

CBDS COMMENTARIES : NO. 1/SC/2024

Shifting Aid Institutional Architecture in the Asia-Pacific

Aldo Vincent Chai - Research Associate at
Centre for Business and Diplomatic Studies (CBDS)

International cooperation utilizes foreign aid as an instrument to bridge the economic gap between the global North-South and South-South development cooperation. Following the leveraging of positive gains in aid-giving practices, countries pioneer development alternatives to shift dependence over the predominating aid distribution regime. Challenges and power competition in present aid-giving practices further influence aid institutional design formation (Wright & Winters, 2010; Steinwand, 2015). This article aims to explore the foreign aid institutional narratives and power competition in the international aid contestation which influence aid institutional design at the national level. The discussion is divided into the North-South aid institutional narratives, the shifting foreign aid institutional arrangement in the Asia-Pacific, and implications of aid-donor contestation towards foreign aid institutional architecture.

The North-South Aid Institutional Narratives

The international development regime has evolved under the predominant premise of traditional Northern donors providing assistance to less developed states (Mawdsley, Savage & Kim, 2013; Tahalele, 2022). Despite descending under distinct philosophical narratives in the global development regime, both Northern and Southern countries characterize specific features in foreign aid institutional design. First, foreign aid decision-making in the national-level governance is heavily directed under domestic ruling political leadership (Tingley, 2010; Bader & Faust, 2014). The ruling political leadership may reside in the higher executive order as President, Prime Minister, Minister-level agent, and dominating political parties (Arel-Bundock, Atkinson & Potter, 2015). Second, foreign aid organizational autonomy is inherited from political appointees and delegated to aid bureaucrats in line ministries (Kilby, 2011). Foreign aid institutional arrangement is administratively shared among several line ministries with differing capacities composing policy alignment, project planning, and budgetary control – aid agency may be subordinated under specific ministries as hosting agencies (Winters, 2010; Krasner, 2011). Last, foreign aid institutional governance at the national level is influenced by demands and threat perception posed by foreign pressure which leads to power competition among donor countries (Wright & Winters, 2010; Steinwand, 2015; Fuchs, Nunnenkamp & Ohler, 2015).

Shifting Foreign Aid Institutional Arrangement in the Asia-Pacific

Reforms in aid institutional governance are vulnerable towards foreign demands and dynamics in geopolitical contestation. The rise of the Chinese aid model as a non-DAC member has led to

competition for regional dominance in the global aid regime against Japan and Australia (Kitano, 2018; Katada & Liao, 2020). In comparison to top-down aid-donor conception and humanitarian relief, China perceives a different philosophical perception towards development which stands as a 'development partner' and stresses the principle of 'mutual benefit' (Kratz & Pavličević, 2018; Dunford, 2020). The Chinese aid model imposes no political conditions and prioritizes recipient concerns and demands as bilateral arranged projects between China and its recipients are often offered with appealing appropriate adjustment (Raposo & Potter, 2010; Katada & Liao, 2020). The rise of China's prominence as an emerging donor however has unintendedly raised foreign aid competition with Japan and threatens Australia's security-development position over the Pacific countries (Jiang, 2019; Chen, 2021; Yoshimatsu, 2021; Shiga, 2023).

The rise of Chinese aid model in the global aid regime contestation leads to a balancing or bandwagoning dilemma with or against China from Australia and Japan to approach the rising diplomatic and security concerns (Bloomfield, 2015; Lim & Cooper, 2015; Yoshimatsu, 2017; Kratz & Pavličević, 2018; Jiang, 2019). Australia's perception on securing diplomatic and security posture over the Pacific stands at a distance compared to the recent rise of the Chinese aid model (Goodman, 2017; Köllner, 2019). The debate over influence in the Pacific threatens Australia's position to formulate hedging policy which compromises avoiding open race with China while simultaneously engaging in other forms of cooperation amidst the contested space (He, 2012; Manicom & O'Neil, 2012; Bloomfield, 2015; Lim & Cooper, 2015). Australia's hedging maneuver with China has led to the reassessment of policy alignment and institutional rearrangement in ensuring the coherence of ODA effort and the provision of security-development nexus at the national and domestic bureaucratic level (Davis, 2011; Corbett & Dinnen, 2015; Rosser, 2015; Day, 2016). Australia's maneuver in incorporating aid under DFAT nevertheless increases a consistent shift to equal China's movement in the region as DFAT advocates economic diplomacy through the promotion of trade liberalization (Rosser, 2015; Garrett & Wanner, 2017).

Japan's ODA policy which centers commercial financing, participating government presence, and investing development assistance on infrastructure and industrialization in the recent decade enables Southeast Asian recipients with territorial disputes against China to acquire transfers of military technology through yen loans programs (Yoshimatsu, 2017; Liao & Dang, 2019; Shiga, 2023). Japan's initiative is a strategic imperative towards balancing the geopolitical threat posed by the rising China's dominance. Japan adopted a counter policy towards China in order to secure the existing international order and deter changes of status quo (Zhao, 2018; Suzuki, 2021; Shiga, 2023). The rising foreign compulsion has threatened Japan's ODA principal actors to reorganize ODA institutional setting by readjusting ODA policy alignment with Chinese aid practices as competitor in order to secure power balance and maintain geopolitical influence in the Southeast Asian hemisphere (Yoshimatsu, 2017; Jiang, 2019; Shiga, 2023). Imitating pattern of ODA policy is further perceived as Japan's balancing maneuver towards China to improve bargaining power and provision of adjustments to facilitate

host countries' concerns and demands – simultaneously competing against China in Asia's ODA donor contestation (Yoshimatsu, 2017; Kratz & Pavličević, 2018; Jiang, 2019; Suzuki, 2021).

Implications of Aid-Donor Contestation towards Foreign Aid Institutional Architecture

Discussions in the ODA donor contest between China, Japan, and Australia in the Asia-Pacific features important key takeaways towards variables which influence changes in foreign aid institutional architecture. First, the rise of a dominant state entity in the global aid-giving regime may pose a threat and lead to power competition between donor countries. Second, following the rise of threat perception and security dilemma, states' attempt to harness balancing approaches through policy readjustment. Third, domestic actors' threat perception at the national level may lead to changes in aid institutional settings. These premises may consolidate changes in aid institutional architecture at the national level to facilitate foreign demands and counter global aid-donor contestation.

Acknowledgement

This paper is taken from several parts of my undergraduate thesis with the title 'Convergence of Single Agency: The Bureaucratic Constraint of Organizational Autonomy in Indonesia's Aid Institutional Governance', supervised by Dr. Miranda P. Tahalele, S.IP., MA.

References Cited

- Arel-Bundock, V., Atkinson, J., & Potter, R. A. (2015). The Limits of Foreign Aid Diplomacy: How Bureaucratic Design Shapes Aid Distribution. *International Studies Quarterly*, 59(3), 544-556. 10.1111/isqu.12191
- Bader, J., & Faust, J. (2014). Foreign Aid, Democratization, and Autocratic Survival. *International Studies Review*, 16(4), 575-595. 10.1111/misr.12158
- Bloomfield, A. (2015). To balance or to bandwagon? Adjusting to China's rise during Australia's Rudd-Gillard era. *The Pacific Review*, 29(2), 259-282. 10.1080/09512748.2015.1013497
- Chen, M. (2021). Infrastructure finance, late development, and China's reshaping of international credit governance. *European Journal of International Relations*, 27(3), 1-28. 10.1177/13540661211002906
- Davis, T. W. D. (2011). Foreign Aid in Australia's Relationship with the South: Institutional Narratives. *The Round Table: The Commonwealth Journal of International Affairs*, 100(415), 389-406. 10.1080/00358533.2011.595254
- Day, B. (2016). Australian aid after the 'Golden Consensus': from aid policy to development policy? *Australian Journal of International Affairs*, 70(6), 641-656. 10.1080/10357718.2016.1220493
- Dunford, M. (2020). Chinese and Development Assistance Committee (DAC) development cooperation and development finance: implications for the BRI and international governance. *Eurasian Geography and Economic*, 61(2), 125-136. 10.1080/15387216.2020.1716821
- Fuchs, A., Nunnenkamp, P., & Ohler, H. (2015). Why Donors of Foreign Aid Do Not Coordinate: The Role of Competition for Export Markets and Political Support. *The World Economy*, 38(2), 255-285. 10.1111/twec.12213
- Garrett, B., & Wanner, T. (2017). Aid for trade and ecologically sustainable development in Australia's international aid program. *Australian Journal of International Affairs*, 71(6), 661-677. 10.1080/10357718.2017.1334757

- Goodman, D. S. G. (2017). Australia and the China Threat: managing ambiguity. *The Pacific Review*, 30(5), 769-782. 10.1080/09512748.2017.1339118
- Gulrajani, N. (2015). Dilemmas in Donor Design: Organisational Reform and The Future of Foreign Aid Agencies. *Public Administration and Development*, 35(2), 152-164. 10.1002/pad.1713
- He, B. (2012). Politics of Accommodation of the Rise of China: the case of Australia. *Journal of Contemporary China*, 21(73), 53-70. 10.1080/10670564.2012.627666
- Jiang, Y. (2019). Competitive partners in development financing: China and Japan expanding overseas infrastructure investment. *The Pacific Review*, 32(5), 778-808. 10.1080/09512748.2019.1569117
- Katada, S. N., & Liao, J. (2020). China and Japan in Pursuit of Infrastructure Investment Leadership in Asia, Competition or Convergence? *Global Governance*, 26(3), 449-472. 10.1163/19426720-02603003
- Kilby, C. (2011). What Determines the Size of Aid Projects? *World Development*, 39(11), 1981-1994. 10.1016/j.worlddev.2011.07.023
- Kitano, N. (2018). China's Foreign Aid: Entering a New Stage. *Asia-Pacific Review*, 25(1), 90-111. 10.1080/13439006.2018.1484617
- Köllner, P. (2019). Australia and New Zealand recalibrate their China policies: convergence and divergence. *The Pacific Review*, 34(3), 405-436. 10.1080/09512748.2019.1683598
- Krasner, S. D. (2011). Review Article: Foreign Aid: Competing Paradigms. *Journal of Intervention and Statebuilding*, 5(2), 123-149. 10.1080/17502977.2011.566478
- Kratz, A., & Pavličević, D. (2018). Norm-making, norm-taking or norm-shifting? A case study of Sino-Japanese competition in the Jakarta-Bandung high-speed rail project. *Third World Quarterly*, 40(6), 1107-1126. 10.1080/01436597.2018.1523677
- Liao, J. C., & Dang, N. T. (2019). The nexus of security and economic hedging: Vietnam's strategic response to Japan-China infrastructure financing competition. *The Pacific Review*, 33(3-4), 669-696. 10.1080/09512748.2019.1599997
- Lim, D. J., & Cooper, Z. (2015). Reassessing Hedging: The Logic of Alignment in East Asia. *Security Studies*, 24(4), 696-727. 10.1080/09636412.2015.1103130
- Manicom, J., & O'Neil, A. (2012). China's rise and middle power democracies: Canada and Australia compared. *International Relations of the Asia-Pacific*, 12(2), 199-228. 10.1093/irap/lcs002
- Mawdsley, E., Savage, L., & Kim, S.-M. (2013). A 'post-aid world'? Paradigm shift in foreign aid and development cooperation at the 2011 Busan High Level Forum. *The Geographical Journal*, 180(1), 27-38. 10.1111/j.1475-4959.2012.00490.x
- Palagashvili, L., & Williamson, C. R. (2020). Grading foreign aid agencies: Best practices across traditional and emerging donors. *Review of Development Economics*, 25(2), 654-676. 10.1111/rode.12747
- Raposo, P. A., & Potter, D. M. (2010). Chinese and Japanese development co-operation: South-South, North-South, or what? *Journal of Contemporary African Studies*, 28(2), 177-202. 10.1080/02589001003736819
- Rosser, A. (2015). Asia's rise and the politics of Australian aid policy. *The Pacific Review*, 29(1), 115-136. 10.1080/09512748.2015.1065288
- Shiga, H. (2023). The new dynamics of Japan's Official Development Assistance in an era of great power competition. *Journal of Contemporary East Asia Studies*, 1-16. 10.1080/24761028.2023.2292438
- Steinwand, M. C. (2015). Compete or Coordinate? Aid Fragmentation and Lead Donorship. *International Organization*, 69(2), 443-472. 10.1017/S0020818314000381
- Suzuki, S. (2021). Economic statecraft, interdependence, and Sino-Japanese 'rivalry'. *The Pacific Review*, 35(5), 971-994. 10.1080/09512748.2021.1941209
- Tahalele, M. P. (2022). The Politics of Indonesia's Development Cooperation: Between Ideas, Institutions, and Structures. In E. Parlar Dal (Ed.), *G20 Rising Powers in the Changing International Development Landscape: Potentialities and Challenges* (pp. 35-64). Springer International Publishing.
- Tingley, D. (2010). Donors and domestic politics: Political influences on foreign aid effort. *The Quarterly Review of Economics and Finance*, 50(1), 40-49. 10.1016/j.qref.2009.10.003

- Winters, M. S. (2010). Accountability, Participation and Foreign Aid Effectiveness. *International Studies Review*, 12(2), 218-243. 10.1111/j.1468-2486.2010.00929.x
- Wright, J., & Winters, M. (2010). The Politics of Effective Foreign Aid. *Annual Review of Political Science*, 13(1), 61-80. 10.1146/annurev.polisci.032708.143524
- Yoshimatsu, H. (2017). China, Japan and the South China Sea Dispute: Pursuing Strategic Goals Through Economic and Institutional Means. *Journal of Asian Security and International Affairs*, 4(3), 294-315. 10.1177/2347797017733821
- Zhao, H. (2018). China–Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition? *Journal of Contemporary China*, 28(118), 558-574. 10.1080/10670564.2018.1557946