

POLICY AND GOVERNANCE

A

ustralia's governance aid:
Evaluating evolving
norms and objectives

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Abstract

'Good governance' – the current buzzword of the international development community, despite its elusiveness – promises prosperity and democratic justice for all citizens of the world. Good governance commonly espouses the efficient management of a country's institutions and social and economic resources in an open, accountable manner. Upon its emergence as the prevailing developmental paradigm in the early 1990s, Australia's official aid agency, AusAID immediately caught the good governance wave. Initially a peripheral concern for AusAID, the governance agenda had, by the mid-1990s come to dominate the character and objectives of the Australian aid program – with a decidedly greater emphasis on democratic governance. The promotion of 'good governance' in developing countries – with the pursuit of open trade – is declared by AusAID as the ticket to poverty reduction. This paper aims to deconstruct the Australian approach to promoting 'good governance' with a view to answering four key questions: (1) What does the elusive concept of 'good governance' mean in the context of development theory and practice? (2) How did this concept evolve and become institutionalised as a core objective of AusAID's work? (3) How does Australia's conception of 'good governance' facilitate the pursuit of national interest? (4) To what extent does AusAID's foreign policy-focused conception of governance conflict with a more developmentally-focused conception of governance?

*Australia's Governance Aid:
Evaluating Evolving Norms and Objectives*

Susan Cirillo

This is a revised version of an honours thesis submitted to the Department
of Politics and International Relations at the University of New South
Wales in 2005

‘Good governance’ – the current buzzword of the international development community, despite its elusiveness – promises prosperity and democratic justice for all citizens of the world. Good governance commonly espouses the efficient management of a country’s institutions and social and economic resources in an open, accountable manner. Upon its emergence as the prevailing developmental paradigm in the early 1990s, Australia’s official aid agency, AusAID¹ immediately caught the good governance wave. Initially a peripheral concern for AusAID, the governance agenda had, by the mid-1990s come to dominate the character and objectives of the Australian aid program – with a decidedly greater emphasis on *democratic* governance. The promotion of ‘good governance’ in developing countries – with the pursuit of open trade – is declared by AusAID as *the* ticket to poverty reduction.

This paper aims to deconstruct the Australian approach to promoting ‘good governance’ with a view to answering four key questions:

- (1) What does the elusive concept of ‘good governance’ mean in the context of development theory and practice?
- (2) How did this concept evolve and become institutionalised as a core objective of AusAID’s work?
- (3) How does Australia’s conception of ‘good governance’ facilitate the pursuit of national interest?
- (4) To what extent does AusAID’s foreign policy-focused conception of governance conflict with a more developmentally-focused conception of governance?

Hypothesis and Argument

The key hypothesis presented is that the ‘good governance’ agenda has been articulated by AusAID in a way that claims to facilitate the aid program’s binary function; promoting development in recipient countries whilst simultaneously serving

¹ Before 1995 AusAID was known as AIDAB (Australian International Development Assistance Bureau), however, here in after, the aid program will be referred to as AusAID, despite the year reference is made to.

the Australian interest. Australia has harnessed the aid program's governance agenda to provide a 'whole-of-government' approach to pursuing Australia's security and trade interests. Specifically, I hypothesise that:

(1) In relation to security, Australia's understanding of 'good governance' has evolved to emphasise the capacity that developing states have to effectively combat trans-national security threats that may potentially threaten Australia.

(2) In relation economic and trade interests, Australia's approach to governance aid has also evolved to emphasise the role that economic liberalisation and market-based development plays in facilitating trade capacity in developing countries – thereby quenching Australia's thirst for regional free trade access.

Hence, the argument is that Australia's 'good governance' agenda is primarily shaped by Australia's foreign policy imperatives. Reciprocally, projects which seek to enhance Australia's regional security and the proliferation of economic liberalisation amongst current and potential trading partners are justified under the rubric of 'good governance'.

The third and final hypothesis of this thesis relates to the implications that Australia's foreign policy imperatives have on the developmental attributes of AusAID's conception of 'good governance'. Specifically, I hypothesise that;

(3) Australia's foreign policy imperatives are leading AusAID to emphasise procedural over substantive aspects of democratic and governance aid that is less democratically conducive than it might otherwise be.

Hence, the argument is that AusAID's focus on the improvement of public sector management to increase transparency and accountability places emphasis on the procedural public capacity aspects of good governance. In relation to democracy, AusAID exemplifies a liberal conception of democracy given its emphasis on the procedural elements of democracy, rather than the substantive social elements of democracy.

Governance aid is inherently a more political and ideological form of aid giving. To understand why states prioritise certain aspects of governance in recipient countries, we need to understand how current international imperatives shape the 'worldview' of states and emphasise particular norms of behaviour. An institutional approach that locates the behaviour of states within international structures of norms and values is useful to this end.

In this paper, Australia's approach to governance aid is examined through a lens that combines elements of both normative and historical institutionalism. Normative institutionalism allows us to understand international norms and the ways in which these shape Australia's 'world view'. Historical institutionalism enables us to examine the organisational configuration of Australia's aid program and foreign policy apparatus, how these organisations intersect with the ideational institution of 'good governance', and how Australia's aid program has changed ideationally and organisationally over time.

Evaluating the evolving norms and objectives of Australia's governance aid satisfies an empirical and theoretical gap in the development studies and Australian aid literature. While literature exists on the governance approaches of EU countries and the US,² no such general study exists of the Australian approach. While a few works have been produced critiquing certain aspects of Australia's aid program which involve governance aid,³ this paper aims to characterise the overall Australian approach to governance aid. This includes an historical overview of how the governance concept became entrenched within AusAID and reflecting on the implications that AusAID's understanding of governance has on its objectives.

In the literature on Australian aid, there exist various debates concerning the Australian aid program's propensity to serve its own interests. These debates may focus on Australia's commercial interests, strategic interests, and the extent to which

² See for example, Thomas Corothers, *Aiding Democracy Abroad: The Learning Curve* Washington DC: Carnegie Endowment, 1999 and Gordon Crawford, *Foreign Aid and Political Reform: A Comparative Analysis of Democracy Assistance and Conditionality* Palgrave, 2001

³ see Jonathan Cornford, *Australian Aid, Development Advocacy and Governance in the Lao PDR: Mixed Messages and Emerging Possibilities* Australian Mekong Resource Centre, Working Paper No. 1, June and Geoff Forester, 'Staying the course: AusAID's governance performance in Indonesia' *Lowy Institute Perspectives* April 2005

Australia's pursuit of its own interest is detrimental to the interests of recipient countries.⁴ This paper, however, aims to demonstrate *how* Australia is pursuing these interests in the aid program through use of the 'good governance' agenda. Specifically, this paper uses a normative and historical institutional approach to understand how these interests are facilitated through the governance agenda. It explains where these interests come from, and how they have manifested themselves in the design of governance aid programs.

The first part of this paper explores the notion of 'good governance'. Chapter 1 reviews the literature documenting the rise of 'good governance' as a developmental paradigm. Chapter 2 defines its meaning and understands its usage and chapter 3 draws together some general critiques of the concept. The second part deconstructs the Australian aid program. Chapter 4 analyses its historical development, institutional and normative context and its stated objectives. Chapter 5 understands the rise of 'good governance' within this context and maps the Australian approach towards governance including aspects such as democracy and human rights. The final section containing chapters 6 and 7 contains two case studies of Australia's foreign policy imperatives – security and trade respectively – and examines how these imperatives have shaped the governance agenda. Finally, the conclusion will evaluate my hypothesis and identify areas for further research.

⁴ Patrick Kilby, 'Introduction' in P. Kilby (ed) *Australia's Aid Program: Mixed Messages and Conflicting Agendas* Monash Asia Institute and Community Aid Abroad, 1996

PART 1 – WHAT IS ‘GOOD GOVERNANCE?’

Since the ‘third wave’ of democratisation⁵ and the fall of communism in the early 1990s debate has escalated as to whether effective institutions of ‘governance’ are the ‘missing link’ in sustainable development.⁶ Today, the United States, a number of EU countries and international financial institutions include ‘good governance’ programs as part of their official development assistance. Depending on the interests of the particular aid agency and their definition of ‘good governance’, reform programs may be conducted in areas such as; rule of law, legislature, judiciary, policing, bureaucracy, economic management, trade capacity reform, human rights and electoral systems as well as promoting a “democratically inclined” civil society.

These programs fall within the rubric of ‘technical co-operation’, which as defined by the OECD;

“...encompasses a whole range of assistance activities designed to improve the level of knowledge, skills, technical know-how, or productive aptitudes of a population in a developing country. A particularly important objective of technical cooperation is institutional development, i.e. to contribute to the strengthening...of the many institutions essential for sustainable development...”⁷

In a practical sense, the technical assistance projects aiming to promote ‘good governance’ essentially involve the provision of donor funded personnel, often foreign ‘experts’ who work in-country to supply missing skills and train local people.⁸

This development of foreign aid has been motivated in part by changes in the material distribution of international power relations. Aid is as much about considerations in contemporary international relations, such as defeating the rise of terrorist non-state

⁵ Samuel Huntington, *The Third Wave: Democratisation in the Late Twentieth Century* University of Oklahoma Press, 1991

⁶ Shahid Javed Burki And Guillermo Perry *Beyond the Washington Consensus: Institutions Matter* Washington DC: The World Bank, 1998 p 18-19

⁷ OECD, *Principles for New Orientations in Technical Cooperation*, Paris: OECD, 1991

⁸ Channing Arndt, ‘Technical Co-operation’ in Finn Tarp (ed) *Foreign Aid and Development: Lessons Learnt and Directions for the Future* London: Routledge 2000 p 159

actors and increasing free trade, as it is about fuelling global poverty reduction.⁹ But it has also been developments in the academic literature and the latest thinking in the international development community that marks the difference between the Marshall Plan's emphasis on investment, infrastructure and growth, and today's anti-corruption projects in Africa.¹⁰

This part of the thesis aims to understand the concept of 'good governance' as a developmental paradigm – its history, meaning and critiques - so as to better situate our understanding of the Australian governance aid approach.

Identifying the genesis of governance aid; historical developments in a global context

The historical development of aid that is aimed at political and institutional reform including legal, democratic and economic reforms can be summarised in three distinct phases.

- The short-lived Law and Development Movement of the 1960s
- The Cold-War period and the inconsistent and conflicting goals of aid aimed at political reform.
- The post-Cold War period and the refinement of the goals of political aid known as 'governance' aid.

1.1 Traditional forms of institutional aid: the Law and Development Movement

The genesis of 'governance' aid can be traced back to the beginnings of the post-WWII international foreign aid phenomenon. Decolonisation and the emergence of

⁹UNDP *Human Development Report: International Cooperation at a Crossroads: Aid, Trade and Security in an Unequal World* New York: UNDP, 2005

Susanne Soederberg, 'American Empire and 'excluded states': the Millennium Challenge Account and the shift to pre-emptive development' *Third World Quarterly* Vol. 25 (2) 2004

¹⁰ Eric Thorbecke 'The evolution of the development doctrine and the role of foreign aid, 1950-2000' in Finn Tarp (ed) *Foreign Aid and Development: Lessons Learnt and Directions for the Future* London: Routledge 2000 p 20 and 39

the ‘third world’ created a constituency for aid.¹¹ Fuelled by the practical imperative to further create developed markets for western goods, and shrouded in the moral obligation to ensure the universal ‘right’ to development, the foreign aid phenomenon was born.¹²

The practice of institutional reform via aid dates back to the 1960s in the form of a short-lived intellectual movement known as the ‘law and development’ movement. The ‘law and development movement’ was led by academics and initiated as a response by US aid agencies to create a science of development.¹³ Due to increased inter-disciplinary cooperation between economists, social scientists and lawyers, the importance of legal institutions for functioning capitalist systems came to be regarded as a key principle of development. A number of ‘law and development’ projects were funded, with an emphasis on improving legal education and the legal profession in developing countries.¹⁴ What was essentially promoted was a western ideal of ‘liberal legalism’. Consequently, by the 1970s a revised critique from two of the movement’s greatest supporters – legal scholars Trubek and Galanter – sounded the death knell of the movement.¹⁵

Trubek and Galanter claimed that it was the very assumptions of ‘liberal legalism’ that marked the irrelevance of transporting western laws to developing countries.¹⁶ The rule of law according to liberal legalism relied on the centrality of the state in creating law and order. What the scholars of the law and development movement, according to Trubek and Galanter failed to realise was that in developing countries, tribe, clan and inter-ethnic loyalties, surpassed those of the state. They claimed that western practitioners overestimated their ability to transfer western institutions to developing countries. The importance of this piece of literature is its timely character

¹¹ Peter Hjertholm and Howard White ‘Foreign aid in historical perspective: background and trends’ in Finn Tarp (ed) *Foreign Aid and Development: Lessons Learnt and Directions for the Future* London: Routledge 2000 p 80

¹² Peter Burnell, *Foreign Aid in a Changing World* London: Open University Press, 1997 chapters 3 and 4

¹³ John Merryman ‘Comparative law and social change: On the origins, style, decline and revival of the law and development movement’ *American Journal of Comparative Law* Vol. 25 (3) 1977

¹⁴ Thomas Franck, ‘The new development: can American law and institutions help developing countries’ *Wisconsin Law Review* (3) 767, 1972

¹⁵ Elliot Burg, ‘Law and Development: A revival of the literature and a critique of “Scholars in self-estrangement”’ *American Journal of Comparative Law* Vol. 25 (3) 1977

¹⁶ Trubek, David, and Galanter, Mark, ‘Scholars in self-estrangement: some reflections on the crisis in law and development studies in the United States’ *Wisconsin Law Review* Vol. 4, 1974

given that the same themes of the futility of institutional transfer are invoked by today's critics of aiding institutional reform.¹⁷

1.2 Goals of institutional reform in conflict: Cold War politics

During the Cold War, western intervention or influence in developing country politics and institutions was not aimed at democracy per se, as their rhetoric suggested, but rather supporting reactive groups in response to the communist challenge.

The US ideological preference for popular democracy was actually in practice a preference for stability of the anti-communist kind.¹⁸ For example, the US Foreign Assistance Act (Title IX) of 1961 contained provisions for increasing popular participation in development. Yet, despite such rhetoric many 'democracy' programs were covertly delivered by the CIA, aimed at defeating communist infiltration and leftist leaning organisations.¹⁹ The idea best invoked here to describe US ideological standards versus their actions is that of 'double standards'- a preference for anti-communism even if it meant 'non-democracy'.²⁰

Another example of Cold War politics undermining goals of democratic development was found in Germany. During this time, a system of political aid delivery was being pioneered by Germany, which at the time was also promoting double standards. The Federal Republic of Germany had pioneered the *Stiftungen*²¹, in the late 1950s, as a means of delivering political aid through specialised agencies each affiliated with German political parties, such as the Freidrich Ebert Foundation which was affiliated with the Social Democratic party.²² Yet, this organisation was still working alongside

¹⁷ Ken, Davis and Michael Trebilcock, 'Legal reforms and development' *Third World Quarterly* Vol. 22 (1) 2001

Richard Messick, 'Judicial reform and economic development: A survey of the issues' *The World Bank Research Observer*, Vol. 14, (1) 1999

¹⁸ Lowenthal, Abraham, *Exporting Democracy: The United States and Latin America: Themes and Issues* Baltimore: The John's Hopkins Press, 1991

¹⁹ Ralph Goldman 'The democratic mission' in Goldman and Douglas (ed) *Promoting Democracy: Opportunities and Issues* New York: Praeger, 1988 p13

²⁰ Jeanne Kirkpatrick 'Dictatorships and 'double standards' *Commentary* Vol 68 1979

²¹ Stiftungen refers to the German political party foundations.

²² Pinto-Duschinsky, Michael, 'The rise of "Political Aid" in Diamond, L., Platt, M.E., Yunhan Chu and Hung-mao Tien, *Consolidating the Third Wave Democracies: Themes and Perspectives* Baltimore: Johns Hopkins University Press, 1996

the US in helping to defeat left-leaning unions in Latin America rather than facilitating viable democracies.²³

During this time, Cold War politics had entangled political aid within the grasp of its strategic imperative and thereby created inconsistency between goals and action. Eventually though, the fall of communism occurred simultaneously with the ‘third wave’ of democratisation. This bore a consequent refinement of the goals of institutional and political reform through aid, thereby allowing governance aid to rapidly expand in the 1990s. This occurred for two main reasons.

- Firstly, as a bipolar world transformed into a unipolar world, there was no longer a strategic imperative to form alliances with, and extract support from, authoritarian regimes with poor records of democracy and human rights. This transformation of international relations was marked by a normative shift in the international state system. During the Cold War period, ‘negative sovereignty’ or the right of non-intervention in the internal affairs of developing states had prevailed. Following the end of the Cold War, this paradigm conceded to norms of ‘positive sovereignty’ where donor states began to demand that recipient governments be held accountable for their mode of internal governance.²⁴
- Secondly, the ‘third wave’ of democratization and the increase of democratic openings in countries – that is; a fall of the current regime – created more space for aid agencies to facilitate democratic transitions and promote good governance. Therefore as Corothers notes, it is just as important to consider the rise of democratisation in the world as increasing demand for and proliferation of democratic governance assistance, as it is to consider democracy assistance as causing the proliferation of democratisation itself.²⁵

²³ Stefan Mair ‘Germany’s Stiftungen and democracy assistance: Comparative advantages, New Challenges’ in Peter Burnell, 2000, pp 128-149

²⁴ Robert Jackson, *Quasi-states: sovereignty, international relations and the Third World* Cambridge: Cambridge University Press, 1990, chapter 1

²⁵ Corothers, Thomas, *Aiding Democracy Abroad: The Learning Curve* Washington DC: Carnegie Endowment, 1999, p 44

1.3 Post-Cold War and the rise of the ‘good governance’ paradigm

In the post-Cold War period the ‘good governance’ agenda emerged as both the concern of the development practitioner and the intellectual. In aid circles, ‘good governance’ became the overarching paradigm within which to direct all political reform efforts.

The main difference between Cold War and post-Cold War aid aimed at political motives lies in the level of transparency. The main political imperative during the Cold War was strategic alliance building to divide the world into two camps. Aid was used simply as a carrot to assist this objective. The motives were questionable and less transparent. However, during the post-Cold War period, aid aimed at facilitating the adoption of western institutions was an open and transparent end in itself. It was a means by which to bridge the divide between the ‘clash of civilisations’²⁶ and promote free market capitalism.

The World Bank’s crucial role

Historically, the ascension of the good governance paradigm can be traced back to the World Bank’s adoption of the agenda and the consequent emulation by other donors. The World Bank had originally embarked upon utilising the concept of governance as it grappled with the conundrum of why aid had failed Africa. It turned its focus inward to the institutions governing the economy and the implementation of structural reform. It found the problem to be Africa’s governance – that is the management of a country’s economic and social resources. The first time that the term governance had been used in such a context to connote a country’s management capabilities, was in the 1989 report *Sub-Saharan Africa: From Crisis to Sustainable Growth*.²⁷

The apparent appeal of the term ‘governance’, for policy-makers such as those in the World Bank, was the term’s elasticity in referring to the complexities of political structures within the broader processes of administration and management. It was a

²⁶ Samuel Huntington, *The Clash of Civilisations: Remaking of World Order* New York: Simon and Schuster, 1996

²⁷ World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* Washington DC: World Bank 1989 p 60

term that connected the concepts of politics and administration.²⁸ The Bank eventually identified three distinct aspects of governance being; (i) the political regime, (ii) the process by which authority is exercised in the management of a country's resources, and (iii) the capacity of governments to design, formulate and implement policies and discharge functions.²⁹ However, while the Bank identifies political aspects of good governance, it claims that these are beyond the scope of its non-political mandate – a guarantee not to intervene in the domestic politics of recipient governments.³⁰

The varying governance emphasis from different donors

During the post-Cold War period, it is evident that aspects of good governance encompass a 'core area' and an 'associated political area'.³¹ This means that the World Bank, IMF, UNDP, regional development banks and the OECD Donor Assistance Committee or DAC donors all subscribe to the core non-political dimension of governance as their common denominator. This dimension may be summarised as encompassing the four categories of the World Bank's good governance framework, which are public sector management, rule of law, transparency and information and accountability and financial management. This 'core area's' aim is the development of good *economic* governance.

The associated political area, comprising of such aspects as electoral democracy and human rights, aims to promote greater *democratic* governance. This associated political area falls more within the purview of the UNDP and the DAC. This demonstrates how different organisational approaches towards governance produce varying conceptions and priorities. The UNDP has traditionally been a more politically motivated body concerned with basic human rights and fundamental liberties. While traditionally, bilateral donors have always been more politically and strategically motivated in selecting countries they give aid to, preferring trade partners,

²⁸ Martin Doornbos, 'Good Governance': The rise and decline of a policy metaphor?' *Journal of Development Studies* Vol. 37 (6) 2001, p 95

²⁹ World Bank, *Governance and Development* Washington DC: World Bank 1992

³⁰ World Bank, *Articles of Agreement* Washington DC: World Bank 1989

³¹ Fuster, Thomas, translated from German in Engels, Jan, 'The rhetoric of multilateral foreign aid: assessing the importance of good governance as a lending criterion of the World Bank *Diplomarbeit* August 2000 p 15-16

near neighbours or former colonies.³² As such, in identifying a number of aspects of good governance encompassing both the political and economic managerial aspects, we find that the bilateral DAC donors are more persistent in the political aspects.

Examples of such political imperatives are evident in the US aid agency's establishment of a democracy and governance or 'D&G' sector of aid. Another example of the openness of promoting western style democracy is demonstrated by the rise of ODA funded political assistance organisations based on the German stiftung model, for example, the National Endowment for Democracy in the US and the Westminster Institute in England. Such transparent political motivations arose following the end of the Cold War alliance struggle and a sense of triumph regarding the permanence and superiority of western institutions.³³

The current climate

By the time the War on Terror began following the September 11 terrorist attacks on America, the motivations of aid had once again shifted closer towards security concerns. However, this time there is an open admission of the motivations of aid being to curb the political antecedents of terrorism. For example, the political conditionality contained in the US's Millennium Challenge Account³⁴ is as much about reducing the domestic instability and poverty which is thought to antagonise the rise of terrorism, as it claims to be about fuelling global development.³⁵ It is this evolving historical context, and its current pre-occupation with security concerns that this paper will later study the current Australian motivations in aid.

³² Alesina, Alberto & Dollar, David, 'Who gives aid to whom and why?' *Journal of Economic Growth* Vol 5 (1) 2000

³³ Francis Fukuyama, 'The End of History?' *The National Interest* Summer, 1989

³⁴ The Millennium Challenge Account is a US aid agency, separate to USAID. It was initiated by President Bush and established in 2004. It is administered by the Millennium Challenge Corporation.

³⁵ Susanne Soederberg, 'American Empire and 'excluded states': the Millennium Challenge Account and the shift to pre-emptive development' *Third World Quarterly* Vol. 25 (2) 2004

Chapter 2

Good Governance and Development Theory

This section explores this elusive concept of ‘governance’, which the development community has clung to and tailored in varying ways, within the context of development theory. This section will demonstrate the ‘malleability’ of the concept of ‘good governance’, concluding that the phrase has no ‘natural’ meaning, but rather that meaning is attributed by those who wield the concept. Governance simply means ‘manner of governing’. The ‘good’ part essentially refers to liberal government institutions and free-market capitalism.

This section begins by tracing the rise of the theory of ‘new institutionalism’, which spawned the notion of institutions and development that lead the World Bank to adopt the governance concept. This will be followed with a definitional exploration of the components of governance. Finally, varying conceptions of governance will be placed within the broader literature of development studies and comparative political economy.

2.1 Theoretical genesis of the governance agenda: The New Institutional Economics

The latter half of the twentieth century marked development studies’ quest for the ‘missing link’ of development. The stagnant poverty of the developing world proved the fallibility of the neo-classical doctrine which informed the structural adjustment programs of the Bretton Woods institutions,³⁶ while East Asia developed despite such logic embarking on state-led development initiatives.³⁷ These developments led to the idea of acknowledging the increasing centrality of politics in development; rather than consistently posing development conundrums as economic questions, academics had to understand the politics of development.³⁸ Secondly, upon acknowledging political processes in development, academics began to realise that the ‘missing link’ of

³⁶ John Pender, ‘From structural adjustment to ‘Comprehensive Development Framework’: conditionality transformed?’ *Third World Quarterly* Vol. 22 (3) 2001

³⁷ Robert Wade, *Governing the Market* Princeton: Princeton University Press, chapter 1

³⁸ Adrian Leftwich, *States of Development: On the Primacy of Politics in Development* Cambridge: Polity Press, 2000

development was the right mix of institutions creating a development-conducive context. There was an acknowledgement of the internality of development, posing itself as an antithesis of dependency theory, focused on the external determinants of development.³⁹ Development studies experienced a boom of institutionalists of various guises from historical institutionalists to normative institutionalists.⁴⁰ But the school of institutional thought which did most to influence what evolved into the World Bank's governance agenda was that known as 'new institutionalism'.⁴¹

New institutionalism was pioneered by Douglas North's 1990 seminal work *Institutions, Economic Change and Economic Performance*. This work was aimed at refuting the neoclassical ignorance of how institutional transaction costs determine economic performance.⁴² He modelled societies as consisting of formal institutions, (rules and laws), and informal institutions, (norms, customs, culture, etc). The implication that this theory has for governance reform is that issues regarding informal institutions such as corruption, which emanate from certain attitudes and entrenched practices, are likely to linger despite formal structural changes. As such, efforts must be mounted towards changing the incentive structure within which rational individuals operate.⁴³

However, while North was refuting neo-classical economic doctrine, his work still rested on the very neo-classical assumptions that assumed the presence of the rational actor. In this theory, institutions represent agreements voluntarily chosen by contracting parties, where the emphasis is on *choices* rather than *constraints*. What is omitted then is that institutions are often imposed rather than chosen, and that the choice of institutions takes place within a set of pre-existing institutions often backed by the power of the state. Therefore it is the state that primarily determines the

³⁹ Werlin, Herbert, 'Poor nations, rich nations: a theory of governance' *Public Administration Review* Vol. 63 (3) 2003

⁴⁰ See Linda Weiss, 'Introduction: bringing domestic institutions back in' in Weiss (ed) *Bringing Domestic Institutions Back In* Cambridge: Cambridge University Press, 2003

⁴¹ de Capitani, Alberto & North, Douglass, 'Institutional development in third world countries: the role of the World Bank' World Bank: HROWP 42, October 1994

⁴² Douglas North, *Institutions, Institutional Change and Economic Performance* Cambridge: Cambridge University Press, 1990

⁴³ Douglas North, 'The new institutional economics and third world development' in Hariss, Hunter and Lewis (eds) *The New Institutional Economics and Third World Development* London: Routledge, 1997

allocation of the transaction costs that determine institutions.⁴⁴ North's thesis is still based on the centrality of markets in development, assuming that market processes generate wealth on the basis of market-related institutional prerequisites such as property rights, rule of law and contract enforcement.⁴⁵

A number of World Bank reports emanated from this paradigm of elevating institutional importance while maintaining the consensus on what constituted market facilitating policies. Burnside and Dollar in 1997 assessed the effectiveness of aid based on a number of indicators related to 'good policies' such as budget surplus, inflation level and trade openness. This study found that when aid was supplied to countries with good policies and good institutions or good governance, then aid was effective.⁴⁶ The same was concluded in 1998 in the World Bank report *Assessing Aid: What works, what doesn't and why*. Based on this conclusion, it was suggested that aid be given to countries with 'good economic management'.⁴⁷

From this, we see that the intellectual context facilitating the rise of the good governance agenda was still based on assumptions that had informed the previous "Washington Consensus"⁴⁸ based on the neo-liberal agenda. According to the World Bank and the 'new institutionalists', the 'new orthodoxy' is that development is still to be achieved through a limited state role, except that now there is greater acknowledgement of the states role in the provision of 'good governance' institutions that *enable* the market.⁴⁹

2.2 The definitional debate: meanings of governance

⁴⁴ Robert Bates, 'Social dilemmas and rational individuals: An assessment of the new institutionalism' in Hariss, Hunter and Lewis (eds) *The New Institutional Economics and Third World Development* London: Routledge, 1997

⁴⁵ Hout, Wil, 'Good governance and the political economy of selectivity' Murdoch University: Asia Research Centre, working paper 100, January 2004 p 6-7

⁴⁶ Craig Burnside and David Dollar, 'Aid, Policies and Growth' Policy Research Working Paper, No. 1777, World Bank, 1997

⁴⁷ David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't and Why?* World Bank, New York: Oxford University Press, 1998

⁴⁸ The Washington Consensus embodies economic policies such as fiscal discipline, privatisation, deregulation and trade liberalisation. See, John Williamson, 'Democracy and the "Washington Consensus"' *World Development* Vol. 21(8) 1993

⁴⁹ Paul Cammack, 'Neoliberalism, the World Bank, and the new politics of development' in (eds) Uma Kothari & Martin Minogue, *Development Theory and Practice: Critical Perspectives* Basingstoke: Palgrave, 2002

Given an understanding as to how the governance agenda emerged from its theoretical underpinnings as ‘new institutionalism’, it is useful to consider various definitions of the term governance to understand how its usage has evolved. This is important considering that the World Bank claims that its operational framework for governance aid is economic and ‘non-political’. Similarly, as Australia jumped onto the governance bandwagon in the early 1990s, it too initially claimed a ‘non-political’ conception of governance. Within political economy of course, nothing is ‘non-political’.

This section will examine the definition of governance as well what bilateral aid donors may class as components of ‘good governance’, being democracy and human rights, as well as the concept of ‘democratic governance’. This will be followed a critique of the claim of ‘non-political’ governance.

Governance

Governance is an ‘essentially contested concept’.⁵⁰ The vagueness of the term ‘governance’ is a product of its evolving meaning. The term had always had dictionary meaning, and was commonly used to refer to the micro-level behaviour of firms.⁵¹ Yet it was not until the term came to have uses for policy-makers and intellectuals that the meaning began to develop. In academic discourse governance evolved to refer to something beyond formal government, as academics became disgruntled with state-dominated models of economic development prevalent throughout the socialist bloc and developing world through the 1950s to 60s.⁵² As Rosenau notes, governance differs from government, because government denotes activities backed by formal authority,

“...whereas governance refers to activities backed by shared goals that may derive from legal and formally prescribed responsibilities and that do not necessarily rely on police powers to...attain compliance.”⁵³

⁵⁰ W.B. Gallie, ‘Essentially contested concepts’ *Proceedings of the Aristotelian Society* Vol. 56, 1956

⁵¹ Known as ‘corporate governance’

⁵² Weiss, Thomas, ‘Governance, good governance and global governance: conceptual and actual challenges’ *Third World Quarterly* Vol 21 (5) 2000

⁵³ James Rosenau, ‘Governance, Order and Change in World Politics’ in J. Rosenau & E. Czempiel, *Governance Without Government: Order and Change in World Politics* Cambridge: Cambridge University Press, 1992 p 4

This means that the term facilitates new analytical pursuits by referring to the processes by which power is exercised, and conflicts and interests are accommodated, within an institutional context that is not necessarily hindered by a state or government, for example, the application of the term governance to the concept of global governance. In terms of regime management, Hyden notes, ‘...governance is concerned with how rules (or structures) affect political action and the prospect of solving given societal problems.’⁵⁴ We see then that the intellectual usage of the term often varies from the policy-oriented usage in donor circles which is more concerned with the technocratic basis of state-market relations in prescribing certain institutions satisfying ‘good’ governance requirements.⁵⁵

Democracy

The term democracy is consistently evoked by democrats and authoritarians alike, to connote something that may or may not be ‘democratic’, hence the elusiveness of the term. A classic procedural definition of democracy refers to a system of government alternating the office of decision-makers through regularised elections as a minimum ‘threshold’ definition of democracy.⁵⁶ However, according to the 2004 Freedom House survey, there are 177 electoral democracies in the world⁵⁷, yet some with no apparent sphere of broad based participation in development.⁵⁸ The rise of ‘illiberal democracies’ in the world is marked by those governments purporting to be democratic by allowing some semblance of elections, while lacking the elements of democracy which would ensure transparency and accountability.⁵⁹ Such deepened democracies consist of liberal structures such as an adherence to the rule of law and a democratically conducive civil society. This is where the methodology by which

⁵⁴ Goran Hyden ‘Governance and the study of politics’ in G. Hyden & M. Bratton, *Governance and Politics in Africa* Boulder: Lynn Reinner, 1992 p 14

⁵⁵ Martin Doornbos, “Good governance”: The rise and decline of a policy metaphor?’ *Journal of Development Studies* Vol. 37 (6), 2001

⁵⁶ Micheal Seward, *Democracy* Cambridge: Polity Press, p 86

⁵⁷ Adrian Karatnycky, ‘Gains for Freedom Amid Terror and Uncertainty’ in A. Karatnycky (ed) *Freedom in the World 2004: The Annual Survey of Political Rights and Civil Liberties* New York: Rowman and Littlefield, 2004, p 7

⁵⁸ Participatory development may be defined as ‘the organised efforts to increase control over resources and regulatory institutions in given social situations, on the part of groups and movements of those excluded from such control’ in Matthias Stiefel and Marshall Wolfe, *A Voice for the Excluded: Popular Participation in Development: Utopia or Necessity?* London: Zed Books, 1994 p 5

⁵⁹ Barry Gills, Joel Rocamora and Richard Wilson, ‘Introduction’ in B. Gills, J. Rocamora, & R. Wilson *Low Intensity Democracy* London: Pluto Press, 1993

democracies are defined is crucial for depicting the level of democracy present. A discrete or dichotomous approach, defines democracy through the presence of the procedural aspects of democracy. A continuous or graded approach places the emphasis not simply on the formal procedures of democracy but also on the processes of democratic life and discourse.⁶⁰ Therefore, the use of the term democracy may connote a range of regimes with widely varying attributes. The promotion of elections does not simply constitute democracy.

Democratic Governance

Despite the broad range of meaning that can be attributed to governance and democracy, both terms consist of aspects that meet at a point of intersection known as 'democratic governance'. Accountability and transparency are two critical aspects of both governance and democracy that would suggest that democracy and governance would form an essential symbiosis for development. This is consistent with the emphasis placed on the political aspects of governance by western bilateral agencies, which may include human rights observance or competitive political elections as part of their objectives. However, as O'Donnell demonstrates, elections are a means of 'vertical accountability' between people and the ruled only at election time. The time in between requires 'horizontal accountability', which is the existence of state agencies ensuring the separation of powers and checks and balances between one another.⁶¹ This notion of horizontal accountability has resonance with the administrative aspects of 'good governance'. Similarly, it has been argued that democracy and increased accountability is also essential to economic development.⁶² The electoral accountability and the incentives for incumbents to restrain themselves in serving the public good in a predictable and stable environment is also beneficial for investment and growth.⁶³ Therefore, democracy and governance may be thought of as complimentary.

⁶⁰ David Collier and Robert Adcock, 'Democracy and Dichotomies: A pragmatic approach to choices and concepts' *Annual Review of Political Science* Vol. 2, 1999

⁶¹ Guillermo O'Donnell, cited in A. Przeworski, S. Stokes, & B. Manin in *Democracy, Accountability and Representation* Cambridge: Cambridge University Press, 1999, p 19

⁶² USAID, *Foreign Aid in the National Interest* chapter 1, 'Promoting Democratic Governance' <<http://www.usaid.gov/fani/ch01/>>

⁶³ Jose Antonio Cheibub and Adam Przeworski, 'Democracy, Elections and Accountability for Economic Outcomes' in A. Przeworski, S. Stokes, & B. Manin in *Democracy, Accountability and Representation* Cambridge: Cambridge University Press, 1999

However, what do these definitions actually mean in the context of political economy? Political economy is a discipline which aims to rectify the false distinction between economics and politics. Yet, in certain instances, the term governance has been employed in profoundly autonomous economic terms, as a separate sphere to political life.

The World Bank separates governance from the political aspects of ‘democratic governance’ because of its non-political mandate. However, this does not mean that the Bank’s agenda, influenced by the neo-liberal tide, is in any sense not politicised; for any system of economic management along a continuum of planned to free market economies still prescribes political norms of the optimal relationship between state and market. The market-friendly governance agenda prescribes political norms of limited state intervention. Therefore all issues of national economic importance are still profoundly political.

Even within the Bank’s ‘economic’ governance agenda, the Bank supposedly adheres to its non-political mandate by trying to tackle issues which inherently straddle the blurred line between politics and economics. These are issues such as corruption and public sector management. But the Bank insists that they are ‘non-political’ issues because it is dealing with issues of economic accountability rather than electoral accountability; thus, reducing the notion of democracy to an unsatisfying procedural one based on the presence of elections.⁶⁴ Therefore, from this example we observe how conceptions of governance and democracy are constructed depending on the objective of those employing the term.

2.3 Where the governance agenda sits within the development studies literature

In this section the current donor discourse on governance will be mapped within the wider intellectual context of political economy and development studies. This is to better understand its prescriptive norms vis-à-vis other intellectual theories. This

⁶⁴ Heather Marquette, ‘The creeping politicization of the World Bank: The case of corruption’ *Political Studies* Vol. 52, 413- 430, 2004

intellectual context is primarily concerned with firstly the norms of state-market relations specified in a particular theory, and secondly, the extent to which democratic development is considered as a parallel objective of economic development.

We begin with the literature on state-market relations. At one end, the development studies literature prescribes a limited role for the state, while on the other the state plays an essential coordinating role in development. The IMF and World Bank's structural adjustment loans of 1980s combined with the conditionality of fiscal austerity provided the state with none other than a "night watchman" role in development. However, the 1997 *World Development Report* marked a 'stepping-stone' in understanding the changing role of the state, and the 'mainstreaming of good governance'.⁶⁵ The role of good governance, therefore, is to ensure sustainable development by strengthening state institutions especially the capacity for public service delivery. For instance, the 1997 report demonstrates how the Bank now acknowledges the importance of a limited welfare state in developing economies.⁶⁶ This idea slightly shifts the Bank's acknowledgement of the state's role in development. None the less the World Bank still prescribes the importance of the private sector in stimulating development with minimalist state direction.

However, on the other end of the state-market relations continuum lies the empirical literature documenting the state's role in the rise of East Asian development. This literature demonstrates how the East Asian tigers prospered from a form of state capacity that was characterised by developmentally conducive state-society relations, otherwise known as infrastructural power.⁶⁷ Here, the state was able to play a guidance and coordination role that would socialize risks of investment amongst business leading to a situation of 'governed interdependence' between state and market.⁶⁸

⁶⁵ Carlos Santiso 'Good Governance and Aid Effectiveness: The World Bank and Conditionality' *The Georgetown Public Policy Review* Vol 7(1) 2001 p 15

⁶⁶ World Bank *World Development Report: The State in a Changing Context* 1997 World Bank: Washington DC 1997, chapter 3

⁶⁷ Infrastructural power is the opposite of despotic power. Infrastructural power is when the state rules *through* society, rather than *over* it. A state acquires infrastructural support when it can exploit social utility. See Micheal Mann *States, War and Capitalism: Studies in Political Sociology* Oxford: Basil Blackwell, 1988, p 1 and 26

⁶⁸ Linda Weiss *The Myth of the Powerless State* Cornell University Press, 1998

On both ends of the continuum, the emphasis upon different institutions that must be strengthened varies also. The continuum that prescribes a limited role for the state emphasises strengthening the institutions that *allow* the market to work, for instance the provision of private property rights.⁶⁹ Alternatively, the literature that prescribes a greater role for state; that is assigning an entrepreneurial role to the state, the emphasis is greater on the institutions of government that can *guide* the market; namely an efficient technocratic bureaucracy.⁷⁰

The current donor discourse on governance lies somewhere in between these two points. On the one hand we could argue that the governance discourse has shifted a fair way since the structural adjustment era of the 1980s, and now acknowledges the role played by institutions in determining transaction costs, and thereby the states role in the economy.⁷¹ However, alternatively, the governance agenda still does not prescribe a role for the state as itself an *actor* in development. As Leftwich argues, the good governance agenda still does not sufficiently account for the politics of development. For instance he argues that the World Bank's prescription of good governance in the administrative sense is impeccably Weberian. Yet Weber, unlike the World Bank, realised "...that good governance is a function of state character and capacity which is in turn a function of politics..."⁷² Given these two opposing views, I would suggest that the current donor paradigm focused on governance certainly marks an evolution from the previous donor discourse oriented towards economic policies without any acknowledgement politics. However, given that the current donor paradigm only acknowledges politics within the neo-liberal state-market relation orthodoxy current donor discourse cannot be considered a revolution from the previous paradigm.

So what of the intellectual context within which development studies prescribes a democratic character as essential to development? On the one hand there is the empirical evidence which is generally inconclusive on the relationship between

⁶⁹ Hernando DeSoto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* New York: Basic Books 2000

⁷⁰ See Meredith Woo-Cummings (ed), *The Developmental State* Ithaca: Cornell University Press, 1999

⁷¹ Douglas North, *Institutions...* 1990

⁷² Leftwich, Adrian, 'Governance, the state and the politics of development' *Development and Change* Vol. 25 (1994) p 372

democracy and development.⁷³ For instance, the East Asian developmental states were not democratic in any procedural sense, yet developmental success is still attributed to established, albeit procedural, democracies such as Botswana, Malaysia and Mauritius.⁷⁴ Antithetical to the old modernisation theories of economic development preceding political development, debate increased regarding whether democracy and development are complementary.

There are two contrasting views on the complementarity between democracy and development. Firstly, there is the neo-classical view proposed by writers such as Hayek and Friedman.⁷⁵ These theories normatively prescribe that free markets and free politics are mutually compatible and reinforcing, without necessarily defining the character of state institutions. On the other hand, there are theories of democratic developmentalism, which do aim to define the character of the state as part of the delivery of development and its complementary developmental character. These theories prescribe how states can allow for democratic preferences to pre-figure in the state's developmental strategies.⁷⁶ In this way, development may be defined more broadly as simply growth, but also entail social and political development.

The current donor discourse is divided on where it stands regarding debates on democracy and development. Western bilateral donors place more emphasis on democracy than the World Bank, yet their focus remains on the procedural aspects of democracy, rather than the deeper level processes of democratic participation in development.

This is consistent by what is described in the literature as the changing nature of territorial liberal democracy in the face of increasing economic interconnectedness - understood as globalisation - and the impact that multi-national corporations are having on democratic accountability.⁷⁷ Amidst the increased adoption of global norms

⁷³ Adam Przeworski and Fernando Limongi, 'Political Regimes and Economic Growth', *Journal of Economic Perspectives* Vol. 7 (3), 1993

⁷⁴ Mark Robinson and Gordon White, *The Democratic Developmental State: Politics and Institutional Design* Oxford University Press, 1999 p 1

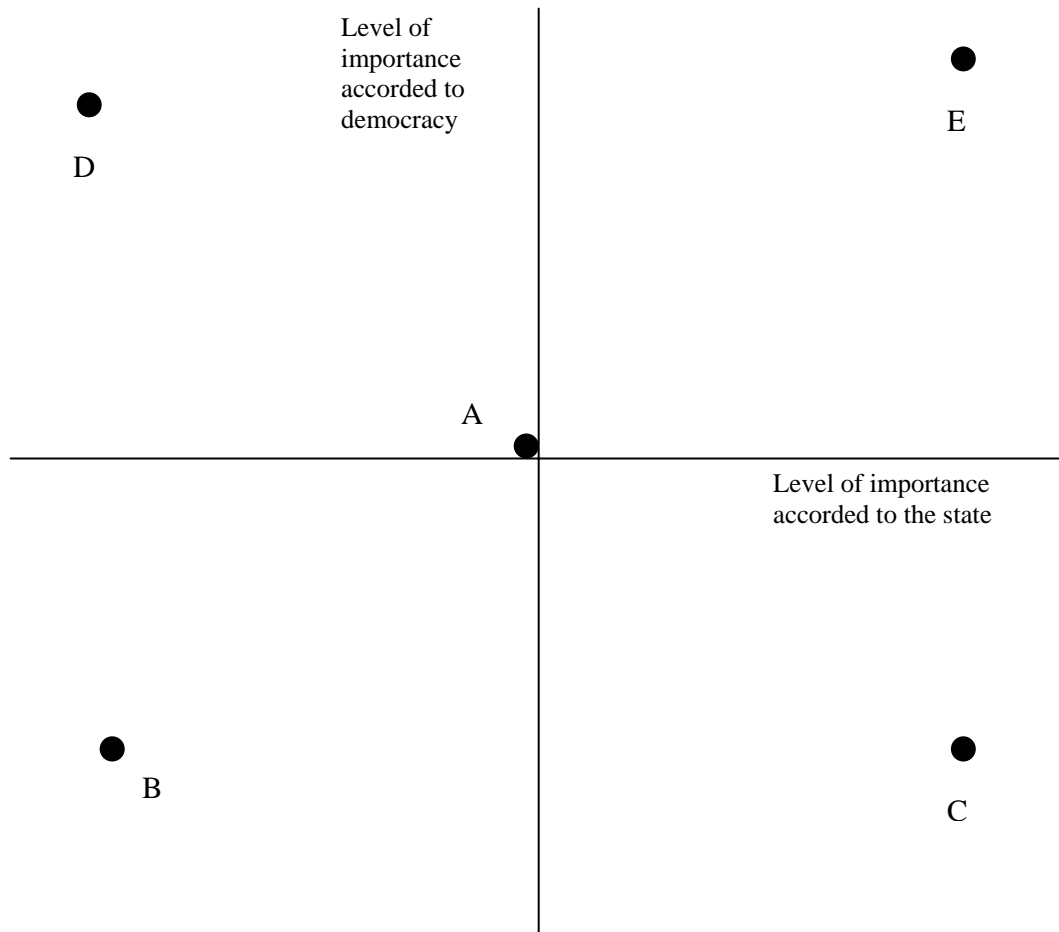
⁷⁵ Milton Friedman and Rose Friedman *Capitalism and Freedom* Chicago: University of Chicago Press, 1982 and F.A. Hayek, *The Constitution of Liberty* Chicago: Chicago University Press, 1960

⁷⁶ Richard Sklar, 'Towards a theory of developmental democracy' in Adrian Leftwich, *Democracy and Development: Theory and Practice* Polity Press, 1996

⁷⁷ David Held, 'Democracy and Globalisation' *Global Governance* Vol. 3 (2) 1997

of market-led development and economic individualism, it is questioned whether the conditions for substantive democracy are ultimately being undermined.⁷⁸ If so, this may explain why donors are facilitating procedural conceptions of democracy, as IFI's continue to prescribe neo-liberal market policies.

The governance agenda in development studies literature



The above graph summarises the above information on the place of the ‘good governance’ agenda within the development studies literature and the levels of importance accorded to the state and democracy in each general idea.

A – Denotes the current ‘good governance’ paradigm.

⁷⁸ Robert Cox, ‘Democracy in hard times: economic globalisation and the limits to liberal democracy’ in Anthony McGrew (ed) *The Transformation of Democracy? Globalisation and Territorial Democracy* Cambridge: The Open University, 1997

B – ‘Good governance’ has a greater focus on the state than point B denoting the ideas that influenced the World Bank’s structural adjustment era.

C – However, the current ‘governance’ agenda does not accord as great a priority to the state as the empirical literature documenting the rise of East Asian developmentalism.

D – Writers such as Hayek and Friedman assume that economic freedom and political freedom are complementary;

E – While theorists of democratic developmentalism focus on the states role in delivering essential public services and public goods for the benefit of the collective.

Chapter 3

Intellectual Critiques of Governance Aid

This section will explore a number of critiques surrounding aspects of governance and democracy aid. The main critiques revolve around the viability of ‘institutional transfer’, issues of conditionality and questions regarding whether governance aid should be oriented towards maximising economic growth or reducing poverty. The purpose here is to create a context by which we can examine the legitimacy of Australia’s approach to such issues and better understand how Australia accommodates these issues within the construction of its interests.

3.1 Viability of ‘institutional transfer’

How can developing countries undergo a successful transition of economic and political development? Can institutions and ideas from outside a country facilitate that country’s development, or must development be born from within? The elusive question to these questions must lie somewhere in the middle. There is evidence to suggest that development is not a completely internalised process, but, nor is it a process that can be hijacked by external players ignorant of the internal culture and aspirations of those that they are trying to ‘modernise’.

'Institutional transfer' may be understood as reform that facilitates the adoption of substantive policy content and policy instruments, to ideational institutions such as policy goals and attitudes. Dolowitz and Marsh identify four different degrees or gradations of transfer, these are;

“...*copying*, which involves direct and complete transfer; *emulation*, which involves the transfer of ideas behind the policy or program; *combinations*, which involve mixtures of several different policies; and *inspiration*, where policy in another jurisdiction may inspire a policy change, but where the final outcome does not actually draw upon the original.”⁷⁹

The initiative of such transfers may be derived internally or externally. Colonialism is an example of externally derived institutional transfer. A country's attempt to emulate 'best practice', for example nineteenth century Japan's emulation of Western organisational systems is an internal initiative. This proves that political or economic development need not always be an internally derived phenomenon.⁸⁰

However, external players promoting reform must still be wary of the internal dynamics that ultimately shapes a country's reform prospects. Doornbos contends that Western notions of what is considered 'good governance' may not be universally applicable and cultural contexts must be taken into consideration.⁸¹ Consider for example, notions of what constitutes corruption. What may be considered corruption in one country, may not be considered corruption in another, such as practices of traditional gift giving as a token of political support common in the South Pacific.⁸²

Similarly, the idea of appreciating unique internal circumstances is expressed by Corothers. Writing on bilateral aid agencies promoting democracy as part of 'good governance', he outlines a number of incorrect assumptions held by democracy promoters. Corothers challenges the 'transition thesis' of democratisation. He notes the inadequacy of assuming that despite challenges, developing countries are on a

⁷⁹ David Dolowitz and David Marsh 'Learning from abroad: The role of Policy Transfer in Contemporary Policy-Making' *Governance: An international Journal of Policy and Administration* Vol. 13 (1) 2000, p 13

⁸⁰ Peter Lamour, 'Institutional transfer and aid delivery' *Pacific Economic Bulletin* Vol. 19 (2) 2004 p 105

⁸¹ Martin Doornbos, "Good governance": The rise and decline of a policy metaphor?' *Journal of Development Studies* Vol. 37 (6), 2001

⁸² Peter Lamour, 'Corruption, Culture and Transferability: What can be learned from Australia?' *Journal of Contingencies and Crisis Management* Vol. 9 (1) 2001 p 15

teleological path towards democratisation. The fallacy of this type of thinking is that it pre-supposes that states may have reached a particular phase of the ‘transition’ process upon which there is “...emphasis on an institutional “checklist” as a basis for creating programs, and the creation of nearly standard portfolios of aid projects...” promoting particular democratic institutions.⁸³ Therefore, it cannot be assumed that all countries develop along similar trajectories, and are capable of absorbing the kind of institutions – democratic or market-based – that western practitioners believe suitable for their ‘phase’ of development.

The solution is another buzzword circulating the international development community; ‘ownership’.⁸⁴ This refers to the level of authorship that a developing country feels that it has over reform projects and hence level of likelihood that reforms will be carried out. Therefore, the main concern of institutional transfer within different country contexts is not whether institutional transfer is possible, but the extent to which institutional transfer in a developing country is voluntary, rather than coerced.⁸⁵ This brings us to issues of conditionality.

3.2 Debating conditionality

As with all foreign aid, governance aid also incurs the wrath and controversy over conditionality issues. Conditionality is used to denote aid projects being made conditional upon the recipient country’s performance against agreed upon standards. It also refers to the granting, withholding, suspension or reduction of aid. So in what way would it be warranted for donors to tie aid to conditions of governance, given that donor governments must ultimately be accountable to their taxpayers?

Conditionality has been heavily critiqued following failed economic structural adjustment reforms. Killick notes;

⁸³ Thomas Corothers ‘The End of the Transition Paradigm’ *Journal of Democracy* Vol. 13 (1) January 2002 p18

⁸⁴ Rehman Sobhan ‘Aid as a Catalyst: Comments and Debate (II): Aid Effectiveness and Policy Ownership’ *Development and Change* Vol 33 (3) 2002

⁸⁵ Dolowitz and Marsh, p 6

“...conditionality is not an effective means of improving economic policies in recipient countries...Sanctions provide a more draconian, if exclusively negative, incentive system ...there is a weak correlation between economic deprivation and political willingness to change...”⁸⁶

The above critique focuses on the specific design of conditionality used in structural adjustment reforms. However, more general critiques have been mounted against conditionality *per se* as a means to induce reform.

The main dilemma with conditionality relates back to the issue of ownership. Conditionality is no substitute to a domestic willingness to change;

“The attempt to buy policy changes actually exacerbates the problem of lack of ownership of policies on the part of the government. Without government ownership the persistence of reform may have insufficient credibility to induce a strong supply response.”⁸⁷

This idea of ownership is also recognized in the World Bank’s *Assesing Aid* report where the authors note that in the past the World Bank did not recognize that the success or failure of structural reform depended on the willingness and effort of recipient countries. Hence, the World Bank now recognizes that success is determined by borrower ownership of reform.⁸⁸

The fundamental recommendation of the *Assesing Aid* report is not punitive conditionality, but rather selectivity. Selectivity is a type of *ex-post* conditionality. The *Assesing Aid* report’s conclusion is that aid works best – that is, promotes growth – when it is distributed to countries with ‘good policies’. This means that the report recommends donors use selectivity to focus large-scale finance on poor countries with ‘good policies’ – a commitment to sound neo-liberal economic management.⁸⁹ In this way countries will have incentive to develop ‘good policies’ and ‘good governance’.

This shift away from conditionality towards selectivity as a means of inducing good governance is confronted with a fundamental paradox. As Santiso notes, governance

⁸⁶ Tony Killick, ‘Principles, agents and the failings of conditionality’ *Journal of International Development* Vol. 9 (4) 1997 p 493

⁸⁷ Paul Collier, Patrick Guillaumont, Jan Willem Gunning ‘Redesigning Conditionality’ *World Development* Vol. 25 (9) 1997 p 1406

⁸⁸ Lant Pritchett and David Dollar, *Assesing Aid...* p 50-53

⁸⁹ *ibid*, p 117

reform now becomes "...*both* a condition and a goal of development aid. Since these dual objectives can hardly be met in practice, the tension becomes a contradiction in operational terms."⁹⁰ Santiso's recommendation is for a more 'radical approach' in which donors would cede developing countries greater control over the use of aid, within the framework of agreed upon objectives. This means that greater emphasis would be placed on "outcomes-oriented" conditionality, rather than policy based conditionality.⁹¹

So what are the 'outcomes' that governance aid aims for? This leads us to our next critique of governance aid.

3.3 To increase growth or reduce poverty?

Is poverty reduction the outcome of macro-economic policies that promote growth, or does poverty reduction require a different set of pro-poor policies?

The *Assessing Aid* report assumes that poverty reduction is a result of increased growth.

"Growth helps reduce poverty and improve social indicators, which is why the relationship between aid and growth is important"⁹²

For this reason it recommends that aid should target countries with 'good' pro-growth policies. However, *Assessing Aid* has been empirically attacked by a number of studies disputing the econometrics of the report, and therefore its conclusions.⁹³

But despite the econometric critiques that have plagued the *Assessing Aid* report, an important critique is mounted against its policy prescriptions; those that support pro-growth policies in developing countries *over* specifically pro-poor policies. Throughout the report growth and poverty reduction are almost always used

⁹⁰ Carlos Santiso 'Governance conditionality and the reform of the multilateral development finance: The role of the Group of Eight' SAIS, Johns Hopkins University, G8 Governance, Number 7, 2002, p 18

⁹¹ *ibid*, Carlos Santiso, p 30

⁹² Lant Pritchett and David Dollar, *Assessing Aid* p 28

⁹³ See for example; William Easterly, Ross Levine, David Roodman 'New data, new doubts: A comment on Burnside and Dollar's "Aid policies and Growth' *American Economic Review* Vol. 94 (3) 2004 and Henrik Hansen and Fin Tarp 'Aid effectiveness disputed' *Journal of International Development* Vol. 12 (3) 2000

simultaneously to connote that they are together the result of ‘sound economic management’.⁹⁴ However, Lensik and White note that *Assessing Aid* does not appreciate that growth is only one channel through which aid can affect poverty. Instead they argue that while increased economic growth may reduce some poverty, aid can also be targeted towards other social welfare policies that *directly* target poverty reduction.⁹⁵ Similarly, Mosley et al, argue for an abandonment on selectivity that focuses on pro-growth policies, and instead for the adoption of a ‘new conditionality’ that encourages recipient countries to focus on pro-poor expenditure.⁹⁶ The question for governance aid becomes to what extent is good governance being understood as creating institutions that facilitate a pro-growth environment, or creating institutions that facilitate the effectiveness of public service provisions for poverty reduction?

Part I – Conclusion

This part of the thesis has conclusively demonstrated the inconclusiveness of the meaning of ‘good governance’. As such, the term has great level of ‘malleability’ to it in prescribing how development is to be achieved as Doornbos asserts:

“...it seems likely that good governance will continue to figure as a...vague term with which to register one’s approval or disapproval of the particular administrative and political practices of governments, by somehow suggesting that higher standards exist. In that case, the label of good governance becomes a political tool justifying...choices that are made on other, possibly arbitrary grounds.”⁹⁷

In this way, this section has also demonstrated the lack of consensus regarding what constitutes development-conducive policies. What are these ‘higher standards’ that exist? Do they denote minimalist state involvement designed to instigate growth and thereby reduce poverty as dominant usage of ‘good governance’ suggests. Or is

⁹⁴ See also David Dollar & Paul Collier, ‘Can the world cut poverty in half? How policy reform and effective aid can meet international development goals’ Policy Research Working Paper Series, 2403 The World Bank, 1999

⁹⁵ Robert Lensik and Howard White ‘Aid allocation, poverty reduction and the *Assessing Aid* report’ *Journal of International Development* Vol 12 (3) pp 403-404

⁹⁶ Paul Mosley, John Hudson and Arjan Verschoor, ‘Aid, poverty reduction and the ‘new conditionality’ *The Economic Journal* Vol. 114 June, 2004

⁹⁷ Martin Doornbos, ‘Good Governance: the metamorphosis of a policy concept’ *Journal of International Affairs* Vol. 57 (1) 2003 p 16

development to be achieved through a greater activist state role directly targeting poverty? These ideas will be further explored in an analysis of the Australian aid program and how it views its role in promoting development.

PART II – THE AUSTRALIAN AID PROGRAM

This section examining the Australian aid program puts the emergence of Australia's governance aid into perspective. Chapter 4 deconstructs the aid program as a whole by analysing its history, organisation and evolving objectives. This will provide a context from which the rise of Australia's governance aid discussed in chapter 5 can be understood as an adaptation and evolution of the preceding trends in the aid program.

Chapter 4

Deconstructing the Australian Aid Program

This chapter provides a contextual framework from which to understand the rise and adaptation of governance aid within AusAID. First, AusAID's position within the foreign policy apparatus is examined as well as the concept of the 'national interest' and issues regarding Australia's regional context. These two issues played important roles in the two independent reviews conducted on the aid program; the Jackson review in 1984 and the Simon's review in 1996. The eras following these two reviews will also be examined followed by an understanding of the current era under the 'new strategic plan'.

4.1 Foreign aid within the foreign policy apparatus: the 'national interest'

As AusAID is a sub-department of the Department of Foreign Affairs and Trade, this organisational configuration means that AusAID's work correlates with the objectives of DFAT and its identification of the Australian 'national interest'.

The term 'national interest' is usually employed by governments to refer to a unitary interest that is meant to embody the interests of the nation. The concept of 'national

interest' derives from realist theories of IR assuming that interests are fixed and positively identifiable based on material distributions of power.⁹⁸ Yet constitutive or reflective theories of IR would question the positive basis of such an assumption, and instead seek to understand what are the latent underlying interests guiding such theorising.⁹⁹ In the making of foreign policy it is governments who appeal to a particular conception of the national interest in order to garner support for a particular set of complimentary policies.¹⁰⁰ So while commentators, academics and lobbyists may in fact prove that interests are diverging and contestable our foreign policy is ultimately matched to the conception of national interest put forward by the government. As Flitton notes, the national interest is essentially 'what the government says it is'.¹⁰¹

DFAT and the national interest

In Australian foreign policy, the Howard government defines the Australian interest as "the security and prosperity of Australia and Australians."¹⁰² This definition embodies both security and economic aspects of interest. Returning to AusAID's objective which is 'to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development', we can understand foreign aid as a tool of foreign policy. The government is tying our economic and security interests to the growth and stability of the neighbours in our region.

DFAT's definition of the national interest may in fact correlate with the general population's understanding of the national interest. A Lowy Institute poll measuring Australian opinions of the government's foreign policy showed that Australians are most concerned about protecting the environment, improving the economy and

⁹⁸ Burchill, Scott, 'Realism and Neo-realism' in S. Burchill et al., *Theories of International Relations* Basingstoke: Palgrave, 2001, p 79

⁹⁹ Alexander Wendt, 'On constitution and causation in international relations' *Review of International Studies*, Vol. 24, 1998

¹⁰⁰ Stewart Firth, *Australia in International Politics: An Introduction to Australian Foreign Policy* p 69

¹⁰¹ Daniel Flitton, 'Issues in Australian Foreign Policy July to December 2003', *Australian Journal of Politics and History*, Vol. 50 (2) 2004

¹⁰² DFAT *In the National Interest: Foreign and Trade Policy White Paper* 2003
<<http://www.dfat.gov.au/ani/overview.html>>

protecting the jobs of Australians.¹⁰³ These views correlate with the government's identification of the national interest as embodying standards of living and Australian jobs. However, while DFAT's conceptualisation of the national interest may not be wholly contentious, the real issue is *how* the government goes about satisfying these interests. For example the poll also showed that Australian's were rather sceptical towards the Australia/US free trade deal,¹⁰⁴ yet this was something that the Australian government claimed would support Australian prosperity. Therefore when understanding the 'national interest', while the government uses the concept to garner support by espousing values that would generally be in a populations interest, there is a disjuncture between the government strategy for realising these goals and the conflicting opinions of others who propose alternative strategies.

This tension between what the national interest *is* and how to go about *realising* it has been demonstrated in the independent reviews that have shaped the development of the aid program.

4.2 The Jackson Review

The Jackson Report on Australia's Overseas Aid Program¹⁰⁵ was completed in 1984 under the Hawke government. The review had been commissioned the previous year by the Fraser government. This was the first time in the world that a government had commissioned an independent review of its aid program.¹⁰⁶

The Jackson Legacy

The purpose of the review was to give the aid program greater focus and coherency by defining the objectives of Australian aid, which were arguably lacking in the aid program up until this time. As Jarrett notes, Australia's aid was almost evenly divided between multilateral and bilateral aid with most of the latter going to Australia's

¹⁰³ Ivan Cook, *Australians Speak 2005: Public Opinion and Foreign Policy* Lowy Institute for International Policy, 2005

¹⁰⁴ *ibid*,

¹⁰⁵ Jackson Committee, *Report of the Committee to Review: The Australian Overseas Aid Program* Canberra: Australian Government Publishing Service, 1984

¹⁰⁶ J.V. Remenyi 'Australia's self-interest in foreign aid' *Development Bulletin* No.21, October 1991, p6

former colony, PNG.¹⁰⁷ Furthermore, objectives were not clearly defined, with politicians or officials avoiding any suggestion that aid, to some extent may have been motivated by the attainment of political goals in the national interest.¹⁰⁸

The Jackson review then was a watershed for Australian aid in clearly identifying both the humanitarian *and* self-interested objectives of the aid program. The Jackson committee acknowledged that the primary reason for giving aid was for humanitarian reasons to;

“...alleviate poverty through economic and social development...Aid complements strategic, economic and foreign policy interests, and by helping developing countries to grow, it provides economic opportunities for Australia.”¹⁰⁹

These findings by Jackson would influence what became known well into the next decade as the ‘triple mandate’ objective of Australia’s aid program being for commercial, diplomatic and humanitarian reasons. The government response to the Jackson report saw no contradictions between humanitarian and commercial objectives, so long as the aid given was still “good for the recipient”.¹¹⁰

These newly defined objectives were to be achieved through a number of recommended organisational changes of which the government accepted. Most notable of these were ‘country programming’ within a specific geographic focus and ‘sector priorities’;

- **Country programming** was recommended as an organisational initiative aimed at creating country specific aid programs addressing the county’s needs in a more wholistic manner.¹¹¹
- The **geographic focus** of country programming was also crucial, with Jackson claiming that that the aid program was “fragmented” – spread over too many countries with too many initiatives and activities. The recommendation by Jackson to increase effectiveness and serve national interests was to focus primarily on the Asia-Pacific.¹¹²

¹⁰⁷ Frank Jarrett, *The Evolution of Australia’s Overseas Aid Program* National Centre for Development Studies: The Australia National University, p 30

¹⁰⁸ *ibid*, p 56

¹⁰⁹ Jackson Committee, *Report of the Committee to Review...* 1984, p 3

¹¹⁰ Bill Hayden, *Hansard, House of Representatives* p 3909

¹¹¹ ABS, ‘2001 Special article: A short history of Australian aid’ Year book Australia 1301.0 2001

¹¹² *ibid*, Jackson Committee p 6

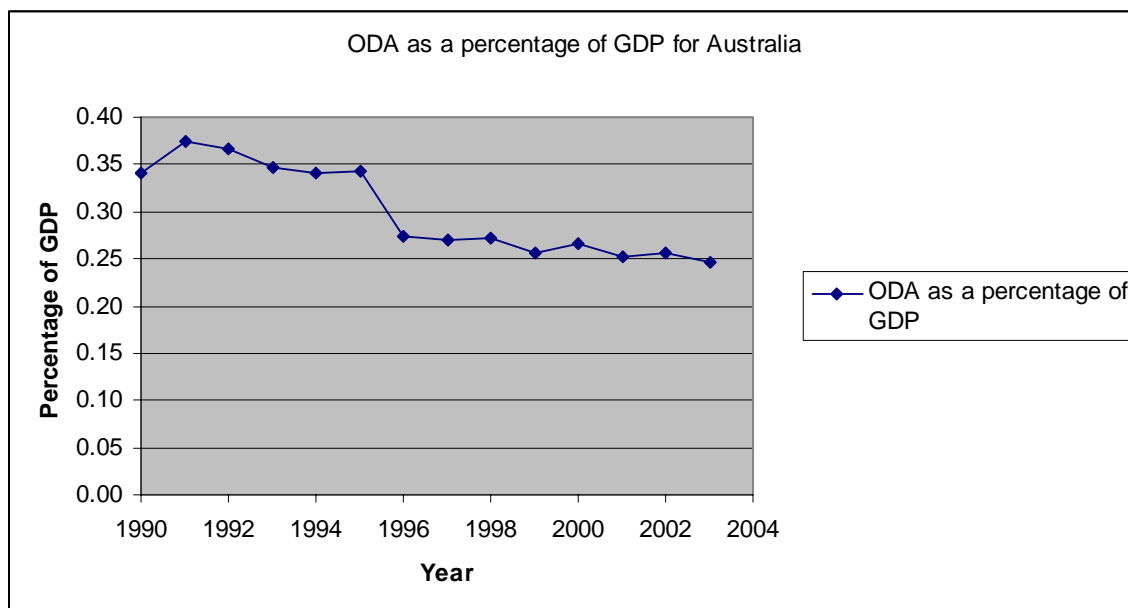
- **Sectoral priorities** identified the most important initiatives thought to promote development. These sectors were also relative to what was thought to be in Australia's comparative advantage in aid delivery. These were agriculture, health and medicine, population planning and urban development.¹¹³

Another Jackson legacy was an ever declining aid budget courtesy of economic rationalism. Views of neo-liberal economic management gained currency in the 1980s and advocated small government along with minimal government expenditure.¹¹⁴ Aid expenditure became a clear casualty. The Australian aid program has generally suffered a decline in aid volume relative to the GDP since the 1960s. Australia's record high aid budget was 0.55% in 1970. At the time of the Jackson Review, aid expenditure was 0.41%. As a result of the improved 'effectiveness' of the aid program, the aid budget declined in 1985-86 4.8% from the previous year. When it was again reduced in the following year, Minister for Foreign Affairs Bill Hayden justified the cut by claiming that "...Australia faces a grim economic future unless hard choices are made...as economic conditions improve in Australia, it will be possible to resume providing for real growth in the aid budget for years to come."¹¹⁵ However, even when our terms of trade continued to improve, the aid budget continued to decline, indicating the pervasive influence of economic rationalism and its propensity to burden the aid program with disproportionate cuts, as the following graph shows.

¹¹³ *ibid*, Jackson Committee p 9

¹¹⁴ Micheal Pusey, *Economic Rationalism in Canberra: A Nation-Building State Changes Its Mind* Melbourne: Cambridge University Press, 1991

¹¹⁵ Hayden, Bill, 'Policy and economics of foreign aid' *Economic Analysis and Policy* Vol 17 (1) 1987 p 1 and 11.



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Critiquing Jackson

The main intellectual critiques of the Jackson report were aimed at the gaining economic orthodoxy that characterised the underlying assumptions of the report. The Jackson committee was comprised of two businessmen and three economists,¹¹⁷ all emanating from neo-classical schools of thought. This unbalanced composition led to claims by observers that the Jackson committee was already pre-disposed to disregarding submissions that emphasised a basic needs approach to aid.¹¹⁸ Instead the committee propagated the benefits of rapid growth, and the belief that such growth, by the virtue of market forces would lead to social development that would reach the poor.¹¹⁹

The result of the Jackson report's neo-classical approach is that the relationships between the concepts of growth, equity and poverty reduction are not clearly defined. As Eldridge highlights, while the Jackson report defines development in terms of

¹¹⁶ OECD, *DAC Peer Review Australia* Development Assistance Committee, OECD 2005

¹¹⁷ Sir Gordon Jackson, Professor Helen Hughes, Neill Batt, Professor David Lim and Dr Brian Scott

¹¹⁸ Observation of the literature made by Rukmani Gounder, *Overseas Aid Motivations: The Economics of Australia's Bilateral Aid* Aldershot: Avebury, 1995 p 26

¹¹⁹ Stent, W.R., 'The Jackson report: A critical review' *Australian Outlook* Vol. 39 (1) 1985 p 33

growth and equity it does not assign any weight to either, or indicate how they are to be integrated in the operational context.¹²⁰ Though, analysis of the context of “ideas” in which the report was written, and the intellectual orientations of the committee members, suggests that priority was accorded to growth in the sense of ‘growth first, distribution later’.¹²¹ This, however, is not to suggest that proponents advocating a basic needs approach targeted towards the poor reject growth as crucial to poverty reduction. Indeed as Eldridge asserts some level of growth is essential to poverty reduction and a basic needs strategy for development as it increases the amount of wealth to be distributed. But, a basic needs strategy in contrast to the conventional model of simply prioritising growth ‘...would allow the overall rate of growth to be derived from the composition of a country’s development program’.¹²² This means that what is produced is accessible to the poor majority, which is dependent upon the prevailing structures of ownership, control, income and wealth. Hence, another critique of the Jackson report being its failure to acknowledge such factors and address the *politics* of development,¹²³ or address how after growth, equity would actually spread to the poorest parts of the population.

4.3 The Simons Review

In 1996 the Simons review sought to address the critiques of Australian aid that had been brewing for over a decade. These critiques addressed issues as wide ranging as AusAID’s lagging poverty reduction focus, health, education and human rights.¹²⁴

But the main critique which the Simons review would later address, concerned the three mandates that Jackson identified for the aid program – humanitarian, diplomatic and commercial – which were criticised for confusing the direction of the aid program. Kilby characterised Australia’s aid program as a case of ‘mixed messages and

¹²⁰ Philip Eldridge ‘Philosophy and strategy of the Jackson report: Towards an alternative perspective’ *Australian Outlook* Vol. 39 (1) 1985 p 21

¹²¹ Richard Higgott, ‘Structural adjustment and the Jackson report: the nexus between development theory and Australian foreign policy’ in P. Eldridge, D. Forbes, & D. Porter, *Australian Overseas Aid: Future Directions* Sydney: Croom Helm, 1986, p 41

¹²² Phillip Eldridge, 1985, p 24

¹²³ L.A. Duhs ‘The Jackson report and the ongoing aid debate’ *Economic Analysis and Policy* Vol. 17 (1) 1987

¹²⁴ Pamela Thomas, *Reviewing Australian Aid* Australian Development Studies Network, Canberra: Australian National University, 1996

conflicting agenda's'.¹²⁵ As Cassen noted, bilateral donors often have political and commercial motives for aid, which can interfere with development objectives. He notes that when such motives predominate, they can be harmful to the promotion of growth and poverty reduction.¹²⁶

The Simons review commissioned in 1996 sought change the objective of the aid program as evident in the report's title; *One Clear Objective: Poverty Reduction Through Sustainable Development*. The Simons report expressed concern that having three simultaneous objectives – humanitarian, commercial and diplomatic – was undermining AusAID's capacity to achieve the goal of poverty reduction. The report stated that "...the pursuit of short-term commercial or diplomatic advantage through the aid program can seriously compromise its effectiveness and should play no part in determining project and program priorities."¹²⁷ However, the report also did recognize that an aid program should also accrue commercial and foreign policy benefits to the donor. As such the report stated that through the process of aiding poverty reduction in the recipient countries, Australia would eventually accrue long-term commercial and diplomatic benefits arising from increased trade and cooperation. Therefore, Simons recommended that AusAID's single overarching objective was to "...assist developing countries to reduce poverty through sustainable economic and social development,"¹²⁸ from which Australia would *indirectly* accrue benefits.

In 1997, the government responded to the report with its revised aid framework in *Better Aid for a Better Future*.¹²⁹ While Simons advocated that poverty reduction should be the main objective, the government revised this position slightly by adding the precursor; "To advance Australia's national interest..." through poverty reduction, consistent with the course set in White Paper on Foreign and Trade Policy. The

¹²⁵ Patrick Kilby, 'Introduction' in P. Kilby (ed) *Australia's Aid Program: Mixed Messages and Conflicting Agendas* Monash Asia Institute and Community Aid Abroad, 1996

¹²⁶ Robert Cassen & Associates *Does Aid Work* New York: Oxford University Press, p 11

¹²⁷ Simons Committee Report of the committee of review on the Australian overseas aid program *One Clear Objective: Poverty Reduction Through Sustainable Development* Australian Government Publishing Service, April 1997

¹²⁸ *ibid*, p 12

¹²⁹ Alexander Downer, *Better Aid for a Better Future: Seventh Annual Report to Parliament on Australia's Development Cooperation Program and The Government's Response to the Committee of Review of Australia's Overseas Aid Program* November, 1997

Simons review was generally well received by the government who sought to implement most of Simons' recommendations.

In addition to the new objective AusAID responded with a number of new priorities for aid. These included sectoral priorities and crosscutting issues. The sectoral priorities included five priority sectors which were;

- Health
- Education
- Agricultural and rural development
- Infrastructure
- Governance

Even though AusAID had embraced the governance concept since the early 1990s, this was the first time that governance was introduced as a new sectoral priority. The cross-cutting issues – critical issues that cut across the development process, were identified as;

- Gender and development
- Environment

Despite the overarching poverty theme, the self-interest motive of aid was also reiterated. The geographic focus of the aid program remained the Asia-Pacific as Simons had recommended. This was primarily to address threats to Australian prosperity such as HIV/AIDS, illegal migration, global environment problems and narcotics, suggesting that these problems are primarily developing world imports.

The Simons review was generally more welcomed by the NGO community who appreciated Simons' recognition of the single mandate of aid.¹³⁰ While Simons did acknowledge that aid did serve other foreign policy imperatives such as security and long-term economic interest, the government's revision of the single mandate, '...to advance the national interest...' suggests a realist aspect at work that maintains foreign aid as a component foreign policy. This leads a critique of the Simons review by Warr who argues that is not feasible for the Simons review to suggest that there can ever be a single mandate for foreign aid as this will undermine the foreign aid's

¹³⁰ ACFOA, A Response from the Australian Council for Overseas Aid to the review of the Australian Overseas Aid Program, (undated) <<http://www.acfid.asn.au/pubs/submissions/simons.htm>>

use as a foreign policy instrument.¹³¹ However, in defence of the Simons report, Simons stresses that humanitarian objectives must trump other foreign policy and commercial objectives. This doesn't mean that Australia cannot derive benefit from aid, but rather that the benefits Australia accrues must only be a result of *indirect* action provided the humanitarian objectives have been met first.

4.4 New strategic plan

At the end of 2001 AusAID adopted a new strategic plan which was outlined in the 11th statement to parliament in September 2002 *Australian Aid: Investing in Growth, Stability and Prosperity*.¹³² The basic policy framework developed in *Better Aid for a Better Future* was reinforced including the objective of poverty reduction. But the general thrust of the new strategic policy was a re-orientation of the aid program to deal with the new challenges in the global environment that had emerged since 1997. These policy challenges again included transnational threats emerging from HIV/AIDS, illegal migration, people trafficking and the drugs trade.¹³³

However, the main development signaling a new focus for Australian aid was security concerns. The policy statement notes that;

“The September 11 terrorist attack on the United States, and the resulting war on terror; has highlighted the relationship between security and development. While it provides no justification for acts of terror, entrenched poverty can create an environment in which terrorist networks may be fostered.”¹³⁴

The fallout and recovery from the East Asian financial crisis also gave new impetus to governance and corporate governance concerns.

The statement's response to these new policy concerns were five new guiding themes;

- Governance: Promoting improved governance across all areas of partner governments and strengthening democratic processes

¹³¹ Peter Warr, 'No clear objective: The Simons Report on foreign aid' *Agenda* Vol 5 (3) 1997

¹³² AusAID *Australian Aid: Investing in Growth, Stability and Prosperity* 2001

¹³³ *ibid* p 8

¹³⁴ *ibid* p 8

- Globalisation: Assisting developing countries to access and maximize the benefits from trade and new information technologies
- Human capital: Supporting stability and government legitimacy through improved delivery of basic services
- Security: Strengthening regional security by enhancing partner government's capacity to prevent conflict, enhance stability and manage trans-boundary challenges
- Sustainable resource management: Promoting sustainable approaches to the management of the environment and the use of scarce natural resources.¹³⁵

These guiding themes identify nine sectors of importance to development around which AusAID currently organized by. They are; education, environment, gender, globalization, governance, health, infrastructure, regional security and rural development. Therefore, the main differences between the 1997 *Better Aid for a Better Future* and the 2002 *Investing in Growth, Stability and Prosperity* are the increased concerns regarding security and globalization, evident of the current climate.

Chand notes that following the 'US-led war on terror' there seems to be a backslide towards Simons espousal of the single mandate, to the "Jackson view" of multiple mandates following the increasingly explicit foreign policy objectives being espoused in policy papers.¹³⁶ Such policy correlates with actions that embody Australia's 'new interventionism' to be discussed in chapter 6.

What is evident from this historical overview of Australian aid is that its evolution parallels developments in the international consensus of aid delivery. Following the 1980s and the economic orthodoxy that emphasised macro-economic structural adjustment, in the 1990s there was generally more acceptance of targeting poverty as a means to development. However, since 9/11 we see aid taking on new concerns which re-invigorate debates regarding the national interest.

¹³⁵ *ibid*, pp 18 - 20

¹³⁶ Satish Chand Impact of revamped Australian assistance to the island-Pacific, paper delivered to Sixth Annual Conference of Global Development Network, Dakar, Senegal, January 24, 2005, p 9

<http://www.gdnet.org/Activities/annual_conferences/sixth_annual_conference/conference_papers_by_theme/interregional_perspectives/transition.html>

Having explored the historical development of AusAID's organisational development in light of Australia's interests, we now turn to examining the governance agenda within this context.

Chapter 5

The governance agenda in AusAID

The purpose of this chapter is to understand Australia's approach to promoting governance. This means understanding the governance agenda's historical development within AusAID, how AusAID defines governance, and the components of governance promotion that AusAID most emphasises as critical to development.

5.1 The early 1990s and the “creeping” of governance

AusAID began to ride the ‘good governance’ wave as soon as the agenda was debated in development circles in the early 1990s. However, Australia's initial approach to ‘good governance’ was cautious and not explicitly defined. While Australia maintained a supportive discourse towards this new developmental paradigm, in the early 1990s there was no structured policy approach towards governance. However, the governance agenda was gradually ‘creeping’ into AusAID. Following events such as the Simons Review and the Asian Financial Crisis, AusAID began to increase spending on governance projects and specifically identify ‘good governance’ as an overriding factor in development.

When the governance concept began to publicly trickle into the AusAID lexicon during the early 1990s, governance was understood more in its managerial and ‘non-political’ usage, similar to that adopted by the World Bank. AusAID's third ministerial paper presented by then Minister for Trade and Overseas Development, John Kerin in 1992, is indicative of AusAID's initial views;

“While some donor countries are seeking to make aid conditional on the respect for human rights and good governance in recipient countries, Australia

does not equate the promotion of good governance with the imposition of Western-style models of democracy. Good governance is understood more broadly as effective management of a country's social and economic resources in a manner that is open, accountable and equitable.”¹³⁷

Evidently, Australia also felt that a predominantly managerial definition of the term was most appropriate for its purposes.

So why was Australia keen not to define governance in a ‘political’ manner, avoiding any association with democracy? One reason may lie in a perception of cultural relativity. This view is evident in John Kerin’s first sentence discussing Australia’s stance on making aid conditional on particular political attributes. This sentence alludes to cultural debates regarding differences between western and non-western modes of governing. This is a debate which fed into the ‘Asian values’ debate of the time of which the incompatibility of western values with primordial Asian culture was debated.¹³⁸

Similarly the historical context during this time was characterised by the Keating era of ‘Asian engagement’ and greater effort towards understanding cultural differences. The seemingly non-political definition of governance espoused by Australia is inherently related to Australia’s experience as a close observer of East Asian development. For instance, AusAID noted that;

“Australia recognises that several countries in our region provide examples of successful development, even though their systems differ significantly from western democratic forms.”¹³⁹

Political conditionality, therefore, did not feature as policy of Australian development aid. It was also stated that, “Suspending cooperative activities is often likely to harm those who are already repressed or disadvantaged, without placing any significant pressure on governments to become more democratic”.¹⁴⁰ Instead the government

¹³⁷ John Kerin, *Changing Aid for a Changing World* Ministerial Policy Paper & Third Annual Report to Parliament on Australia’s Overseas Development Cooperation Program, November 1992, p 17

¹³⁸ Beng-Huat Chua, ‘Australian and Asian Perceptions of Human Rights’ in Ian Russell (ed) *Australia’s Human Rights Diplomacy* Canberra: Australian National University, 1992

¹³⁹ Gordon Bilney, *Australian Development Cooperation 1993-94* 1994, p 9

¹⁴⁰ *ibid*, p 9

believed that the capacity to influence events was greater the stronger the bilateral relationship was.¹⁴¹

5.2 The rising centrality of *democratic* governance

During the early rise of political reform issues within AusAID; governance, democracy and human rights concerns did not form a core focus of AusAID's work. This changed following the Simons Review and the Asian Financial Crisis. While governance projects had previously existed within the aid program, the government response to Simons report, *Better Aid* stated that for the first time it would make governance a specific focus of the aid program.¹⁴² The greater emphasis on governance also paralleled the East Asian Financial Crisis which began in mid-1997. The policy directions in *Better Aid* were made effective for the 1998-99 budget where it was noted that "...The current financial crisis in East Asia testifies to the importance of governance issues for the development process."¹⁴³

Also changing slightly in the new 1997 policy directions was AusAID's definition of governance. Here governance was defined (as is still currently defined) as;

"...competent management of a country's resources in a manner that is open, transparent, accountable, equitable and responsive to peoples needs."¹⁴⁴

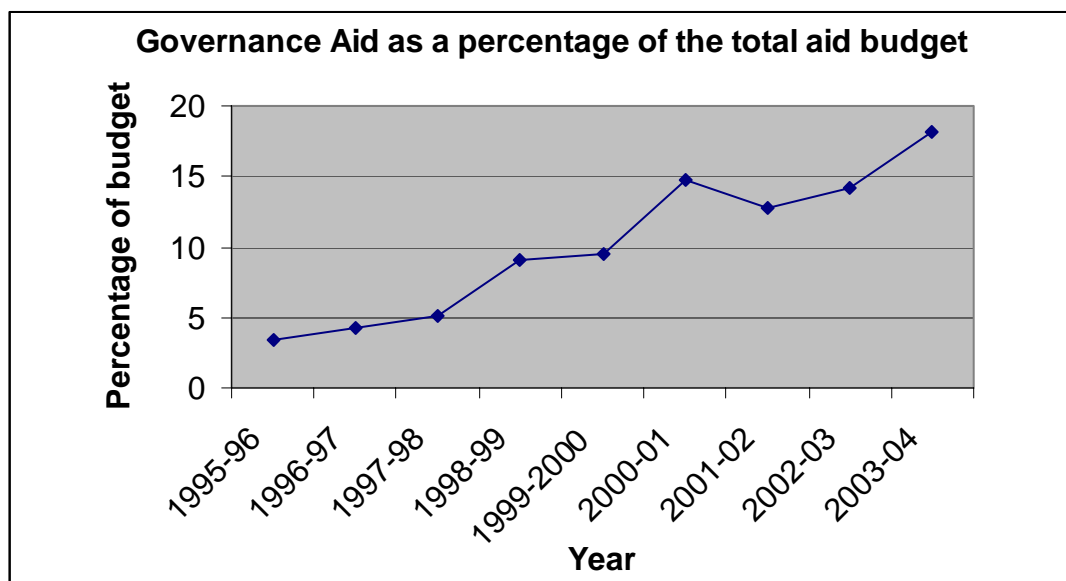
This definition demonstrates a greater acknowledgement of democratic governance than previous AusAID definitions. This is exemplified in the notion of being 'responsive to people's needs' in line with the Simons recommendations.

¹⁴¹ Ian Russell, 'Australia's Human Rights Policy: From Evatt to Evans' in Ian Russell (ed) *Australia's Human Rights Diplomacy* Canberra: Australian National University, 1992

¹⁴² Alexander Downer, *Better Aid for a Better Future: Seventh Annual Report to Parliament on Australia's Development Cooperation Program and The Government's Response to the Committee of Review of Australia's Overseas Aid Program* November, 1997, p 5

¹⁴³ Alexander Downer, *Australia's Overseas Aid Program 1998-99* Commonwealth of Australia 1998, p 23

¹⁴⁴ *ibid.*, Alexander Downer, *Better Aid...* 1997, p 5-6



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AusAID's Shifting Understanding

Also emerging in the latter half of the 1990s was a shift in AusAID's understanding of the relationship between democracy and development. Earlier it was noted that in AusAID's previous statements, it did not associate 'good governance' with western-style democracy, and that it recognised the developmental success of countries in the region that had developed with different political systems. However, following the economic crisis in the region, this view began to change.

In 1999, Foreign Minister Downer made a speech outlining AusAID's greater governance focus. Aware of the 'debate in Asia' concerning political values and forms of government, Mr Downer commented that while Australia was aware of the differences in our region, there were still 'certain pillars' of civil society that it was believed all nations should develop;

"These pillars essentially reflect our commitment to liberalism that places strong emphasis on the rights of individuals. They include freedom of speech and the contestability of ideas, respect for human rights and the rule of law, accountability and transparency in public administration, and support for sensible market-oriented economic policies..."¹⁴⁶

¹⁴⁵ AUSAid, Statistical Summary – Australia's Development Cooperation 1990-2003

¹⁴⁶ Alexander Downer, 'Governance in the Asia-Pacific: Challenges for the 21st Century' Speech to the Asia Research Centre, Murdoch University, Perth, 18 August, 1999

Evident in this speech is a sense of rhetoric about the superiority of ‘western-style’ democracy not previously associated with AusAID’s public image. Values of liberalism, individual rights and notions of market-oriented economic policies, over state-oriented policies are still contested in regards to their universality. Yet, Downer’s speech presents these values as supremely universal, marking a shift away from AusAID’s earlier caution of explicitly identifying political values which developing countries should emulate.

In 2000 AusAID released a document called *Good Governance: Guiding Principles for Implementation* which outlined AusAID’s approach to the governance concept and demonstrated support for the World Bank’s *Assessing Aid* report¹⁴⁷. In this document it was noted that;

“There is an essential link between democratic and accountable government and the ability to achieve sustained economic and social development”¹⁴⁸

While this ‘essential link’ was not explicitly defined or illustrated in this document, a better example of how AusAID views the democracy/economic development relationship is expressed in the following;

In a review of Australia’s response to the Asian Financial Crisis, AusAID shifts its focus towards aligning market based economic policies with democratic accountability as we see here;

“Before the financial crisis there was little recognition of the need for good governance in Asia for economic performance. Heady rates of consistent growth even lured the World Bank to believe there was an ‘Asian way’ and that democracy was not an essential ingredient in performance and development...But civil society has to be involved if the formal rules (the laws and regulations) are to be aligned with what people want and how they want to live. Transparency, open media and democracy are now recognised as valuable ‘tools’ to gain greater accountability and better policies and regulations.”¹⁴⁹

¹⁴⁷ AusAID, *Good Governance: Guiding Principles for Implementation* Commonwealth of Australia, 2000, p 5

¹⁴⁸ *ibid*, p 5

¹⁴⁹ AusAID, *Economic Governance and the Asian Crisis: An Evaluation of the Australian Aid Program’s Response* Commonwealth of Australia, 2003, p 15

In this way AusAID has inadvertently revoked its previous statements that saw no relationship between economic management and politics, to a view that understands the crisis of Asian economic mismanagement as resulting from a lack of public accountability. Interestingly enough, AusAID does not directly acknowledge its changed focus in its publications, but rather espouses a World Bank view as supplementing its own.

5.3 Governance, Democracy and Human Rights Projects

In the 1998-99 budget which instituted the government's response to Simons recommendations, support for governance projects rose from \$68 million in 1997-1998 to \$82 million. It announced that governance in Australia's aid program would focus on three principle areas.

- **Economic policy** was described as creating conditions for strong economic growth, namely facilitating private sector growth through improved macroeconomic policies, trade facilitation and the promotion of structural reforms through increased competition and deregulation.
- **Public Institutions** Support for public institutions was described as strengthening the management and policy capacity of public institutions.
- **Human Rights** The government claimed that it supported the universal indivisibility of all human rights- economic, social, cultural, civil and political.

In the following analysis of what these components of the governance sector involve, it is clear that they are not mutually exclusive categories. The projects which are supported in one category reinforce the objectives of the other categories. The overall objective is to create a market-based order within a liberal democratic state. For instance the provision of law reform projects based on the rule of law not only satisfies the human rights component by creating 'equitable' and democratically conducive legal systems. It also satisfies the 'effective' management of public institutions, by reducing state economic management based on the principles of free markets and private sector development.¹⁵⁰ Hence, AusAID recognises that there is a

¹⁵⁰ AusAID Viet Nam: *Legal and Judicial Development* Working Paper 3 April 2000, p 1

considerable level of ‘governance overlap’ meaning that impediments to development may be deeply rooted and cover a range of components, for example a lack of clear property rights may impede capital accumulation as well as promote corruption. Therefore, AusAID also explicitly recognises Douglas North’s distinction between formal and informal institutions and the necessity to align the formal rules with the informal rules of how society behaves.¹⁵¹

Whole-of-Government Approach

Before reviewing Australia’s approach to governance projects, we note that many projects are characterised in their delivery by a ‘whole-of-government’ approach, which is emerging as a significant public management method within the Australian public service.¹⁵² Institutionally, AusAID is an organisation within DFAT forging partnerships with other Australian government departments to take advantage of specific technical expertise which can be used to promote overseas reform.¹⁵³ A range of government organisations, from the Australian Electoral Commission, to the Australian Prudential Regulation Authority to the Australian Federal Police have been involved in providing technical-assistance.¹⁵⁴

Economic Governance

Analysing firstly economic policy within AusAID’s governance framework, ‘good governance’ is essentially viewed as private sector development with minimal government intervention. A most potent example of ‘good governance’ seen as market-based development was espoused in the Australia Crisis Fund (ACF). This was an emergency reform fund that operated in 1998-1999. AusAID’s response as a niche donor was primarily to increase the governance-capacity of states to implement the structural adjustment policies prescribed by the multilateral banks. For instance, there were projects aimed at management of state-owned enterprises, public

¹⁵¹ *ibid.*, AusAID, *Economic Governance and the Asian Crisis...* 2003 p9

¹⁵² Management Advisory Committee, *Connecting Government: Whole of Government Responses to Australia’s Priority Challenges* Australian Public Service Commission, Canberra, 2004

¹⁵³ Chris Gallus, Parliamentary Secretary to the Minister for Foreign Affairs ‘Effective aid: A whole-of-government approach’ *Development Bulletin* Vol. 65, 2004, p 5

¹⁵⁴ Refer generally to AusAID reports

expenditure, projects that supported technical assistance in relation to computer programs used by bureaucracies as well as a number of training projects for government officials in areas such as commercial law and supervision of financial institutions. While there were other projects aimed at more social or civil objectives such as a ‘back to school’ project, AusAID estimated at least 90% of projects could be broadly categorised as benefiting economic governance.¹⁵⁵

Governance of Public Institutions

AusAID’s general imperative to improve the effectiveness of public institutions is an area that correlates with the objectives of economic governance and political governance. Public sector capacity building determines the political-economic character of the state. For instance, AusAID cites one of its projects under this category as a four-year program commenced in 1998 to assist China’s transition to a market economy.¹⁵⁶ Such a program aims to assist in reforming service delivery towards generally greater reliance on private sector initiatives, hence changing the political economy of public service delivery.

Another example of public sector reform is the Pacific Policy and Management Reform Fund or PMR used to promote reform in the management of Pacific Island countries.¹⁵⁷ This initiative began in 1996 and operates as a fund where assistance is awarded on the basis of a country’s demonstrated commitment to reform. This follows Australia’s general wariness regarding the management of natural resources – fisheries, timber and mining – in the Pacific Islands, prompting encouragement towards “appropriate policies” – public sector reform and the encouragement of private sector development.¹⁵⁸

Democratic Governance and Human Rights

¹⁵⁵ AusAID, *Economic Governance and the Asian Crisis: An Evaluation of the Australian Aid Program’s Response* Commonwealth of Australia, 2003 p 45

¹⁵⁶ AusAID *Australia and China: Supporting Reform and Development: Aid Program Strategy 2000-2001* 2000, p 12

¹⁵⁷ Alexander Downer, *Australia’s Overseas Aid Program 1996-97* 1996 p vii

¹⁵⁸ Gordon Bilney, *New Directions in Australia’s Overseas Aid Program* Ministerial Policy Paper and Fifth Annual Report to Parliament on Australia’s Cooperation Program, 1995, pp 3-4

In the area of human rights, AusAID claims that it fulfils the requirements of promoting both the economic, social and cultural rights as well as the civil and political rights. Traditionally, foreign aid and its goals of development typically fulfilled the requirements of supporting economic and social rights; that is rights to be free of poverty and have access to adequate social services such as healthcare and education. AusAID claims that its poverty reduction focus fulfils such requirements.¹⁵⁹ In the mid 1990s civil and political rights gained greater focus. In 1995 AusAID claimed as part of ‘future directions’ outline that;

“With greater recognition of the interconnectedness of the development, human rights and security agendas, aid officials will need to integrate the full range of human rights concerns into their work”¹⁶⁰

For Australia, this means addressing also civil and political rights within the context of development, peace building and avoiding civil conflicts.

As such, democracy promotion in AusAID is considered inextricably part of a governance agenda that acknowledges the universality of human rights. Such views were expressed when Australia became the principle sponsor of two UN resolutions regarding human rights. The first Resolution 2000/64 *The role of good governance in the promotion of human rights* emphasises the notion that good governance builds effective and accountable institutions that promote growth and sustainable human development thereby realising human rights.¹⁶¹

The second UN resolution sponsored by Australia marks Australia’s role in the promotion of national human rights institutions. This resolution 2000/76 *National institutions for the promotion and protection of human rights*¹⁶² encourages member states to establish or strengthen national human rights institutions. This effort has been supported regionally by Australia’s work in the Asia-Pacific forum of national human rights institutions. In 1996 AusAID established a human rights fund which supported the Australian Human Rights and Equal Opportunities Commission in organising the first Asia Pacific Workshop of National Human Rights Institutions held in July 1996.

¹⁵⁹ Alexander Downer, *Australia’s Overseas Aid Program 1998-1999* 1998 p 24

¹⁶⁰ AusAID, *Global Change and Australia’s Overseas Aid Program* Ministerial Policy paper and Sixth Annual Report to Parliament on Australia’s Development Cooperation Program, November 1995

¹⁶¹ United Nations Resolution *The role of good governance in the promotion of human rights* 2000/64

¹⁶² United Nations Resolution *National institutions for the promotion and protection of human rights* 2000/76

Here it was agreed by each representative human rights institution to establish the Asia Pacific Regional Forum of National Human Rights Institutions which Australia continues to provide administrative support for.¹⁶³

In support of democracy building, AusAID funded the establishment of the Centre for Democratic Institutions CDI in 1998. The organisation functions as a research centre at the Australian National University. Its main activities involve research and training programs for relevant politicians, officials and representatives of civil society from developing countries. CDI focuses on assisting the parliamentary process and political parties.¹⁶⁴ Consequently, the approach narrowly focused on elections as constituting democracy.

Overall, Australia's approach to democracy promotion strikes a tenuous balance between top-down and bottom-up approaches. On the one hand Australia supports bottom-up civil society efforts by promoting independent national human rights institutions. On the other hand, Australia generally takes top-down approach towards democracy promotion. The effect of this top-down focus is that Australia's approach to democracy promotion primarily emphasises the *procedural* aspects of democracy. That is the institutional aspects associated with democracy such as electoral and parliamentary procedures rather than the more substantive elements of democracy such as grass-roots civil support. In other words notable projects in AusAID's democracy promotion tend to be oriented towards results that produce specific *outcomes* or *endpoints*, rather than facilitating *processes*. What this means is that projects that produce outcomes such as the facilitation of an election or legal reform are more notable in AusAID rather than projects with less tangible results such as facilitation of a free and diverse media.

5.4 'Incentives' Vs Conditionality

The Australian aid program has outright rejected conditionality as an aid policy mechanism and embarked upon 'incentives' and 'partnerships' as a means to induce

¹⁶³ Alexander Downer, *Australia's Overseas Aid Program 1998-1999* 1998 p 25

¹⁶⁴ Centre for Democratic Institutions, see 'about us'
<http://www.cdi.anu.edu.au/about_cdi/the_work.htm> [September 2005]

reform.¹⁶⁵ This form of aid allocation in the Australian case is delivered through the partnerships formed in the ‘country programs’. A dialogue is initiated between the donor and recipient based on the recipient’s ‘demonstrated commitment to reform’. AusAID has set up a number of incentive funds through which support for recipient reform is provided. There are three main reasons for Australia’s dismissal of conditionality and preference for incentives or more cooperative approaches to reform.

1. The intellectual consensus on the failings of conditionality.
2. Incentives and enhanced partner dialogue are more likely to encourage behavioural change.
3. Australia is institutionally a small donor unable to leverage reluctant governments into reform as larger donors such as the World Bank are able to.¹⁶⁶

However, while Australia rejects punitive conditionality in favour of more cooperative approaches and espouses notions of ‘partnership’, in practice these ideas are to be seriously questioned. The ‘allocation criteria’ for the Pacific Regional and Policy Management Reform (PMR) which allocates funds on the basis of a ‘commitment to reform’ defines such commitment as;

“A willingness to enter into a comprehensive reform agreement with international financial institutions will be seen as a particularly significant indicator of government commitment, as will a willingness to agree to the allocation of bilateral program funds to significant projects consistent with the aims of the PMR Fund.”¹⁶⁷

Essentially, this demonstrates that the PMR fund *is* according a form of conditionality in its foreign aid program, despite the rhetoric in its publicly available documents. The fact that countries must agree to a program of policy reform with one of the international financial institutions further demonstrates AusAID’s power within the ‘partnership’. The idea that a country’s commitment to reform is demonstrated by a ‘willingness’ to forego the possibility of pursuing a different developmental strategy,

¹⁶⁵ AusAID, *Review of Incentives and the Australian Aid Program* Evaluation and Review Series, No. 32, June 2003

¹⁶⁶ *ibid*

¹⁶⁷ AusAID, *Pacific Regional Policy and Management Reform Fund: Allocation Criteria* (undated) accessed through Freedom of Information

certainly undermines any AusAID rhetoric that recipient countries have at least complete 'ownership' over the reform process.

Conclusion – Part II

This section has examined the Australian aid program as organisationally located within Australia's foreign policy apparatus. The evolution of Australia's aid program has consistently dealt with critiques of its multiple mandates for aid – especially the overriding objective to 'advance the national interest'. Australia's governance agenda has risen within this context and gained greater importance following the East Asian crisis, rapidly expanding AusAID's pursuit of promoting its procedurally-focused public capacity-building conception of 'good governance' in the region.

PART III – CASE STUDIES

During the November 2004 APEC meeting held in Santiago, Chile, matters of trade, security, development and aid were simultaneously discussed by Prime Minister Howard indicating the inextricable linkages between such issues. Howard stood tough on linking aid to anti-corruption and good governance. But the substance of the meeting was trade, and in a post-9-11 world, this was within the context of security issues.¹⁶⁸ John Howard said APEC should continue its strong work in dealing with terrorism, and claimed that in order to "increase the resilience of our economies" he encouraged leaders to;

"send a strong message of support to the current WTO Doha round which offers major gains for both developed and developing countries."¹⁶⁹

Terrorism in other words was to be fought by tackling poverty, through trade.¹⁷⁰

¹⁶⁸ Ian Taylor, 'APEC, Globalisation and 9/11: The debate on what constitutes Asian regionalism' *Critical Asian Studies* Vol 36 (3) 2004

¹⁶⁹ John Howard, 'Visit to Chile for APEC' Media Release, 18 November 2004, <http://www.pm.gov.au/news/media_releases/media_Release1150.html>

¹⁷⁰ Tom Allard, "Fight terror with trade, not aid: PM" *Sydney Morning Herald*, Nov 22, 2004

“It’s important to try and tackle those inequalities in society which provide a, how shall I put it, a point of advocacy for terrorists...I certainly recognize that they would seek to exploit disadvantage.”¹⁷¹

This event and what Howard said about trade and terrorism is indicative of the emergent correlation between trade and security amidst globalisation. Globalisation is a process resulting from, and further promoting increased communications and transport technology that increases transnational linkages. These linkages may come in the form of increased trade and prosperity, people-to-people linkages and greater cultural awareness and transactions, or they may come in the form of increased poverty and economic displacement, drug trafficking, people smuggling or the incitement of terrorism on the internet. Therefore globalisation is to be understood simply as a *process* from which crisis or opportunity may derive.

The Australian government recognises globalisation as a win or lose situation. It states that “The quality of a country’s governance is crucial in determining whether it gains or loses from globalisation.”¹⁷² In this way governance is understood as a type of state capacity which can mediate the effects of globalisation.

This section examines two case studies which demonstrate how the Australian aid program has used the governance agenda to advance its own strategic security and economic interests.

- The first case study examines the security imperative motivating Australian foreign policy, and how this is in part addressed by the aid program. It examines how the governance agenda within AusAID has become ‘securitised’.
- The second case study examines the economic imperative motivating Australian foreign policy, and how the aid program aims to facilitate regional free trade. It examines how ‘good governance’ is becoming increasingly synonymous with liberalisation and increased trade capacity.

¹⁷¹ John Howard, Press Conference: Inter-Continental Hotel, Santiago, Chile
<http://www.pm.gov.au/news/interviews/Interview1154.html> November 20, 2004

¹⁷² DFAT *In the National Interest: Foreign and Trade Policy White Paper* 2003
<<http://www.dfat.gov.au/ani/overview.html>>

The argument here is that the consequence of these two foreign policy imperatives is a shifting conception of what ‘good governance’ means away from more developmentally focused frameworks.

Ch 6 – The Security Imperative

The securitisation of governance and ‘new interventionism’

The security imperative as a motivation of Australian aid has recently become more pronounced as a result of a shift in the service delivery of Australian aid. This shift in service delivery is what has become known as Australia’s ‘new interventionism’, such as interventions in the Solomon Islands and PNG. The justification of such intervention is based on the idea that in developing countries, poor state capacity leading to, or resulting in ‘state failure’, is more likely to provide a breeding ground for trans-national security threats. As such Australia’s new interventionism is intrinsically tied to the governance agenda. This follows what is understood as the ‘securitisation’ of the meaning of governance.

This section will explore AusAID’s conceptualisation and operationalisation of the security and development nexus. Secondly, there will be an examination of Australia’s perceptions of security in the region. This will be followed by analysis of the concept of ‘state failure’ provoked by think tanks in influencing AusAID’s security focused projects. Finally, there will be a critique of the ‘securitisation’ of governance based on the idea of ‘state failure’.

6.1 The security/development nexus and AusAID’s emerging objectives

Conceptualising security and development

In recent years AusAID has sought to heighten the awareness of a relationship between security and development following the 9/11 and Bali attacks. However, security concerns had always been prevalent in AusAID, given border security

priorities concerning drugs, people smuggling and gun trafficking.¹⁷³ But now, AusAID has heightened the awareness of a link between security concerns and underdevelopment as the antecedent to terrorism. In AusAID's publication *Counter-Terrorism and Australian Aid* the causes of emerging terrorist networks in developing countries are cited as entrenched poverty, experiencing or being on the verge of violent conflict and poor or failing governance.¹⁷⁴ Hence, because AusAID's task is reducing poverty and improving governance and stability, AusAID has defined the causes of terrorism as a relevant task of foreign aid.

This development represents what Wesley has termed the 'securitisation of governance' This means that where once the definition of governance would have emphasised the processes of coordination of interests between government and non-government actors, the definition is now;

"...linked to measures of state failure governance has been redefined as the capacity of a state to provide certain public goods to its people. Primary among these is security from the types of societal disorder that provide ideal conditions in which malevolent transnational forces can operate."¹⁷⁵

Operational manifestation of the security/development nexus

In practice, this conceptualisation of states with poor governance being connected to trans-national security threats has spawned a series of projects within AusAID addressing security as one of AusAID's principle themes. As AusAID notes;

"Aid interventions are one of Australia's primary instruments for fostering long-term structural change to prevent conflict, and to respond to conflict when it occurs."¹⁷⁶

Consequently, AusAID's approach to anti-terrorism is two-pronged. The first approach centres on building capacity for developing countries to combat terrorism by strengthening specific and broader law enforcement efforts. Such long-term structural changes require measures, including law enforcement, legislative, intelligence,

¹⁷³ *ibid*, AusAID *Australian Aid: Investing in Growth, Stability and Prosperity* 2001

¹⁷⁴ AusAID *Counter-Terrorism and Australian Aid* August 2003, p 4

¹⁷⁵ Micheal Wesley, 'Toward a realist ethics of intervention' *Ethics and International Affairs* Vol. 19 (2) 2005 p 68

¹⁷⁶ AusAID, *Peace Conflict and Development Policy* June, 2002 p 16

customs and migration responses.”¹⁷⁷ The second approach centres on achieving the overall objectives of the aid program so as to reduce the likelihood that terrorist networks would emerge in a developing country. Such measures include ensuring that the poor can access basic services such as health and education making it less likely for terrorist leaders to exploit their desperation.¹⁷⁸ This securitisation of governance has produced a shift in Australia’s service delivery of aid as marked by two important developments; the ‘whole-of-government’ approach and Australian’s being placed in inline in-country positions.

Firstly, the actual delivery of assistance has evolved to a state of ‘interventionism’. This entails Australian’s been deployed within ‘in-line’ positions in the recipient country to assist with development efforts. Two examples of this are the Australian-led Regional Assistance Mission to the Solomon Islands and the PNG Enhanced Cooperation program where Australian police had been deployed to actually work as police in these countries.

Secondly, there has been an enhancement of the whole-of-government approach to Australia’s aid delivery, utilising departments such as DFAT, Defence and AFP, as well as other non-security related departments to provide expertise in broader areas of capacity building. This ‘whole-of-government’ approach is what marks the distinction between the interventionism displayed in the Solomon’s and later in PNG from earlier Australian *military* interventions such as Timor. This means that AusAID and its governance agenda play an overriding role in prioritising the objectives of the ‘new interventionism’ giving these interventions a greater ‘developmental’ legitimacy.

6.2 Conceptualising security in the Asia-Pacific region: The ‘Arc of Instability?’

Australia’s security concerns are tied mostly to the Asia-Pacific region; the perceived ‘arc of instability’ extends from “...Indonesia to New Zealand, taking in problem spots such as East Timor, Papua New Guinea, Bougainville, the Solomon Islands, Vanuatu and Fiji...”¹⁷⁹ The term ‘arc of instability’ was first coined independently of

¹⁷⁷ *ibid*, *Counter-Terrorism and Australian Aid* August 2003

¹⁷⁸ AusAID, *Australian Aid: Investing in Growth...* 2001 p 8

¹⁷⁹ Laura Tingle ‘PM reveals radical plan for the Pacific’ *Australian Financial Review* 23/07/03

government in the 1980s in the Dibb Review of Australian defence policy. It was originally used to describe the geopolitical consequences faced by Australia following the collapse of the Suharto regime.¹⁸⁰ However, more recent strategic thinking is marked not by state to state threats, but rather threats emerging from increased transnationalism. The rhetoric of the ‘arc of instability’ now alludes to transnational ‘contagion’ such as terrorism and drug smuggling that may emerge from fragile or ‘failing’ states in the region. The government itself generally avoids using the phrase ‘arc of instability’ preferring instead more diplomatic language such as referring to the ‘acuteness’ of security concerns in the South East-Asia region as it did in the 2003 Foreign and Trade Policy Paper, *In the National Interest*.¹⁸¹

Callick provides two reasons as to why Australia ties its security concerns to the Asia-Pacific region. Firstly, there is the quantitative amount of examples of instability in the Asia-Pacific region such as the Fiji and Solomon Island coups and the East Timor massacres. These serve to popularise the ‘arc of instability’ rhetoric concerned with trans-national spill-overs. Secondly, Australia fears judgment from its Pacific Rim peers in its capacity to ‘manage’ its Island neighbours, just as Caribbean catastrophes reflect poorly on the USA.¹⁸²

But in the meantime, while the rhetoric of the ‘arc of instability’ was linked to security concerns such as drug trafficking, people smuggling and even HIV/AIDs, it did not elicit an interventionist policy response from AusAID. In January of 2003, foreign minister Downer claimed that intervening in the Solomon’s would be “folly in the extreme” as “foreigners do not have answers for the deep seated problems”¹⁸³ Similarly while DFAT had been pre-occupied with the ‘war on terror’, Australia was playing down suggestions that it should adopt an interventionist stance;

“Australia has an enduring commitment to positive engagement with the countries of the Pacific. At the same time, however, we recognise that there

¹⁸⁰ Kim Beazley ‘Arc of Instability’ *National Observer* Vol. 57 Winter, 2003 p1

¹⁸¹ DFAT *In the National Interest: Foreign and Trade Policy White Paper* 2003
<<http://www.dfat.gov.au/ani/overview.html>>

¹⁸² Rowan Callick, ‘Australia rethinks the Pacific: Regional Instability, Frustrations Challenge Canberra’ *Pacific Magazine* March 2003

¹⁸³ *The Australian* 8/01/2003

are limits to what outsiders can achieve Australia is not a neo-colonial power and the island countries are sovereign states.”¹⁸⁴

To understand why Australia took an interventionist approach to restoring law and order in the Solomon Islands we turn to the influence that Australian think tanks had on the government’s decision to intervene.

6.3 The Think Tank Influence: ‘State failure’

An influential factor in the Government’s about-face decision to intervene in the Solomon Islands by mid-2003 was the influence of two Australian think tanks. It was arguably the influence of two reports released by two independent Australian think tanks, the Centre for Independent Studies, (CIS) a conservative, pro-free-market think tank, and the Australian Strategic Policy Institute (ASPI) a government funded, yet independent think-tank that called for a new approach to the region.

It is interesting to note that both these reports use the conceptualisation of ‘failure’ on the part of the state to generate the perception that a radically new approach was needed. The conceptualisation of ‘state failure’ in the region within the context of the ‘war on terror’, coupled with emerging critiques that Australia needed a new approach to the region, shifted Australia’s regional engagement to one of interventionism. Indeed the influence of Australian think tanks in conceptualising ‘state failure’ at the time they did, may go some way in explaining the pertinent question posed by Dinnen. This question asks why Australia did not adopt an interventionist approach before these reports, despite requests for assistance from the Solomon’s dating back to 2000.¹⁸⁵

Hughes: Aid has failed the Pacific

In May 2003, economist Helen Hughes, writing for CIS released her report *Aid has failed the Pacific*. Hughes is predominantly inspired by the work of Peter Bauer who

¹⁸⁴ Senate Foreign Affairs, Defence and Trade References Committee, *Inquiry into Papua New Guinea and the, Island States of the South-West Pacific Submission No: 33*, Submitter: Dept Foreign Affairs, Defence & Trade 5th July 2002

¹⁸⁵ Sinclair Dinnen, ‘Lending a fist? Australia’s new interventionism in the Southwest Pacific’ *State, Society and Governance in Melanesia Discussion Paper 2004/5*, 2004, p 5

argues that foreign aid inevitably does more harm than good as it encourages dependency and is an unproductive rent on the economy. In this report, Hughes argues that Australian aid has failed the Pacific by providing fungible¹⁸⁶ aid that encouraged poor economic policies and thus stagnant poverty. Her ultimate solution would be to cut Australian aid, or at least make aid conditional on economic policies.¹⁸⁷

The concept of failure is consistently reiterated throughout the report. Firstly, aid has failed as an Australian policy response in failing to stimulate growth. More importantly, it is claimed throughout that the internal economic and political functions of Pacific states have also failed. The governments have failed to deliver public services and corruption is entrenched throughout the government, interfering with private sector development and leading to poor economic policies.¹⁸⁸

The government's response to Hughes' paper was mixed. On the one hand, the government publicly rejected outright the premise of Hughes paper which claimed the failure of Australian aid. AusAID responded a week after Hughes paper was released with a discussion of why Pacific aid was important and had played a crucial role in supporting the stability and legitimacy of national governments. AusAID claimed that;

“Those who argue that aid to the Pacific has failed because the region is not an overwhelming development success story base their argument on an incorrect premise that aid is the critical factor in pursuing development.”¹⁸⁹

Instead AusAID argued that aid is meant to play a supporting role in development and most importantly this supporting role is grounded in extensive consultation and partnership. Emphasis was placed on the sovereignty of Pacific Island states, subtly refuting Hughes's calls for conditionality. However, on the other hand, while AusAID had publicly dismissed Hughes' arguments, the idea that a new approach to the Pacific was needed was certainly not lost on policy-makers.

¹⁸⁶ Fungible aid refers to aid income as being transferable or exchangeable. For example if a donor funds project A, - a project that the recipient would have funded anyway - it means that the recipient has more money to spend on a less efficient project B.

¹⁸⁷ Helen Hughes 'Aid has failed the Pacific' *Issue Analysis: Centre for Independent Studies* No 33, 7 May, 2003 <<http://www.cis.org.au/IssueAnalysis/ia33/ia33.htm>>

¹⁸⁸ *ibid*,

¹⁸⁹ AusAID, 'Why our aid to the Pacific is so important' Media Release 15 May 2003 <http://www.ausaid.gov.au/hottopics/topic.cfm?Id=2157_7967_5228_415_6958>

ASPI: The 'failing' Solomons

In June 2003, approximately six weeks before the Solomon's intervention began ASPI released its report *Our Failing Neighbour-Australia and the Future of the Solomon Islands* authored by Wainwright. This report makes the case for intervening in the Solomon Islands through a sustained multi-lateral effort. The report supported its recommendation by highlighting the risk that 'state failure' in the Solomon's would have on Australia's security interests. Also, the idea that 'state failure' meant that the Solomon's was no longer capable of using aid effectively,¹⁹⁰ struck a conceptual link with Hughes's paper.

In the ASPI report, the Solomon's is referred to as a 'failing state'. While there is no attempt to define the distinction between a 'failed state' and a 'failing state', Wainwright claims that failed or failing states are defined by a break-down in law and order, economic deterioration, a decline in the capacity of the state to deliver public services and a decline in living standards.¹⁹¹ As such Wainwright describes failing states as 'petri dishes' for trans-national criminal activity and constituting 'porous' borders which directly affect the surrounding region.¹⁹² Such rhetorical language clearly preceded Australia's new interventionism in the name of security and legitimised by 'good governance'

6.4 Critiquing Australia's 'securitisation' of governance

This section critiques Australia's 'securitisation' of governance. This includes examining the effect that the concept of 'state failure' has in eliciting a state-centric response towards improving governance, and the overall validity of the 'state failure' concept per se. The issue of donor interest also comes under scrutiny when analysing the congruence of the security imperative with AusAID's poverty reduction focus. The purpose of this section is to demonstrate how Australia has used the governance

¹⁹⁰ Elsin Wainwright *Our Failing Neighbour-Australia and the Future of the Solomon Islands* Australian Strategic Policy Review, June 2003, p 7

¹⁹¹ *ibid*, p 28

¹⁹² Elsin Wainwright 'Responding to state failure – the case of Australia and the Solomon islands' Vol 57 (3) 2003, p 286

agenda to pursue its own national interest, thereby undermining an understanding of how a particular conception of governance could facilitate state-building.

Identifying 'state failure'?

The concept of state failure helped influence the government led-intervention into the Solomon's, yet the term itself raises doubts about its analytical sophistication and therefore its usefulness to the governance agenda. The problem with this lack of intellectual clarity is that the concept of 'state failure' is insufficient in eliciting an appropriate governance reform response from AusAID. This is because the concept of 'state failure' does not address the unique problems, historical context and character of the state in question. Yet these are issues which the governance agenda must ostensibly address. However, before elaborating on this argument, a more immediate problem lies with defining 'state failure'.

Fears that PNG would become a 'failed state' elicited a strong policy response from AusAID. In the ASPI report that influenced the government's decision to intervene in the Solomon's, the Solomon's was described as a 'failing' state. However, at no point had there been an articulation of the indicators that defined a failed state from a failing state.

In defence of AusAID, however, this same lack of clarity is unfortunately evident in the academic literature on state failure. The concept of failure implies an absolute dichotomy in that there must be tangible point from which it is evident that a state has failed. In the academic literature from those who subscribe to the notion of 'state failure', there seems to be a general consensus surrounding some of the particular states which have failed in the past decade. These are Afghanistan, Angola, Burundi, the Congo, Liberia, Sierra Leone and Sudan.¹⁹³ These states were characterised by internal crisis that had eroded the most vital functions of the state. Yet the kind of internal crisis that distinguishes a failed from a failing state is still unclear in this

¹⁹³ Robert Rotberg, 'Failed states, collapsed states, weak states: causes and indicators' Rotberg (ed) *State Failure and State Weakness in an Time of Terror* Washington DC: Brookings Institution Press 2003

literature. Furthermore it is ostensibly difficult to identify a state that is deteriorating to the point it may be classified as ‘failing’.

The important point to make is that, due to the difficulty in identifying a failing state, the term state failure is vulnerable to politicisation on the part of the definers. According to Nguyen,

“The Government's approach to the idea of state failure suggests that policy precedes concept and not vice versa. It seems the Government is only willing to use the label, state failure, against a particular state, when it intends to intervene or has already intervened in that state.”¹⁹⁴

In this way it is evident that ASPI used the term failing state, not necessarily to appropriately identify certain characteristics of the nature of governance in the Solomons, but more so to persuade the government into action.

AusAID: ‘State failure’ and governance

Similarly, the conceptualisation of poorly functioning states on the part of AusAID lacks intellectual clarity and consistency. The concept of ‘state failure’ was first briefly referred to by AusAID in its 11th Ministerial Statement *Australian Aid*, in which security became an overwhelming concern for AusAID. In this document it was asserted that Australia could ‘not simply walk away’ from the poorly performing and ‘failed states’ in the region.¹⁹⁵ The term failed states was introduced without any attempt at a definition. In the 2002 document *Peace, Conflict and Development Policy*,¹⁹⁶ outlining AusAID’s approach to promoting peace and stability, the reference is made to ‘weak or divided states’ instead of referring to ‘state failure’. In the 13th Ministerial statement *The Integrated Approach*¹⁹⁷ ‘state failure’ or ‘failing states’ is referred to once again. In all of these statements, the undefined terms ‘failed states’, ‘weak states’ or ‘divided states’ are used interchangeably, and there is no there any attempt to distinguish what constitutes a ‘failed state’ from a mere ‘failing state’.

¹⁹⁴ Minh Nguyen ‘The Question of ‘Failed States’: Australia and the Notion of ‘State Failure’ View on Asia Briefing Series, UNIYA Jesuit Social Justice Centre, March 2005, p 10

¹⁹⁵ AusAID, *Australian Aid: Investing in growth...* 2001

¹⁹⁶ AusAID, *Peace, Conflict and Development Policy...* 2002

¹⁹⁷ AusAID, *Australian Aid: The Integrated Approach...* 2005

In the 2005 document, *Fragile States: What is international experience telling us?* a brief definition of ‘fragile states’ is provided in a footnote;

“There are many definitions of fragile states. The most concise defines fragile states as those “where the government cannot – or will not – deliver core functions to the majority of its people, including the poor”. But even this elegant definition is problematic: Myanmar, DPRK, Zimbabwe etc meet this definition

but could hardly be called “fragile”. Indeed it is the very rigidity and unresponsiveness of the state apparatus in those and similar countries that is at the core of their problems.”¹⁹⁸

What this definition implies, is that AusAID is seeking a term and definition which does not merely connote a weak state which has failed to deliver core state functions, but any state, weak or strong, that displays poor governance. It is this poor governance that AusAID claims allows trans-national security threats to emerge.

Therefore every time AusAID interchangeably uses such nefarious terms as ‘state failure’, ‘weak states’ or ‘fragile states’ it is broadly referring to states with poor governance, that it claims are inevitably connected to the vices of instability, insecurity and trans-national security threats. This means that ‘state failure’ is a term used to primarily identify problems of governance that impede the Australian interest, before identifying specific problems of governance for recipients.

The governance aid response

Furthermore, the notion of ‘state failure’ is inappropriate in provoking a policy response aimed at reforming the governance of a state, because the term ‘state failure’ does not adequately address the real problems of statehood.

The term ‘state failure’ assumes that a state was at one point functional before descending into internal crisis. However, states that do experience such crisis must never be assumed to have been viably functional in the first place. The consequence of this mode of thinking is described by Dinnen;

¹⁹⁸ Ian Anderson, *Fragile States: What is International experience telling us* June 2005

“The current challenge of state building is not to simply rebuild that which has ostensibly ‘collapsed’. To do so might simply be to invite ‘failure’ further down the track. What is needed is a fundamental rethinking about the kind of state and system of governance appropriate to the unusual circumstances of these countries.”¹⁹⁹

Essentially, a concept of whether a state has failed or is failing is not specific enough in understanding the unique challenges of governance it faces.

In this way, it is more useful to understand states as being on a course of ‘state-building’ rather than understanding states as having once been functional before suddenly collapsing or failing. States that are in serious crisis are so, because historically they were never set on a viable course of state-building. A simple operational definition of state-building may be understood as “...the creation of new governmental institutions and the strengthening of existing ones...”²⁰⁰ A more complex understanding of state-building would focus on its multi-faceted components. For example, state-building is a process embodying both statist and nationalist dimensions. This means that for successful state-building to occur, it must build effective state institutions, which service and are characterised by a sense of national identity.²⁰¹

In this way it is better to understand states on a course of developing infrastructural power. As opposed to despotic power, understood as coercive power *over* society, infrastructural power refers to a state-society synergy, where the state has power *through* society.²⁰² Greater state-society relations mean more extractive capacity on the part of the state to utilise resources effectively and improve developmental prospects. In practice, understanding the fragility of states in this way would require mapping the state-society linkages to gauge the level of strength and stability of the state. The practical benefit of this type of conceptualisation, versus a

¹⁹⁹ Sinclair Dinnen, ‘Lending a fist?...’ 2004 p 6

²⁰⁰ Francis Fukuyama, ‘The imperative of state-building’, *Journal of Democracy* Vol. 15 (2) 2004

²⁰¹ Andrea Talentino, ‘Two faces of nation-building: Developing function and identity’ *Cambridge Review of International Affairs* Vol. 17 (3) 2004

²⁰² Michael Mann *States, War and Capitalism...* 1988

conceptualisation of state failure, is that the former allows a better indication of the unique characteristics of the state that a governance agenda would need to address.

This discussion on the relationship between the conception of ‘state failure’ and governance is far from being a semantic issue. This demonstrates that AusAID and the Australian government is provoked into action by a concept – ‘state failure’ – that understands problems of governance in terms of the capacity of the state to provide public goods such as security. However, the ‘state failure’ concept does not necessarily convey historical legacies; the post-colonial states facing these serious security crises, are not ‘failing’, they were never viable to begin with.²⁰³ For example, in regards to the Solomon Islands – despite being in a vulnerable situation since 2001²⁰⁴ –Australia initiated a governance building response, when the security threats to Australia had been explicitly articulated by the concept of ‘state failure’ through the ASPI report. This demonstrates Australia’s willingness to intervene, when its own interests appear to be at stake. As Dinnen argues, - while questioning the prospects of Islamic terrorists basing themselves in the Solomon’s or PNG, - he notes that intervening under such an overriding security imperative risks obscuring more pressing domestic challenges such as inequality, poverty and the relationship between state and non-state institutions.²⁰⁵

Security and poverty reduction

Another case in point regarding the ‘securitisation’ of governance concerns the relationship between security imperatives and the overall poverty-reduction mandate of the aid program. The OECD’s DAC peer review on Australian aid that the link between security and poverty reduction is not as clear as it should be.²⁰⁶

In the immediate ministerial statement following the September 11 attacks, *Investing in Growth* heavily emphasised ‘enhancing partner government’s ability to combat

²⁰³ Sinclair Dinnen, ‘Aid effectiveness and Australia’s new interventionism in the Southwest Pacific’ *Development Bulletin* Vol. 65 2004 p 77

²⁰⁴ This is when the Townsville peace agreement began to breakdown

²⁰⁵ Sinclair Dinnen, ‘Lending a fist?...’ p 3

²⁰⁶ OECD DAC *Peer Review Australia* Development Assistance Committee, OECD 2005, p 12

terrorism,' thereby securitising the meaning of governance.²⁰⁷ However, in the immediate ministerial statement immediately following the 2005 'Boxing day' tsunami, Australia's humanitarian tsunami response is mentioned,²⁰⁸ however, there is no attempt to emphasise gearing improved governance towards future emergency response development. Therefore donor interest is more prevalent in an issue such as security, rather than an issue such as natural disasters.

Chapter 7 – The Economic Imperative

Aid to Trade: Good Governance as Liberalisation

Australia's prosperity is dependent on its ability to trade freely. However, Australia is not large enough to favourably influence its own terms of trade through forms of trade protectionism. Instead Australia relies on supporting the rules based multilateral trade system aiming to reciprocally open the world's economies.²⁰⁹ In this pursuit Australia may be described as a 'middle power' – describing a form of "leadership behaviour" based on 'significant innovation and initiative on the part of secondary but not insignificant players'.²¹⁰ This chapter is about how in Australia's pursuit to open world markets – in the face of continued protectionism²¹¹ - Australia is using its aid program as one method of trade diplomacy. Consequently, in recipient countries economic liberalisation and technical trade capacity building projects are promoted as 'good governance'. The focus of such projects constitutes what is termed the 'globalisation and trade' theme within AusAID.

This chapter traces the conceptualised relationship between aid and trade in Australia's policy rhetoric, before reviewing how Australia itself has evolved in its own trade policy to set the ultimate liberalisation example. This will be followed by an analysis of AusAID's governance programs promoting free trade, before

²⁰⁷ AusAID *Australian Aid: An Integrated Approach* 2005

²⁰⁸ AusAID *Australian Aid: Investing in Growth...* 2005 p 20

²⁰⁹ Ann Capling, 'Introduction' *Australia and the Global Trade System: From Havana to Seattle* Oakleigh: Cambridge University Press, 2001

²¹⁰ Andrew Cooper, Richard Higgott, and Kim Nossal *Relocating Middle Powers: Australia and Canada in a Changing World Order* Carlton: Melbourne University Press, 1993, p 17

²¹¹ OXFAM *Rigged Rules and Double Standards: Trade, Globalisation and the Fight Against Poverty* Oxfam, 2002

examining some critiques of AusAID's economic liberalisation imperative for governance.

7.1 "Trade not Aid" as Australian Development Advocacy

According to the Australian government's free trade advocacy, effective aid – aimed at improved governance – increases a country's capacity to trade, resulting in growth and poverty reduction. While Mr Howard has been particularly careful never to actually use the phrase "trade not aid" and consistently supports the Australian aid program, he always ranks trade above aid in poverty reduction; "I think the biggest thing the developed world can do to alleviate poverty is to remove trade barriers...The benefits of that are infinitely better than direct aid."²¹² Similarly, Trade Minister Mark Vaile notes; "...aid alone only perpetuates dependence on others for economic, social and, ultimately, political stability and growth...The fact is that aid...can never be more than a mere fraction of what can be earned by developing countries through trade and investment."²¹³

So what are open trade's credentials in development, specifically, in alleviating poverty? In a DFAT document highlighting the benefits of free trade, it is asserted that; "...trade and investment are the best 'poverty-busters' around."²¹⁴ In discussing the effects of trade on inequality, especially the detrimental effects on those in sectors displaced by freer trade, it is claimed that; "...other sectors prosper as a consequence of greater access to world markets and, over time, they absorb workers who lose their jobs elsewhere...Nevertheless, where freer trade displaces workers, governments need to find ways to help them adapt"²¹⁵ In this way, the provision of a limited welfarist state is accounted for; hence the reason for good governance and improved state capacity; "Australia's aid program places a high priority on helping countries improve their economic management to ensure public spending is managed better."²¹⁶

From this reading of political leaders' opinions and AusAID's own espousal of trade liberalisation, it can be interpreted that the Australian aid program is projecting an

²¹² *Sydney Morning Herald* 'Australia packs a punch at economic forum' January 31, 2005

²¹³ Mark Vaile, 'The Doha Development Agenda: Good for developing countries, good for Australia' Telstra Address at a National Press Club Luncheon, Canberra 13 November 2002

²¹⁴ DFAT *Trade, development and poverty reduction* Commonwealth of Australia, 2003 p 1

²¹⁵ *ibid*, p 2

²¹⁶ *ibid*, p 2

image of its governance programs as promoting a decreasing dependency on the part of developing countries – that is – the aid relationship is merely a temporary situation before a permanent trade partnership. In this way the aid program is claiming to serve reciprocal interests, those of the developing countries, and of Australia.

7.2 Australia Sets the Example

Australia has sought to set an example of its commitment to free trade in order to induce motivation on the part of recipient countries to also participate. Australia has done this in two main ways, firstly, by actively promoting regional free trade associations and secondly, by embarking upon unilateral liberalisation of its own industries.

Regional Free Trade ‘Leadership’

As a developed “middle-power” in the Asia-Pacific region, Australia has played a crucial role in encouraging regionalism in Asia and the Pacific. This imperative to economically engage with the region is traced back to the late 1980’s when Australia found itself more economically and strategically marginalised towards the end of the Cold War. The response of the Hawke and Keating governments was intensified regional engagement – most notably marked by the encouragement and support that established APEC (Asia-Pacific Economic Cooperation).²¹⁷ APEC created greater economic interdependence between the countries of the region and was marked by an aspiration for ‘comprehensive engagement’ in the Asian region.²¹⁸ Similarly, Australia displays a ‘constructive commitment to the South-Pacific as a member of SPARTECA (South-Pacific Regional Trade and Economic Cooperation Agreement) where Australia and New Zealand concede privileged access for South Pacific exports.’²¹⁹

²¹⁷ Fedor Mediansky ‘Australia and APEC’ in John Ingelson *Regionalism, Subregionalism and APEC* Monash Asia Institute 1997 p 128

²¹⁸ Gareth Evans and Bruce Grant *Australia’s Foreign Relations In the World of the 1990’s* Carlton: Melbourne University Press, 1991, p182

²¹⁹ South-Pacific Regional Trade and Economic Cooperation Agreement (entered into force 1981)

Similarly, Australia's regional 'leadership' in trade diplomacy tries to project an image of solidarity with developing countries, as seen Mark Vaile's comments:

"Australia has led the fight for agricultural trade policy reform in the WTO, especially as chair of the Cairns Group which brings together developed and developing country interests. Thailand and South Africa, Guatemala and Colombia, amongst others, stand side by side with Australia and New Zealand to challenge the agricultural protectionism rife in certain parts of the world."²²⁰

In projecting this image of solidarity, Australia has set an example through unilateral liberalisation.

Unilateral Liberalisation

Australia's unilateral liberalisation is commended by the OECD for maintaining a congruency between trade and aid policies.²²¹ Similarly Singer and Gregg who evaluate Australia's stance as a global citizen, rank Australia's efforts in trade policy – that is support for multilateralism as 'moderate' – the highest ranking they accord.²²² Australia's unilateral liberalisation has further strengthened its 'trade diplomacy identity'²²³ as being in solidarity with developing countries; and is further articulated in comments made by Howard such as;

"At the risk of making myself very unpopular, the trade policy of the European Union has denied access to agricultural exporters...I'm not just talking about wealthy agricultural exporters like Australia, although I obviously have an interest in promoting Australia's interests. I'm particularly talking about agricultural exporters from some of the poorest countries in the world and unless something is done about that issue, I don't think we are seriously able to talk about alleviating poverty."²²⁴

These comments highlight a consistency between Australia's unilateral liberalisation and Australia's stated commitment to assisting developing countries trade prospects.

²²⁰ *ibid*, Mark Vaile

²²¹ OECD *DAC Peer Review Australia* Development Assistance Committee, OECD 2005, p 15

²²² Peter Singer and Tom Gregg *How Ethical is Australia? An Examination of Australia's Record as a Global Citizen* Melbourne: Black Inc, 2004, p 80

²²³ For an examination of the idea of trade 'identities' see; Jane Ford, *A Social Theory of the WTO: Trading Cultures*, New York: Palgrave, 2003

²²⁴ *Sydney Morning Herald* 'Australia packs a punch at economic forum' January 31, 2005

7.3 AusAID Projects Under the ‘Globalisation’ Theme

AusAID categorises its efforts to promote trade capacity as falling within its ‘globalisation’ theme; that is, to extract the greatest benefits from globalisation. Rather than being a sector of aid, globalisation, like security is a theme of AusAID. In this way, the approach is also two-pronged. It entails on the one hand promoting increased trade through promoting ‘good governance’ as; the governance of a liberalised market. The second approach specifically uses technical assistance projects to target trade capacity building.

Building Trade Capacity Through Development: Liberalisation as “good policies”

As the ‘good governance’ agenda became embedded within international development discourse, it did so as an essentially market-based ideology. In the influential Burnside and Dollar paper, their definition of “good policies” were constitutive of the neo-liberal minimalist-state policies advocated in the conditionality of structural adjustment loans. Of these “good policies” trade liberalisation formed a vital component of growth inducing – and by consequence poverty reduction policies.²²⁵

Reflecting this logic Anderson notes:

“...aid can be used to *encourage* better policies and overall economic governance where it is currently weak. With the rewards from opening up and privatizing state-owned enterprises now so much greater than even just a decade ago, and with more successful examples to point to such as China, countries are more receptive now than in the past to such encouragement...”²²⁶

As AusAID began to take its cue in promoting ‘good governance’, it found that this developmental idea could be used to neatly espouse the neo-liberal economic advocacy.

²²⁵ Craig Burnside and David Dollar, 1997

²²⁶ Kym Anderson, ‘The changing international context of Australian aid’ CIES Discussion Paper 9706 August 1997 p 8

AusAID policy documents in the early 1990s concurred with “the wider consensus on the need for market-based policy solutions,” emphasising the role of ‘sound fiscal and monetary policies’ and the creation of an ‘enabling environment for increased private investment and savings’.²²⁷ However, as the “good governance” agenda gained momentum within AusAID following the Simon’s report, these ‘market-based policy solutions’ essentially *became* good governance. In the government’s response to the Simon’s report, it was noted;

“Effective governance ensures that sound fiscal, monetary and trade policies are instituted to create an environment for private sector development.”²²⁸

This idea was reiterated in another AusAID document *Private Sector Development Through Australia’s Aid Program* in which liberalisation became synonymous with ‘effective governance’.

“The types of governance activities which will be supported under Australia’s private sector development strategy include contributions to comprehensive economic reform programs and the institutional strengthening of government departments responsible for economic policy, planning and public sector management. Where appropriate, assistance will be provided to facilitate private sector involvement in service delivery and privatisation of state-owned commercial enterprises.”²²⁹

Building Trade Capacity Through Technical Assistance

Australia is recognised within APEC as a leader in providing capacity-building assistance for enhanced trade facilitation.²³⁰ These capacity building projects are aimed at developing technical skills and facilities country’s need to trade. For example, this means providing the following types of assistance;

²²⁷ John Kerrin, 1992 p 8

²²⁸ AusAID, *Better Aid...*, p 7

²²⁹ AusAID, *Private Sector Development Through Australia’s Aid Program* January 2000 p 4

²³⁰ Andrew Elek, ‘Capacity-building in the Asia-Pacific: A way forward for ECOTECH’ The Foundation for Development Cooperation, October 2000, p 17

- Contributing to the World Trade Organisation’s Global Trust Fund to help developing countries participate in the Doha Round of multilateral trade negotiations.
- Providing institutional strengthening for quarantine and bio-security services.
- Trade workshops designed to enhance the policy dialogue and negotiating skills of key working level officers to participate multilateral trade negotiations.
- An APEC support program designed to assist technical-trade capacity building in APEC countries.²³¹

These programs are aiming to essentially harmonise the trade-related institutions and regulations in developing countries. For example, an analysis of the guidelines for funding in the APEC Support Program reveals support for certain objectives such as ‘support trade liberalisation’ and ‘facilitate trade and investment’. This is elaborated upon by stating;

“...for example projects/activities that strengthen the intellectual property rights regulatory environment, align national standards with international standards, harmonise customs, improve quarantine controls, assist the improvement of communications and information flows and assist the mutual recognition of qualifications.”²³²

The guidelines also note that the APEC support program will accord higher priority to activities which “...target Indonesia, the Philippines, China or Vietnam...”²³³ Thereby aiming AusAID funding at countries at with greater development prospects to begin with.

7.4 Critiquing Governance as liberalisation

This section will focus on the critiques of AusAID’s ‘globalisation’ theme and the promotion of liberalisation under the rubric of ‘good governance’. We begin firstly by questioning notions of globalisation and the governance agenda’s role as a process of

²³¹ AusAID *APEC Support Program Funding Guidelines* April 2001, p 2, accessed through Freedom of Information

²³² *ibid*, p 3

²³³ AusAID *Annual Report 2003-2004* Canberra, 2004, pp 20-21

globalisation. Within this context the uncertain relationship between liberalisation and development will be examined. Finally, we will question whether Australia's governance efforts aimed at "appropriate economic management" are undermining the aid programs poverty reduction focus; preferring a growth oriented model as opposed to pro-poor development.

Questioning Globalisation?

The governance agenda's rise has coincided with increased economic interconnectedness and interdependence. This is commonly understood as 'globalisation' promoting the embedded norms of neo-liberalism. However, this idea of globalisation is to be empirically questioned.

Firstly, a concept of the *global* economy must be distinguished from a concept of the *international* economy. Thompson and Hirst draw this distinction by arguing that an international economy, or internationalisation, is where national economies are the principal entity and they become more interconnected. A global economy, or globalisation, however, is one where;

“...distinct national economies are subsumed and re-articulated into the system by international processes and transactions. The international economy, on the contrary, is one in which processes that are determined at the level of national economies still dominate and international phenomena are outcomes that emerge from distinct and differential performance of the national economies...The global economy raises these nationally based interactions to a new power. The international economic system becomes autonomized and socially disembedded, as markets and production become truly global.”²³⁴

Here Thompson and Hirst create two ideal types of an international economy and globalised economy. It is their central argument then that globalisation is to be questioned in reality. It is not yet true that FDI and trade flows have become truly global or that national systems of economic management and welfare have converged into a unitary model. There still remain distinctive national economic systems even though a proportion of the nation-states administrative and policy-making capacity

²³⁴ Paul Hirst and Grahame Thomson, *Globalisation in Question: the International Economy and the possibilities of governance* Cambridge: Polity Press, 1999 p 10

has declined due to the mobilisation of capital. As such in reality globalisation is a process that connotes the *gradual* erosion of national boundaries.

This distinction between internationalisation and globalisation is useful because it allows us to question whether the ‘good governance’ agenda that is being promoted is one that will subsume itself within a distinct national economy, or whether it is one that aims to replace the distinctiveness of the national economy and national policy-making apparatus.

As we have seen Australia’s governance agenda is helping propagate the neo-liberal norm of economic management, as well as using trade-capacity building projects to harmonise national regulation systems. However, AusAID’s publications which emphasise the need for growth inducing policies via minimalist state intervention, have not given due consideration to other developmental paths.

Liberalisation and Development: The uncertain relationship

In 1993 the Minister for Development Cooperation Gordon Bilney emphasised the need to encourage “appropriate economic policies”, these were based on a reading of the World Bank’s 1993 *East Asian Miracle Report* emphasising human capital investment, a competitive private sector, trade liberalisation or export orientation and strict fiscal macro-economic management.²³⁵

However, as a generation of literature on East Asian developmentalism flooded the political economy discipline, it was revealed that the main determinant of East Asian success was state-directed development as previously discussed. This is in sharp contrast to the World Bank’s ‘miracle’ report attributing development to sound macro-economic policies and private sector initiatives. What this example shows is that there are different paths to development and not all countries develop through

²³⁵ Gordon Bilney, *Poverty Reduction and Economic Growth in Australia’s Development Cooperation Program* November 1993, p 6

liberalisation. In fact the notion that any country developed through liberalisation is quite contrary to the historical record.²³⁶

Governance programs undermining pro-poor development

With ‘good governance’ being understood in AusAID as facilitating economic liberalisation to further its trade prospects in the region, it is questioned whether this pursuit is undermining AusAID’s poverty reduction mandate?

Australia’s aid allocation shows a notable concentration of aid directed to the Pacific Islands, which constitute close economic partners, as well as dynamic South-East Asian economies “...where the allocation of aid may reflect trade potential rather than development needs.”²³⁷ Consequently, Africa, the world’s most poverty stricken region, receives very little of Australia’s aid. While this may also reflect other foreign policy imperatives in the aid allocation process, it demonstrates that Australian aid is not directed specifically to assist the world’s poorest nations.

In addition to the direction of aid flow, the utilisation of funds by AusAID does not directly reduce poverty within these countries. AusAID’s focus on ‘governance’ projects directed at ‘appropriate public sector management’ and trade facilitation – in order to promote growth and hence ultimately reduce poverty – are directing resources away from a focus on public service delivery that directly targets the poor. An analysis of AusAID’s spending commitments demonstrates a rise in the amount of ‘governance’ projects at the expense of sectors such as health, education and rural development. As Zwi argues, there is a direct link between poverty and health;

“Basic health care requires sustained investment in human resources, infrastructure, community-level health promotion, and essential services for primary care, as well as attention to the social determinants of ill health.”²³⁸

²³⁶ Ha-Joon Chang *Kicking Away the Ladder: Development Strategy in Historical Perspective* London Anthem, 2002

²³⁷ Mark McGillivray and Oliver Morrissey ‘Aid and trade relationships in East Asia’ *The World Economy* Vol. 7 (7) 1998 p 994

²³⁸ Anthony Zwi, ‘Keeping Track to Keep Australia’s Overseas Aid on Track’ *Medical Journal of Australia* Vol. 183 (3) 2005 p 1

This demonstrates that public service delivery in an area such as health should essentially be a 'good governance' issue. However, Australia's emphasis on governance projects committed to liberalization and public sector management do not directly emphasise public sector management in areas that directly target the poor.

CONCLUSION

This thesis aimed to deconstruct the Australian approach to promoting 'good governance'. This involved answering four key questions;

- (1) What does the elusive concept of 'good governance' mean in the context of development theory and practice?
- (2) How did this concept evolve and become institutionalised as a core objective of AusAID's work?
- (3) How does Australia's conception of 'good governance' facilitate the pursuit of national interest?
- (4) To what extent does AusAID's foreign policy-focused conception of governance conflict with a more developmentally-focused conception of governance?

Firstly it was found that 'good governance' is an elusive concept capable of being manipulated by those who use it in order to prescribe certain policies and forms of government.

In an analysis of Australia's aid program it was shown that AusAID had followed patterns of development strategies that reflected the thinking in international development circles. Throughout the 1980's AusAID was focused on structural adjustment. However, following recognition of the importance of state institutions in *enabling* growth, AusAID adopted the 'good governance' paradigm. Simultaneously, critics of the Australian aid program had suggested that AusAID focus on poverty reduction. However, in reality, poverty reduction is supported in so far as it is a consequence of growth.

Australia's governance agenda was found to be motivated by foreign policy imperatives deriving from international norms that formed Australia's 'world view'.

- In regards to security imperatives, Australia began to interpret itself as being in a position of vulnerability within the 'arc of instability'. The fear of underdevelopment and 'failing states' in the region were feared to facilitate the political antecedents of terrorism. Australia responded by 'securitising' its meaning of governance, focusing on the capacity of states to ensure security.
- In regards to economic imperatives Australia defined its trade diplomacy identity as being in solidarity with developing countries in the face of declining multilateralism and trade protectionism. To facilitate Australian interests, 'good governance' became synonymous with liberalisation policies.

These pursuits of promoting trade and security in the region in the name of 'governance aid' were facilitated by a 'whole-of-government' which combined the expertise and interests of a number of Australian departments.

It was argued in this thesis that Australia's conception of 'good governance' motivated by foreign policy imperatives is in conflict with a more developmentally focused conception of governance.

- In the case of promoting security, it was shown that Australia's conceptualisation of 'state failure' encouraged Australia's 'new interventionist' responses, which facilitated the Australian interest. However, the concept is will prove insufficient as a basis for operationalising AusAID's long-term governance response. This is because, it primarily understands governance in terms of strengthening the state to guard against security threats and maintaining order, rather than focusing on the broader aspects of democratic, accountable and equitable development.
- In the case of promoting regional free trade, Australia has, partly for its own interests, promoted economic liberalisation and privatisation as the means to development. There is scepticism towards varying development strategies – which could also be understood as 'good governance' – without actually minimising the role of the state in terms of impacting on its ability to provide

essential public services that effectively target the poor while also promoting growth.

Important questions for further research that were beyond the scope of this thesis would be to examine the short-term and, in time, long-term effectiveness of Australia's governance programs in specific recipient countries. This would involve evaluating whether Australia's foreign-policy linked conception of good governance is having detrimental effects in recipient countries, or whether Australia's foreign policy interests and recipient country can still be simultaneously met. Of further importance would be examining whether it would be useful for AusAID to incorporate greater pursuits aimed at promoting democratic developmentalism in light of globalisation – and consequently, neo-liberalisations' reach into once territorially contained democracies.

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