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***Bilateral donors in the Pacific: is it more than development?***

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One third of the world’s gross domestic product is now coming from the Asia Pacific region, much of it driven by China’s economic ascendancy. The Pacific which was once distant from the centres of economic power is now in the ascendant economic power’s backyard.

It is evident that Pacific island countries will be increasingly engaging with Asia-Pacific’s economic powerhouse.

In step with this increased economic engagement is a rise in China’s influence across the region which is making itself evident on a number of fronts. Most notable is its donor activities.

While it is difficult to ascertain with any certainty the size of China’s aid program because of the lack of comprehensive publicly available information, a report released in 2011 by the Lowy Institute for International Policy estimated that China’s soft loans to the region had increased from US$23 million in 2005 to over US$183 million in 2009. Based on the Lowy Institute’s findings, China is now the third largest donor to the region after Australia and the USA.

Aside from the aid relationship, the region’s trade with China has also grown steadily over the past 10 years. Other evidence of increasing influence includes China’s international broadcasting efforts which are starting to gain traction in terms of Pacific audience popularity.

China’s rise in influence across the Pacific has not gone unnoticed by the USA. In March 2011, Secretary of State, Hillary Clinton, warned the Senate Foreign Relations Committee that the USA was in a competition with China in the Pacific.

By late 2011, the rhetoric had softened. Nonetheless, the significance of Asia-Pacific as a key driver of global politics and within that, China, was set out clearly in Clinton’s essay, *America’s Pacific Century,* published in the November 2011 issue of *Foreign Policy*.

While the South Pacific islands region may be a sideshow to the vastly bigger diplomatic, economic and strategic interactions being played out in Asia and the northern Pacific, the USA has recognised that the South Pacific is not to be overlooked in the USA’s assertion of itself as a Pacific power.

This was made clear during President Obama’s visit to Australia in November 2011 when he stated that the new focus by the USA on Asia Pacific reflected a fundamental truth – the United States has been, and always will be, a Pacific nation.

For Australia, this stronger engagement by the world’s major powers with the neighbourhood where Australia has long been the dominant actor raises new questions for Australia’s own relationship with the region.

Yet, despite three foreign ministers in 4 years, the change in the management of Australia’s foreign affairs portfolio has not brought with it a change in the policy settings which shape Australia’s relationship with the Pacific.

The continuing emphasis in the regional relationship is to support and encourage stability, security and prosperity. This is given substance in a number of ways but most notably through Australia’s aid program which continues to have as its top priority assistance to the Pacific island countries.

Economically, Australia dominates in this region which is characterised by diversity in levels of development. Of the 16 members of the Pacific Island Forum, 14 are developing countries with a significant proportion of their development aid coming from the other two members, Australia and New Zealand.

This imbalance is exacerbated by the very wide divergence in the profile and substance of the region’s economies. While Australia’s annual per capita income was US$43,590 in 2010, the annual per capita income for Solomon Islands was just over US$1,000.

Population profiles also reflect the great variations. With around 36 million people living across the region, more than 60% are in Australia. This is contrasted with the populations of a number of the Pacific micro-states which range from around 10,000 (Tuvalu and Nauru) down to Niue’s tiny 1300. There are more microstates in the Pacific than anywhere else on Earth.

Australia’s hegemonic position in the region brings with it expectations by the broader international community which has long looked to Australia, often in partnership with New Zealand, to support the development and security aspirations of the region’s developing countries.

For Australia this responsibility rests easily with the core of its own national interests. Governance and security challenges periodically but regularly threaten the stability of the region which is Australia’s backyard.

It is clearly in Australia’s own interests to take a leadership role in assisting the smaller countries in the region to achieve their own social and economic aspirations as a way of reducing the potential for instability and insecurity.

So it’s not surprising then that a little less than one quarter of Australia’s aid budget currently goes to PNG and the Pacific. Out of a total budget of $5.1b in 2012/2013, $1.17b goes to the Pacific region. Australia remains by far the largest donor to the region, providing more than 50% of the donor funds flowing into the region.

The core development principles for Australia’s engagement with the countries and peoples of the region are outlined in the Port Moresby Declaration (March 2008) – mutual respect, mutual responsibility, a focus on results and working together to achieve the Millennium Development Goals (MDGs).

But it’s important to note that another agreement - the Forum Compact – formally known as the Cairns Compact on Strengthening Development Coordination in the Pacific – guides Australia’s aid as it does all donor partners in the Pacific except China. The compact was agreed by Pacific leaders at the 2009 Pacific Islands Forum. It looks at how progress towards the MDGs can be accelerated by improving aid effectiveness.

To do this, Pacific island countries need to take the lead in setting the national development priorities, improving coordination among donors and reducing the number of small but administratively cumbersome projects.

So for Australia, its aid to the Pacific is very much a two-pronged objective: while development and prosperity are at the core, so too are strategic and security issues.

So what are the other donors doing in this area?

The next biggest OECD donor to the region is USA. But statistics can be misleading. the US aid contribution to the Pacific is pretty much restricted to the so called Compact States (Compact of Free Association) - Federated States of Micronesia, Marshalls and Palau.

The U.S government treats these nations uniquely by giving them access to many U.S. domestic programs, including disaster response and recovery and hazard mitigation programs as well as weather forecasting, postal and aviation services all provided by the relevant national US agencies.  The Compact agreement allows the United States to operate armed forces in Compact areas, to demand land for operating bases (subject to negotiation), and excludes the militaries of other nations without U.S. permission.

Under the terms of the Compact renegotiated for the 20 year period 2004 to 2023, the United States has agreed to provide the Federated Stated of Micronesia (FSM) almost US$100 million a year until 2023.

Much of the Marshall Islands gross development product is derived from payments made by the United States. Direct U.S. aid accounted for 62.2% of the Marshall Islands' US$132.2 million budget for FY 2011.

Palau and the USA concluded a comprehensive review of the compact in early September 2010. A wide range of federal programs will continue for the next 15 years. By the end of 2010, the value of a trust fund set up under the Compact was approximately $160 million. According to the OECD’s Development Assistance Committee (DAC), the US government provided US$15.05m in development assistance in 2010.

However, while the Compact states continue to receive the bulk of the USA’s Pacific aid investments, the relatively recent rebalancing of its priorities towards Asia and the Pacific, led to its decision in 2011 to open a regional USAID office in Fiji with a US$20m budget for regional activities.

At the time of the announcement some observers viewed the decision was based on the US desire to counter Fiji’s relationship with China. However, the office opened this year, not in Suva but in Port Moresby. The question then was whether this had to do with behind the scene manoeuvres by Australia to isolate Fiji further or really, as the item about the opening of the office suggests, because PNG is by far the growing economic power in the Pacific.

Now, let me turn to another important donor in the Pacific, China.

Globally, China provides foreign aid on a scale comparable with mid-sized aid donors such as Australia, Belgium or Denmark. In terms of aid grants, the United States is the world’s largest foreign aid donor, far exceeding China.

In 2011 China released its first ever White Paper on aid. Very much framed within the south/south cooperation paradigm. The basic features of China’s foreign aid policy are:

* Unremittingly helping recipient countries build up their self-development capacity;
* Imposing no political conditions…respect(ing) recipient countries’ right to select their own path and model of development;
* Adhering to equality, mutual benefit and common development;
* Remaining realistic while striving for the best;
* Keeping pace with the times and paying attention to reform and innovation;
* Chinese foreign aid is provided in three forms: grants and interest-free loans (through state finances) and concessional loans administered through China EXIM Bank.

To the end of 2009, China had provided a total of 256.29 billion yuan (US$39.3 billion) in aid, with approximately 41% grants, 30% interest-free loans and 29% in the form of concessional loans.  These are the most authoritative figures available to date.

The paper provides no information about annual expenditure and the US$39.3 billion is up until the end of 2009 but it’s unclear as to how many years this figure covers. However, it is clear that 4% of its global aid goes to the Pacific. As I noted earlier, the Lowy Institute’s most recent report suggests that China’s soft loans to region were around US$183m in 2009. In a speech to the institute just this week, the chair of the OECD’s DAC, Brian Atwood, said the current estimate for China’s global aid was around US$10 billion.

Although there is some debate about this figure being so large, if it is correct and the 4% proportion to the Pacific has remained steady, it puts Chinese aid at around US$400m which is a sizeable increase on the Lowy Institute’s 2009 estimate of around US$183 million. This would put it as the second largest donor to the Pacific – but still considerably less than Australia.

Some observers consider the secrecy surrounding Chinese foreign aid spending has as much to do with domestic considerations as it does with foreign factors. Given that many Chinese still face major struggles to meet their basic needs, foreign aid could be unpopular. Like other donor governments, China has to consider its own domestic audience and the possible criticism it might attract for sending aid abroad when it should be spent at home.

For New Zealand, the third largest OECD donor to the region, the Pacific is the core geographic focus for the New Zealand aid program. Over half of New Zealand’s total aid goes to this region. The top 10 recipients of NZ aid are in the Pacific except for Indonesia and those top 10 receive close to 50% of all NZ aid which in 2010 was USD342 m.

According to NZ aid program, the Pacific is New Zealand’s own neighbourhood, and New Zealand has the cultural, economic, and social links with the region that can influence positive change.

Now, let’s turn to France, which is the fourth largest OECD donor to the Pacific. While there are three Pacific countries that receive significant income from France, only one receives ODA-eligible assistance. That’s Wallis and Futuna, an overseas territory of France with a population of 15000 which receives around US$140 million a year. The other two countries – New Caledonia and French Polynesia – receive very sizeable flows of support of France although these flows are not reflected in the OECD’s development assistance statistics. New Caledonia receives around US$1.5b a year. French Polynesia receives around US$2b a year which makes up around 30% of French Polynesia’s GDP.

Japan too has been a long standing major bilateral donor to the Pacific. However while Japan’s aid increased in 2010 from their 2009 levels, indications are that the future Pacific allocation will remain flat following the announcement at this year’s Pacific Islands’ Leaders Meeting hosted by Japan that Tokyo would commit US$500m in aid to the Pacific over the next three years. On an annual basis, that equates to US$10 million less than its 2010 budget.

What do these figures and aid investments mean? Is what we are seeing in this scaling up of aid to the Pacific a competition for influence? Nevermind that the Pacific receives by far more aid on a per capita than anywhere else in the world. If so, it appears that the competition is limited to a field of three – Australia, China and the USA – as it seems that none of the other top bilateral donors – New Zealand, Japan and France – are about to increase their Pacific budgets.

Recent projections of New Zealand’s aid budget have it standing still over the next three years although whether there will be an increase in the Pacific allocation is yet to be seen. France’s aid allocation to the Pacific is linked to its support for Wallis and Futuna and there is no indication that this will alter. And Japan’s aid is set to go down.

For the Pacific recipients, the increasing aid presence by China and USA does provide opportunities. At times uncomfortable with Australia’s aid dominance which overshadows other elements of their bilateral relationships, Pacific leaders have more opportunity to consider alternatives.

This can address not only gaps in the implementation of their development plans but it also provides a counter to what could be described as an major imbalance in their bilateral relationships with the region’s largest donor and economic power.

For Australia, there is also the opportunity in this increased interest by China and the USA to find ways in which the already high levels of aid to the Pacific can be used more effectively.

The aid needs to be measured by the quality of its development outcomes, not the quantity of its inputs nor the potential geo-strategic gains. Quantity can, in the short term, provide an illusion that it is serving both development and geo-strategic objectives.

However, in the longer term, bad aid is damaging not just developmentally but geo-strategically. It impacts negatively both on the reputation of the aid agency involved but importantly on a country’s reputation as a good international citizen.

Instead of embarking in a competition, the Pacific’s development challenges offer the opportunity to strengthen co-ordination and co-operation in supporting development in the Pacific.