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2018

If there's one thing Pacific nations don't need, it's yet another infrastructure investment bank

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Publication Details

Engel, S. (2018). If there's one thing Pacific nations don't need, it's yet another infrastructure investment bank. *The Conversation*, 21 November 1-5.

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If there's one thing Pacific nations don't need, it's yet another infrastructure investment bank

Abstract

If Scott Morrison was looking for a way to prove Australia is a good neighbour to Pacific nations, he could hardly have chosen a worse option. Looking for a policy to combat both China and his domestic Opposition, the Australian prime minister last week announced a plan involving billions of dollars for Pacific nations. Billions of dollars in loans, that is.

Disciplines

Arts and Humanities | Law

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THE CONVERSATION

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November 21, 2018 1.14pm AEDT

Lone Sharks supporter Scott Morrison gives out Wallabies rugby jerseys to Pacific Islands leaders after the Asia-Pacific Economic Cooperation forum in Port Moresby. There will be fewer hand-outs in future. AAP Image/Mick Tsikas

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If Scott Morrison was looking for a way to prove Australia is a good neighbour to Pacific nations, he could hardly have chosen a worse option.

Looking for a policy to combat both China and his domestic Opposition, the Australian prime minister last week announced a plan involving billions of dollars for Pacific nations.

Billions of dollars in loans, that is.

He promised A\$2 billion for an Australian Infrastructure Financing Facility for the Pacific to invest in projects focusing on the telecommunications, energy, transport and water sector. And another A\$1 billion to Efic, Australia's government-backed Export Finance and Insurance Corporation, for concessional credit to Pacific projects.

The plan is driven in part by a desire to combat China's economic diplomacy in the Pacific. There is concern that island nations will end up indebted to Chinese creditors.

So why would Morrison want to offer Pacific Island nations even more debt?

Chinese cheques

The AIFFP has rightly been called a response to Chinese development finance in the Pacific. This is

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mostly from the Chinese Development Bank, not the Asian Infrastructure Investment Bank (AIIB), which China initiated in 2013. Fiji, Samoa and Vanuatu are the only Pacific island nations that have so far joined the AIIB, and they have not received any loans. However, the Cook Islands, Papua New Guinea and Tonga have expressed an intent to join.

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As with many initiatives, the devil is in the detail of the Australian response.

Morrison has already indicated there will be no increase in Australia's already stingy aid budget. Given his criticism of multilateral organisations as "useless", it seems likely the AIFFP's A\$2 billion will come from diverting contributions that would have gone to United Nations agencies or other programs for low-income countries not in the Pacific.

While a greater focus on the Pacific is welcome given the region's needs, it should not come at the expense of other countries with equally pressing challenges. Further, the shift from grants to loans is not welcome news.

Apart from an interest-free loan to Indonesia following the 2004 Indian Ocean tsunami that killed about 170,000 Indonesians, Australian aid has long been fully grant-based. That has been one of its key strengths.

It has left debt-based development financing to the multilateral development banks it helps fund, in particular the World Bank, the Asian Development Bank and the new AIIB.

Debt concerns

The World Bank and International Monetary Fund's joint Development Committee warned about debt concerns for developing nations last month. Debt vulnerabilities risked "reversing the benefits of earlier debt relief initiatives", it said in a communique from the annual meetings of its parent organisations held in Bali last month.

At the meetings, it was clear the IMF was more concerned about debt than the World Bank. Indeed the World Bank and its affiliates were successful in gaining a very large capital increase – US\$13 billion in paid-in capital from member states, with the aim that it increase lending to US\$100 billion a year by 2030.

The World Bank also had a large capital increase after the 2008 Global Financial Crisis, as did other development banks. These increases were not just in response to the crisis but also underpinned by

concerns about competition from China and other emerging powers.

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With the AIIB and the New Development Bank (established by Brazil, Russia, India, China and South Africa in 2015), there are now about 27 multilateral development banks.

Further, many countries have development finance institutions like Australia's planned AIFFP, and export-import banks like Australia's Efic. On top of that, private finance is at record highs.

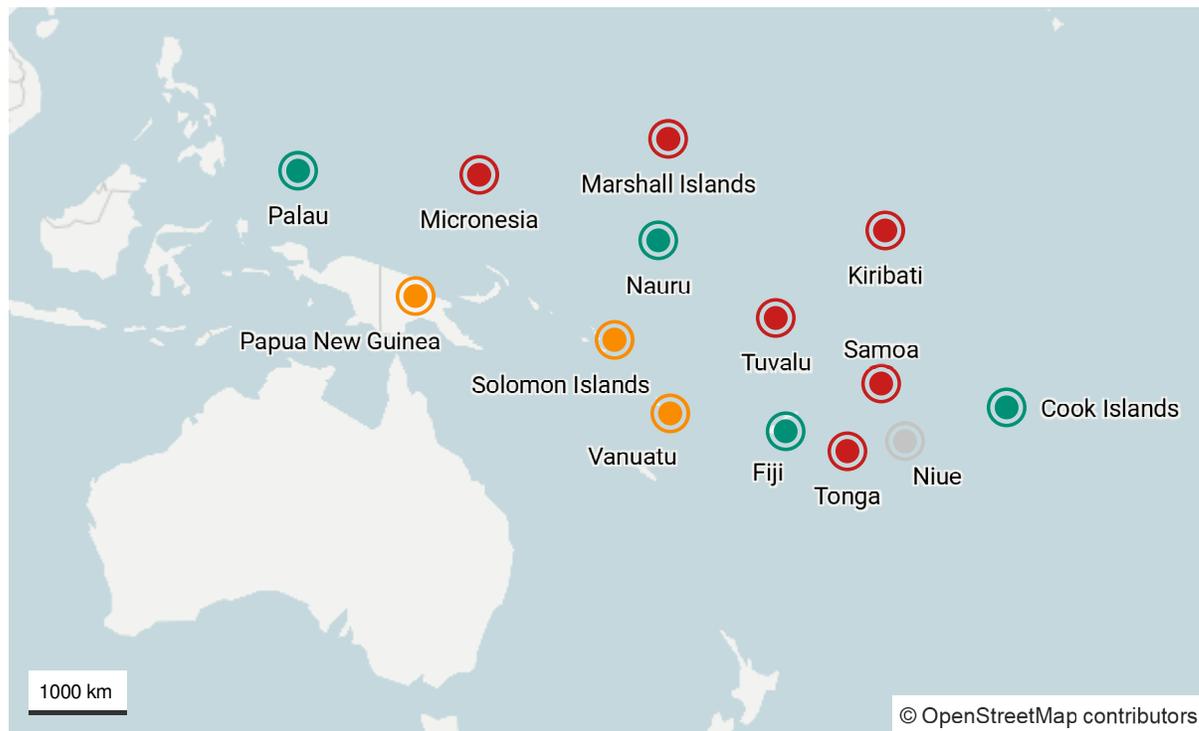
The case for more debt-based development financing is just not there.

Pacific situation

Of 13 Pacific island countries, six are already considered at high risk of debt distress. In a couple of cases is that due to Chinese finance. In other cases the multilateral development banks are the biggest creditors. Four other countries are at moderate risk of debt distress.

Pacific debt stress

Risk of debt stress among Pacific island countries according to International Monetary Fund and Asian Development Bank ratings.



● High risk ● Moderate risk ● Low risk ● Not included

Source: [Devpolicy Blog](#)

Adding to those debts is not a wise or decent thing for Australia to do. Even the government's former minister for international development and the Pacific, Concetta Fierravanti-Wells, has warned about debt.

Most Pacific island communities have limited potential to develop along standard capitalist lines. Debt-based development requires projects with substantial economic rates of return and strong cash flows, which is difficult in small island states. Large hard infrastructure projects are risky, as Australia has learned in Vanuatu, and need to be climate change proofed.

Read more: For Pacific Island nations, rising sea levels are a bigger security concern than rising Chinese influence

The AIFFP reflects a new global mantra focused on replacing aid with lending money for infrastructure. It is not responding any demand from the Pacific. Core parts of the Sustainable Development Goals like health, education and climate sustainability are being ignored. It remains to

be seen if anyone in the region embraces it.

 Pacific Islands Development aid Australian foreign policy 

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