

## **THE GEOECONOMICS OF DEVELOPMENT POLICY**

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### **Introducing geoeconomics**

Fundamentally, development policy and ODA should be about alleviating suffering and promoting human flourishing. However, in the current moment they cannot be separated from geopolitics and strategic competition. The logic of *geoeconomics* now applies, which can be defined along two dimensions:

1. **Intentions**: The intentional use by governments of economic policy tools to pursue geopolitical and national security (hereafter ‘strategic’) interests.
2. **Consequences**: Regardless of intention, the impact that economic policies have on the strategic interests of the enacting state, or any other state (what might be thought of in economic terms as “negative strategic externalities”).

Geoeconomics is a logic of power – economic policies can be used, and economic relationships can be leveraged, as instruments of geopolitical power and influence (or, conversely, experienced as vectors of vulnerability). Development policy is a form of economic policy and therefore potentially subject to the logic of geoeconomics:

- i. **Intentions**: Governments may intentionally design development programs to achieve strategic objectives (such as through direct bribery, corruption or to gain control of specific assets offering strategic benefit).
- ii. **Consequences**: More commonly, certain types of development assistance may create long term strategic consequences, regardless of whether there was any initial strategic intention. Two examples:
  - a. Unsustainable financing of poorly conceived infrastructure (which does not then generate an adequate return) that creates long-term debt liabilities and exacerbates macroeconomic weaknesses, in turn causing a government to make policy concessions to secure debt relief.
  - b. Support for policing that transfers norms or technologies of law enforcement that are imbued with norms antithetical to liberal democratic principles, or that otherwise enable would-be autocrats to repress political institutions or political action.

It is important to stress that not every single development policy action will be used for naked strategic purposes. The Australian government must nevertheless be sensitive to the possibility, in particular to how development policies of non-partner governments may, over time, generate fragilities in political and social institutions, and even fundamentally alter the trajectory of entire political systems.

### **Competitive development programming**

Development policy is increasingly a competitive domain, especially in the development finance domain. If a recipient country does not like the terms and conditions attached to a particular offering, they will seek alternative options from other governments or actors, and these options may be proffered under very different (perhaps less rigorous) conditions that

may lead create the types of fragilities referred to above. Moreover, alternative offerings may form part of an alternative vision not simply of how to achieve development outcomes, but of the type of political system and international order that is most conducive to economic development.

This means that successful development policy must not only be designed to achieve positive outcomes, but prior to that speak to the fundamental concerns of the receipt state. The Albanese government's emphasis on 'listening' to Australia's partners across the region is the correct first step. Most countries are facing a very difficult set of conditions in this post-COVID recovery phase. The economic historian Adam Tooze writes of a 'polycrisis', in which a series of interconnected and mutually reinforcing shocks (food and energy insecurity, uncertain global financial conditions, war in Europe, extreme climate events, etc) are buffeting the developing world (in particular). Tooze writes:

A problem becomes a crisis when it challenges our ability to cope and thus threatens our identity. In the polycrisis the shocks are disparate, but they interact so that the whole is even more overwhelming than the sum of the parts.<sup>1</sup>

The problem is that combination of multiple shocks and crises together with ongoing basic development needs is overwhelming the capacity of political and economic systems to deal with them. It is therefore no surprise that developing country leaders would be relatively uninterested in broader questions of geopolitics and instead focused only on improving the lives of their people, addressing only direct threats to national security and sovereignty, and otherwise protecting their own political positions.

The need for development assistance is greater than ever, but Australia must be responsive to recipients' concerns—their agency—because we understand that development policy is nested within a structure of geopolitical competition in which the major powers are promoting alternative visions not just of an international system but also basic forms of political order and economic organisation. The Australian government, like all governments, must also be sensitive to the question of political license; that is, how development policy is perceived by the Australian people and whether it is seen as directly serving the national interest. Sometimes this license will be grated because of the obvious 'good' being served in alleviating human suffering, but sometimes geopolitical justifications viewed through the lens of national security may be necessary.

### Incorporating a geoeconomic dimension

This submission is not calling for a fundamental rethink of development policy. There is already a wide body of existing knowledge of the processes through which ODA can be used (for example) to improve health or education outcomes, or indeed how it can strengthen bureaucracies and improve governance. This knowledge is not being challenged. Rather, a new development policy simply needs to be sensitive to, and incorporate, geoeconomic dynamics into its planning and implementation.

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<sup>1</sup> Adam Tooze, 'Welcome to the world of the polycrisis', Financial Times, 29 Oct 2022.

A geoeconomic approach requires a systemic approach to development policy. No individual program can be viewed in isolation – rather, Australian government must understand how each program fits into a larger systemic picture of geoeconomics and geopolitics. This must be done on a country by country basis. Every country program should be reviewed with explicit attention given to the strategic risks facing Australia that emanate from the country. Are there concerns about strategic assets like ports or telecommunications infrastructure? Or concern about the rule of law, or the integrity of political institutions? Are we concerned about overall economic fragility, or the recipient’s resilience to various shocks (and the consequences of crisis that might arise)?

Once there is a sense of the strategic risks, then the government must understand (i.e. build models outlining) how its development programming may affect strategic dynamics. Sometimes this will be straightforward – build a hospital to improve health outcomes, possibly bringing reputational benefits for Australia but otherwise strengthening the population’s welfare and resilience. But when the program relates to critical infrastructure, technologies, governance or other core social or political institutions and norms, a more detailed assessment needs to understand how Australia’s offerings will land. Moreover, the offerings of our competitors should also be assessed in a similar light.

Not every program is going to need intense ‘geoeconomic vetting’. But what is important is that a macro-analysis of the strategic risks facing Australia’s interests in each country is conducted, and that there is a broad awareness, and sometimes very detailed modelling, regarding the impact of Australia’s ODA programming and that of our partners and rivals.

### Conclusion

In a speech on 29 November Minister Conroy said that he wanted to “centre development at the heart of DFAT”, with “development skills and experience as a critical part of the promotion pathway”. This is a worthy objective, but it must be paired with the notion that development specialists must also incorporate geoeconomic / geopolitical analysis into their work. DFAT needs to build and apply geoeconomic models to its ODA programming, to understand how economic policies can be the source of strategic advantage or vulnerability.<sup>2</sup> Even as Australia situates the needs and aspirations of recipient countries centrally in our engagement strategy, we must also bring with us (quietly, if needed) a sophisticated understanding of geoeconomics. This, unfortunately, is the geopolitical reality we now face.

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<sup>2</sup> For more information on such models please contact the author.