying this change was an apparent view on Labor's part that cooperation with China's foreign aid program was consistent with both Australia's national interests and the aid program's concern with poverty reduction and the MDGs. At the same time, rather than move to integrate aid policy more firmly with foreign, trade, and security policy, Labor in fact gave it greater autonomy by (i) giving AusAID executive agency status in 2010 and (ii) revising the official objective of the aid program such that it focused on poverty reduction and downplayed reference to "the national interest".<sup>7</sup>

Under Abbott, the pendulum appears to have swung back towards competition with China, although only to a certain extent. Within days of being elected in September 2013, the government announced that it would integrate AusAID into DFAT in order to achieve greater alignment between aid and foreign policy. Subsequently, it revealed that it would also refocus the aid program around an economic growth and trade liberalisation agenda. While these moves undoubtedly reflect long-held Coalition views that aid policy should be subordinated to the national interest and possibly a desire to enhance DFAT funding, they mark a dramatic shift, not only from Labor's aid policies, but also their own during the Howard years. Some other Western governments have made similar changes to their aid policies, most notably New Zealand and Canada (Banks *et al* 2012; Davies 2013). But while these countries may have provided something of a model, it is difficult to see these changes as anything other than a response to the increased geo-political and geo-economic competition brought about by China's growing role within the region. On the other side, though, the Abbott government looks likely at the time of writing (March 2015) to accept China's invitation for Australia to join the Asian Infrastructure Investment Bank, a new China-led multilateral development bank focused on infrastructure development within the Asian region, notwithstanding US opposition to the initiative. In sum, then, Australia's response to the growing role of non-OECD donors, in particular China, in the Asia-Pacific, has been uncertain, shifting significantly depending on which political party has been in office and currently—under Abbott—effectively trying to have 'two bob each way'. While both the major political parties have given high priority to the national interest, they have differed in terms of how they believe this is best realised as well as in their commitment to the use of aid to promote poverty reduction and the MDGs. These shifts have reflected the different constituencies and foreign policy philosophies of the major political parties.

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<sup>7</sup> In contrast to the 2006 White Paper (see footnote 5 above), the Gillard government's response to the Independent Review of Aid Effectiveness states simply that 'The fundamental purpose of Australian aid is to help people overcome poverty', noting that 'this also serves Australia's national interests by promoting stability and prosperity both in our region and beyond.'

## Future Trajectories

What does all this mean for the future evolution of Australian aid policy? For much of the past two decades, Australian aid policy has followed a model that has combined a realist concern to promote Australia's economic and security interests, particularly within the Asia-Pacific region, with an inclusive form of neoliberalism. While economic growth and economic liberalisation have been the key foci of Australia's development strategy, the aid program has nevertheless been officially aimed at promoting poverty reduction (and until 2012 sustainable development as well following the Coalition's formulation of the program's objective). And regardless of whether Labor or the Coalition has been in power there has been significant investment in social sectors such as education and health, albeit to a greater extent under Labor. Broadly, this approach has been consistent with the emphasis in the post-Washington consensus on establishing political and social environments that are conducive to economic development and market-oriented reform. The changes in Australian aid policy wrought by Asia's economic rise and changes in government, however, suggest that this model may have had its day.

As Emma Mawdsley (2012: 214-215) has noted, "the reality and perception that many of the rising powers are harnessing aid and development cooperation to their national economic and strategic interests are encouraging many within Western/DAC governments, policy circles, the private sector and the public to redefine their own foreign aid agendas." Eileen Connolly and Aurelie Sicard (2012) have presented evidence suggesting that Ireland and the UK, for instance, have both substantially shifted their aid policy discourse in response to China's growing aid activity in sub-Saharan Africa. Specifically, they suggest, this discourse has become more focused on the importance of trade links (although much more noticeably in the case of Ireland than the UK); much less focused on sensitive issues such as political conditionalities, governance, corruption and accountability; and in general much more positive in its presentation of African countries. This amounts, they suggest, to "a substantial change in the ideas that underpinned the aid relationship and it is comparable to the shift that took place in the 1990s when a focus on the historic causes of underdevelopment was replaced by the idea of state failure." In this context, it is pertinent to ask whether Australia's aid program is being reinvented in the image of the image of non-OECD Asian donors, in particular China.

My sense is that while the Abbott's government's decisions to integrate AusAID into DFAT and re-emphasise economic growth are consistent with a shift towards the Chinese model of aid, Australia is not heading fully down that path. Politically, it is almost impossible for Australia to replicate two key aspects of the Chinese model of aid—the incorporation of aid into package deals and the "no-strings attached" approach to conditionality—because of the liberal market structure of the Australian economy and the ideological hegemony of neoliberalism. As James Reilly (2012) has argued, East Asian models of aid have reflected the nature of domestic political economies within the region and, in particular, the fact that they have pursued relatively state-centred approaches to development. In the Chinese case, the economic dominance of state-owned enterprises has facilitated the coordination between state

and capital required for package deals. State-led development has also underpinned the emphasis in Chinese aid on “mutual benefits” to recipient and provider and the relative absence of conditionality.

Instead, I would argue that Australia is heading towards a model of what might be called mercantilist neo-liberalism. In this model, aid is increasingly harnessed to the pursuit of Australia’s economic and security interests, not *via* package deals and reduced conditionality, but rather via the promotion of global and national trade liberalisation, an outcome seen as crucial to Australian economic competitiveness, and efforts to address global and regional security threats. This model shares with the Chinese model a relative lack of concern with poverty reduction and sustainable development (and, in particular, international development goals such as the MDGs) and a focus on economic growth. But it is distinctive in the fact that it is grounded in a liberal market political economy and the ideas of neo-liberalism rather than a *dirigiste* economic system shaped by notions such as socialism with Chinese characteristics. For the world’s—and in particular the region’s—poor, this shift constitutes a huge gamble with their fate. One can only hope that it proves more effective in promoting poverty reduction, notwithstanding the official downgrading of the latter as an objective, than past approaches.

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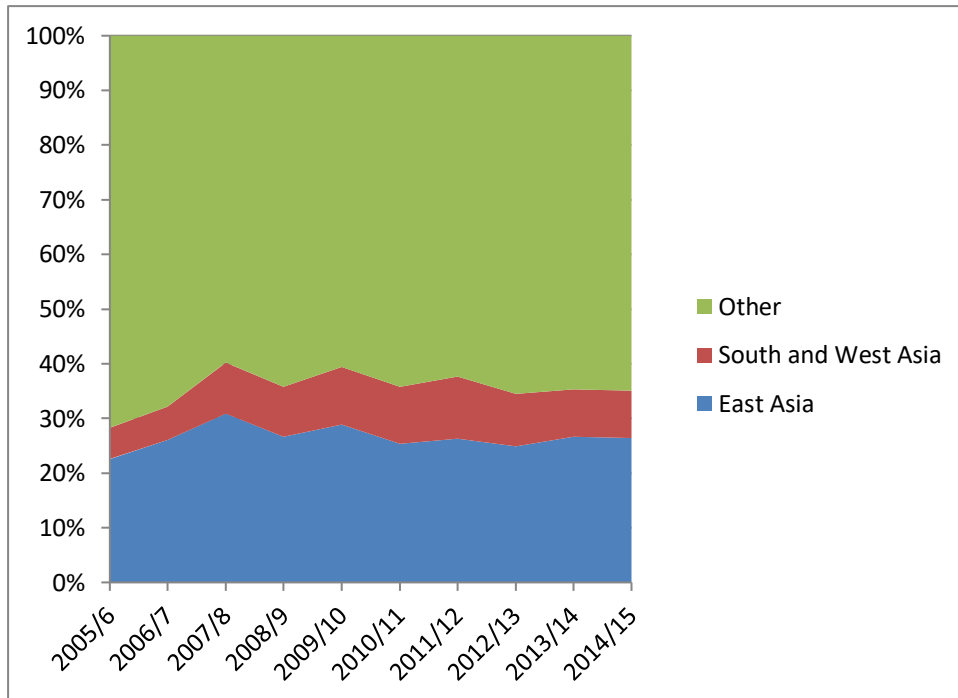
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## Figure One

### Australian ODA to Asia, 2005/6-2011/12

(Percentage of total Australian ODA, actual expenditure)



Source: Australia Government Aid Budget Paper, various years.