

China and the South Pacific: No Cause for Panic Yet

by Fergus Hanson

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Over the last five years China has ramped up its engagement in the South Pacific. It is now the region's second largest trading partner and one of its largest aid donors.

These developments and some of the consequences of China's growing presence worry some regional observers and officials. They fear Beijing is displacing the influence of the US and its allies in this vast territory, pursuing strategic ambitions, and/or locking up natural resources.

China's influence is expanding, but those fears seem overblown. It has created lower order challenges, such as a negative impact on governance and transparency but its presence should also be seen as an opportunity to test engagement strategies with China aimed at improving the transparency and effectiveness of its aid. In some areas, it is also a chance to learn from China.

China's presence

China's South Pacific footprint is growing rapidly. In 2009, China pledged over \$200 million in grants and soft loans to the region. While that figure likely overstates the true value of the assistance (because it counts pledged, rather than dispersed, aid), China is one of the region's major donors.

Investment has also expanded, including a multimillion-dollar investment in a nickel mine in Papua New Guinea and in 2009, a \$117-million soft-loan package to support fishing interests and construction of 10 tuna canaries in Madang. Trade has also ballooned, increasing by 76 percent from 2006 to 2009, making China the region's second largest trading partner after Australia.

At a political level, there has been considerable effort to cultivate relations with these tiny island nations. In 2006, Premier Wen Jiabao flew to Fiji for a China-Pacific Islands summit, which was followed by a visit from Vice President Xi Jinping in 2009. These visits are usually followed by pledges of aid, the most lavish of which was the promise during Premier Wen's visit of 3 billion renminbi (\$376 million) in preferential loans over three years.

Not a threat, but...

China's expanding presence in the Pacific has come with problems.

First among them is China's diplomatic battle with Taiwan, which has historically been the major force behind

Beijing's engagement with the region and has undermined stability and governance. China and Taiwan competed to win diplomatic recognition as "the one China" and there have been numerous reports of cash payments, paper bags stuffed with money, and giant checks changing hands. The flood of money promoted corruption.

A timeout was called on this diplomatic brawl to ensure the improvements in cross-strait relations remained on track when Ma Ying-jeou became president of Taiwan in 2008. However, if Taiwan's democratic process produces another independence-minded leadership, this agreement could be jettisoned and the flood of cash could return.

A second problem is transparency. Analysts bemoan China's refusal to openly report military expenditures. Yet this opacity extends to China's aid budget, the details of which it regards as a state secret. (The only reason figures exist on China's aid to the Pacific is because Pacific governments provide them annually to the Lowy Institute).

China's refusal to follow international norms in reporting aid figures fuels suspicion among donors and recipients about China's motivations. Discussing a loan China was planning to provide, Cook Islands Foreign Minister Wilkie Rasmussen said, "[The loan terms are] extremely attractive and at the moment there are no strings attached, although we still have to consider what they want other than support for the One-China Policy."

Other aspects of China's approach have raised concerns. Large aid projects have to be awarded to Chinese contractors who often use Chinese labor and materials, limiting opportunities for underemployed locals and follow-on benefits to the economy. China has also tended to build large infrastructure projects with no consideration for ongoing maintenance costs – and several flashy projects are of doubtful development merit.

More ominously, some strategists believe China aims to establish missile bases on Pacific islands to block the approach of the US Navy. That seems far-fetched as missile bases on fixed islands have limited value; they make easy targets.

Beijing could be seeking new intelligence-gathering facilities, however. In 1997, China established a satellite tracking base in Kiribati, which was suspected to have been used to observe a US missile testing range in the Marshall Islands. China may make further attempts in this area.

Putting China in perspective

China's engagement in the South Pacific does not represent an end to the West's dominant influence in the region or a first-order threat to the US and its allies. Western states still provide the overwhelming volume of aid to the

Pacific, its cultural influences are strong, and China is a long way from overtaking the region's leading donor, Australia.

In the area of capital investment, China is a long way from supplanting the West. China's investment in Papua New Guinea's nickel sector, for example, pales in comparison to the ExxonMobil-led LNG project in the same country that is set to add an extra 15 to 20 percent to its GDP each year.

On the military front, China's engagement has been benign, amounting to modest exchange programs and the supply of nonlethal equipment, like uniforms.

Where to from here?

For the US and its allies, the top priority should be trying to avoid a return to dollar diplomacy if cross-strait relations break down. That is easier said than done but there are steps that can be taken to move China toward greater transparency and use the region as a laboratory to test engagement strategies with China.

This could include efforts to work alongside China in aid delivery, with Western governments providing funding and China overseeing the low cost construction of much needed infrastructure. This sort of collaboration offers the chance to provide Chinese officials with practical exposure to OECD aid reporting procedures. It may also give Western donors the chance to learn from China – for example by making aid delivery less administratively burdensome. Donors should also pressure governments to publicly report all donor funds, including those from China. If they could achieve this, then China's refusal to report its aid according to OECD standards would become increasingly meaningless. While China is not an OECD country, there is no reason it cannot follow established norms on transparency.

The region also offers a model for burden sharing with allies. Most of the heavy lifting in the South Pacific is done by Australia, which is the region's largest donor and security provider, and the United States should continue to rely on it to take the lead in engaging China in the region.

China has sharply stepped up engagement in the Pacific, but it does not represent a serious threat to US and Western interests. Most importantly, China's presence is not all bad. The Pacific Island states are struggling to make headway toward reaching the Millennium Development Goals and China has the potential to provide much needed infrastructure and is already driving substantial increases in trade flows. The United States should make efforts to engage China but not lose sleep over its engagement in the region for now.

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