Aid, Strategy and Australian Economic Diplomacy

The Coalition government has embraced a more transactional foreign policy than its predecessor. Foreign Minister Julie Bishop has repeatedly explained how the concept of "economic diplomacy" will guide Australia's international engagement. "Strong economic outcomes" are the priority; shared prosperity is the objective.

Accordingly, the government repurposed Australia's foreign aid program. Under Bishop's "new aid paradigm", Australia's aid program exists:

… to promote Australia's national interests by contributing to sustainable economic growth and poverty reduction.

Upon winning office, the Coalition also decided to integrate AusAID – Australia's previously autonomous aid agency – into the Department of Foreign Affairs and Trade (DFAT) to enable:

… the aid and diplomatic arms of Australia's international policy agenda to be more closely aligned.

Given the government's framing of Australia's aid program as an investment, it is fair to evaluate its aid spending decisions on those terms.

Repeated cuts

At the macro level, the Coalition has moved to rapidly alter the balance of Australia's foreign policy spending.

The aid-to-defence spending ratio reached 20% toward the end of the previous Labor government. Following three successive cuts to the aid budget, that ratio is projected to halve, to around 10%, within the next two years.

The largest of the three cuts was announced in December 2014, as a part of general budget savings in the Mid-Year Economic and Fiscal Outlook. These cuts, reflected in the 2015-16 budget, mean Australia's aid budget has fallen to A$4 billion, down from a peak of $5.6 billion in 2012-13.

The government's budget cuts mark both the largest ever multi-year aid cuts (33%) and largest ever single year cut (20%, or $1 billion, in 2015-16). Australian aid will fall to 0.22% of gross national income (a global measure of donor generosity) in 2017-18, the lowest level in Australia's history.

This comes only a handful of years after both sides of politics were promising to double the aid budget to $8 billion to reach 0.5% of GDP by 2015. Such rapid changes in comparative outlays on development, defence and diplomacy betray how limited the discussions have been in Australia about the most suitable international policy investment mix to generate shared prosperity in the contemporary environment.

The US, for example, has done more thinking about how its diplomacy, development and defence are strategically linked.

The 2015-16 budget also laid out how Australia will achieve the 20% cut. Aid was cut to whole countries and regions rather than by assessing the development effectiveness of programs.

Aid to the Pacific was largely spared; there was only a 5% cut to Papua New Guinea and a 10% cut to Pacific regional funding. Sub-Saharan Africa was slashed by 70%. Aid to the Middle East was cut by 43%. Papua New Guinea replaced Indonesia as the largest recipient of Australian aid, with some distortion caused by offshore detention centres.

Big question marks still hang over where the remaining $5.2 billion capital subscription required in 2019-20 for the Asian Infrastructure Investment Bank will come from – not to mention climate adaptation financing.

One might think an aid budget of $4 billion sounds OK. It is still a lot of money. And times are tough. Actually, compared to other donors, times are not tough in Australia based on any objective criteria.

A reduced aid budget equates to the forsaking of real opportunities in foreign policy terms. In the long term, this could make the savings look miniscule compared to opportunity costs.

As Australia's continuing engagement in countries like Afghanistan shows, transitioning to effective long-term civilian-led development programs is cheaper and better for Australia than expending more military might.

We cannot accurately measure the rate of return provided by aid portfolios. Nor can we come close to quantifying goodwill and trust. But they exist. And they matter.

These investments do, at some point, reap tangible payoffs – including shared prosperity dividends – for fund managers possessed of foresight, patience and the courage of their convictions.