

POLICY BRIEF

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THE DRAGON IN THE PACIFIC: MORE OPPORTUNITY THAN THREAT

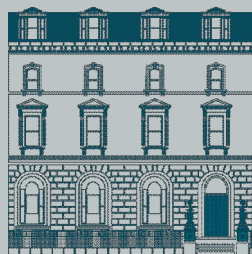
WHAT IS THE PROBLEM?

China has emerged as a major donor in Australia's traditional area of influence, but is giving aid in a way that often undermines Pacific development and Australia's interests. Its annual bilateral aid to the Pacific is estimated at between \$US 100 million and \$US 150 million but its secretive, no-strings-attached approach to aid works against other donor attempts to improve accountability, good governance and stability. How can Australia ensure that China's aid program in the Pacific complements rather than undercuts our own efforts?

WHAT SHOULD BE DONE?

As the Pacific's largest donor and principal contributor to regional security, Australia should take a far more active role in engaging China to improve the transparency and effectiveness of its aid. Australia should seek a leaders-level agreement with China on development coordination in the Pacific. Under the umbrella of this agreement, it should seek to partner with China on pilot development projects in an effort to familiarise Chinese officials with limited transparency and other donor practices. Australia should lead other donors in encouraging Pacific governments to produce comprehensive data on aid receipts consistent with existing best practice.

To mitigate the effects of dollar diplomacy, Australia, with other donors, should seize the opportunity presented by recent Taiwanese elections to push for more responsible Chinese and Taiwanese approaches in the Pacific.



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How much aid is China giving?

Measuring Chinese aid in the Pacific is an inexact activity. China regards the details of its aid program as a state secret and publishes no annual reports. Many Pacific governments are also reluctant to reveal figures on aid received from China. As a result, estimates have to be made using local and Chinese media sources, radio transcripts, government reports (where available) and, if possible, verification by officials.

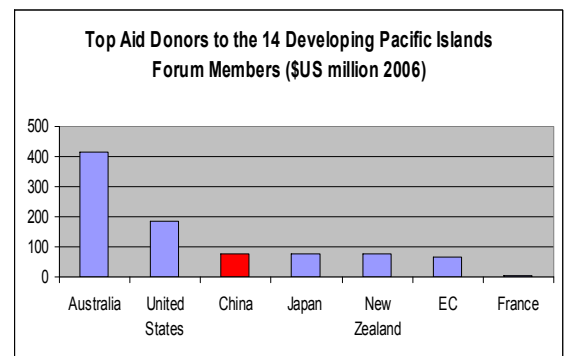
This project has looked at Chinese aid flows to the 14 developing Pacific Islands Forum members¹ over a three year period 2005 to 2007. The paucity of information has meant imposing a consistent methodological approach to tallying Chinese aid projects across all countries has been impossible. In general, pledged figures have been used (in some instances though official/government figures have been preferred). Estimates here of pledged aid should therefore be treated with some caution and not be confused with dispersed aid, which is likely to be much lower.

China gives aid to the eight developing Pacific Islands Forum countries that recognise it:² the Cook Islands, the Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu. The total value of its pledged aid projects to these countries over the period 2005–2007 suggests a large and rapidly growing program: \$US 33 million in 2005, \$US 78 million in 2006 and \$US 293 million in 2007. Prima facie, this is significantly more than New Zealand’s Pacific aid budget but much less than Australia’s.

While this likely misses a number of Chinese aid projects, it also overstates the level of Chinese aid to the region. This is because it combines grants and concessional loans, when only the interest subsidy (and debt forgiveness) on these loans formally counts as aid. It also includes several large multi-year loans concluded at the end of 2007 that will likely be dispersed over several years (such as a \$US 150 million loan to Fiji and a \$US 58 million loan to Tonga). Taking this into account, a more reasonable annual estimate is somewhere between \$US 100 million and \$US 150 million.

A comparison with other donors (Figure 1) suggests China is pledging aid to the region at a similar level to other significant donors like New Zealand, Japan and the European Community, although for the reasons outlined above this likely overstates the value of Chinese aid.

Figure 1



Source: OECD

What is motivating China’s aid program in the Pacific?

The main driver of Chinese aid to the region remains halting and reversing diplomatic recognition of Taiwan. China regards Taiwan

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as a renegade province and has for several decades waged a largely successful battle to wrest diplomatic recognition from ‘the other China’. This battle remains particularly intense in the Pacific.³ Besides the Holy See, states that recognise Taiwan are clustered in three areas: the smaller states of the Americas (12), Oceania (6)⁴ and Africa (4). This establishes the Pacific as a critical diplomatic battleground for both China and Taiwan.

The destabilising effects of this ‘chequebook’ or ‘dollar diplomacy’ have been well documented.⁵

Resources are a growing, secondary interest, including fish stock access. China has the world’s largest fish production and is the largest fish exporter.⁶ The 14 developing Pacific Island Forum countries have a combined Exclusive Economic Zone of over 20 million square kilometres (compared to China’s still substantial three million square kilometres).

China’s aid program is, at least in part, focused on this interest. It has funded several fish processing plants and the construction of the Tuna Management Commission headquarters in the Federated States of Micronesia; on the commercial front, a number of Chinese fishing fleets operate in the region.

Other natural resources are substantial only in Papua New Guinea (PNG) and to a lesser extent Solomon Islands and Fiji. China has shown a keen interest in PNG’s resources in particular and in 2006 invested \$US 651 million in the Ramu nickel/cobalt mine.⁷ However, Chinese state-owned companies face competition for these resources from other companies. Moreover, China does not preference resource-rich countries in allocating

its Pacific aid. Beijing does not give any official aid to Solomon Islands (which recognises Taiwan) and pledges the country with the most resources in the region, PNG, the least aid on a per capita basis (even in gross terms it is not the largest recipient of aid pledges).

China has few other significant interests in the region. Whereas China-Africa trade may reach \$US 100 billion by 2010,⁸ the Pacific’s total worldwide trade was less than \$US 13 billion in 2006 with China’s share only \$US 743 million.

There has been some speculation China has military objectives in the Pacific. But research for this project suggests that Chinese assistance to regional forces is small, tending to be limited to more benign assistance such as upgrading a military hospital in PNG or the supply of non-lethal equipment like uniforms and cars for the Vanuatu Mobile Force.

China’s defence aspirations in the South Pacific are likely to remain limited. Any significant military move by China in the region would be counterproductive.

Some have speculated that China is engaging in the region in a bid to win cheap diplomatic votes in international fora, beyond the tussle with Taiwan. As with other powers in the region, China is certain to be using its aid activities to try to lever support for its positions in international fora. However, as Australia is all too aware in the context of whaling, the number of competing donors and some unscrupulous behaviour by competitor countries mean it will be hard for China to sew up this bloc of votes.

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Why does the growth of China's aid matter?

Aspects of the way China manages its aid program have negative impacts on Pacific states, China and other donors, including Australia.

The secrecy surrounding China's aid program has several unfortunate side effects. It breeds suspicion from Pacific recipients unsure of Beijing's motivations and has fed a threat discourse that sees China pursuing nefarious ends. It inhibits donor coordination and undermines efforts to improve good governance and accountability.

This secrecy and China's refusal to comply with OECD standards for aid giving also mean China misses out on the potential public relations benefits of having its aid recognised as Official Development Assistance.

Issues of transparency aside, there are also reasons to be concerned with the projects China supports and the way it funds these. Its aid is primarily targeted at infrastructure. While the Pacific is in need of critical infrastructure, Chinese-funded projects do not always appear to target priority needs. They can have high maintenance costs and be poorly designed for local conditions and could be more usefully delivered in coordination with other donors.

In addition, large infrastructure projects are funded with concessional loans which increase debt burdens for Pacific states and tend to be delivered by Chinese firms using Chinese labour. This reduces the flow on effects to local

economies and could breed local social problems.

Another issue is responsibility. The destabilising effects of China and Taiwan's chequebook diplomacy are well known and undermine expensive and difficult Australian security and development efforts in places such as Solomon Islands. China's pledged aid to Fiji offers another example. Just as Western donors have tried to clamp down and isolate the regime, China has continued dramatically to expand its aid program, with an agreement reached in 2007 for a \$US 150 million soft loan.

In response to the early releases of some of this paper's findings, the Director of Political Affairs at the Chinese Embassy in Fiji told *Fijilive*: 'There are no new aid programmes to Fiji neither am I aware of any talks for increased funding'. However, in the interview he did not specify the scale of China's current aid program or say whether the \$US 150 million loan was included in existing aid.⁹

On a more positive front, China's growing presence appears to have sparked a renewed interest in the Pacific from other traditional donors, including Japan, the EU and the US.

Despite these concerns with China's aid program, its interests in the region broadly align with Australia's. Like Australia, China has an interest in ensuring regional stability. China is not seeking to engage in the Pacific militarily and is unlikely to seek a dominant role in the region. Taking a lead role would require major investments that offer a negative return. So for China, it remains preferable for Australia to remain the primary external

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provider of development assistance and regional stability.

That being the case, Australia has a significant interest in more actively seeking to influence China's approach to aid giving in the region.

What should be done?

Calls are often made for China to adhere to OECD, Development Assistance Committee (DAC) guidelines in delivering its aid program.¹⁰ This remains an important goal, and Australia should encourage as many donors as possible to join it in reinforcing this message. However, this will remain a long-term objective. In the interim, the government should also pursue a number of other paths.

Improve transparency gradually

We should pursue a staged plan towards transparency along the lines of that to which China has already committed in the Kavieng Declaration in PNG.¹¹ A two-tiered approach should be adopted.

Australia should seek a leaders-level declaration committing Australia and China to work together in the Pacific as providers of development assistance (in consultation with Pacific governments). Detailed in this declaration would be a joint statement on coordination. (A multilateral forum such as the Post Forum Dialogue that included regional countries would be a preferable venue for pursuing this goal but would likely run into complications over questions relating to Taiwan; it might also be too difficult for China to entertain at this stage.)

With this high-level endorsement in place, Australia should then work with other major donors at country-level to encourage Chinese moves towards greater transparency. As a first step, other major donors could be encouraged to establish their own dialogues with China. At a later stage, the existing Australia-China aid dialogue could be extended to include other major donors consistent with the Rudd government's preference for multilateralism. (China appears to associate Western calls for 'transparency' with conditionality, which is anathema to China. Thus, care would be needed to ensure that calls for transparency do not imply conditions be put on China's aid.)

Donors, working at the country-level, should begin by requesting that China provide a regular update on the projects it is funding. This could be provided in hard-copy format initially, if China were uncomfortable with web-based publication. This limited opening could be followed up with a request for details on the type of aid it is providing and information on the size and development purpose of each individual project. By way of reference, AusAID currently provides this type of information on the web (China provides only limited details of some of its aid projects on local embassy and Chinese government websites).

These reforms could first be tried in PNG, where China has already committed to this type of transparency in the Kavieng Declaration. The Federated States of Micronesia would be another good starting point using another approach. The Micronesian government already produces a comprehensive list of all donor projects, including China's, although it is not available online.¹² Australia could work

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with the Micronesian government, China and other donors to get this report published on the web.

These modest reforms would enhance China's standing as a donor and a responsible international actor. They would aid in coordination, enhance recipient government accountability and reduce suspicion. Phased in gradually across the Pacific, this would allow China to test limited transparency while moving closer to international aid norms.

Boost recipient transparency

Australia should work with other donors to encourage Pacific governments to publish details of the aid they receive from all donors, including China. As mentioned above, the Federated States of Micronesia already produce a detailed document on donor assistance which is a useful first step in boosting donor transparency across the board.

Enhance aid effectiveness

While China's aid is focused on large infrastructure projects it also funds many small projects that have significant development value. Australia should work with other donors to encourage China to put more emphasis on the effective grassroots areas in which it is already involved. This would allow China to keep tying its aid so that most of the money is spent supporting Chinese contractors and firms, without lumping Pacific states with costly infrastructure they cannot maintain and loans they cannot afford. It would again improve China's standing as a donor.

Partner with China

Also at the grassroots level, AusAID should seek to partner with China in a few suitable

pilot aid projects. This would allow AusAID to build rapport and trust with Chinese aid officials with a view to closer engagement and would expose Chinese officials to the workings of a Western aid agency and processes for implementing, monitoring and assessing aid projects. It could also be used to introduce China to disclosing transparently the details of its aid projects. This idea already seems to have the general support of the Australian government,¹³ but it needs to be put into practice.

Recognising that China can provide useful, low-cost, essential infrastructure, AusAID (and NZAID in the Cook Islands and Niue) should be tasked with offering to partner with China in identifying infrastructure projects of significant development value, such as essential health and education infrastructure as well as infrastructure that enhances access to markets. The focus should be on improving prioritisation of infrastructure projects (including consideration of what governments can sustainably maintain) and appropriate design and construction. All donors should encourage China to participate in coordinated approaches to infrastructure development in the Pacific.

A role for NGOs

Non-governmental organisations working on the ground could play an important role. Using their on the ground knowledge of the projects China is funding and by collating this information across aid sectors, NGOs have the potential to provide a clearer picture of Chinese aid activities. Publishing this information online would help other donors coordinate their aid and encourage China to disclose this information itself.

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Mitigate the effects of dollar diplomacy

Commentators and governments regularly decry China and Taiwan's dollar diplomacy in the Pacific. Recent political changes in Taiwan mean Taiwanese moves towards independence are, at least for now, unlikely. Seizing the opportunity this change presents, Australia should work with other donors, including the US, to encourage China to ease up its corrupting and destabilising dollar diplomacy in the region (while making similar appeals to Taiwan).

Praise where it is due

In some areas, Australia and other donors stand to learn from China. One obvious example is the high level of respect China affords Pacific leaders, which resonates partly because it contrasts with the perceived approach of others. Acknowledging China as a legitimate donor from which we can also learn is at least part of the solution to encouraging it towards a more responsible approach to development in the Pacific.

Conclusion

There has been much hype surrounding China's aid program in the Pacific and some wild speculation about its ends. On the whole, concerns about Chinese aid in the Pacific are exaggerated. China has limited interests in the Pacific so is unlikely to disrupt the present power structure substantially any time soon.

China no doubt sees itself as a rising power and will continue with its regional aid program. But displacing Australia and New Zealand in the Pacific would come at a huge cost to China and bring no tangible additional benefit. For this

reason, China's Pacific aid program may improve in quality but it is unlikely to continue the exponential growth seen in recent years. Instead, one risk is that China will cut its aid program as a reaction to poor results or in response to a domestic economic downturn.

China's engagement in the Pacific is not without its problems. Its dollar diplomacy is destabilising and the secrecy surrounding its aid program breeds resentment from local islanders, stirs concern from established donors and feeds anti-Chinese sentiment. Knowing more about China's aid program in the Pacific, however, a few basic premises can be drawn that should form the basis of a more considered, comprehensive Australian response to China's engagement with the region:

- China is now a major donor in the Pacific and looks set to remain engaged;
- it has an interest in the region's stability; and
- it is unlikely to threaten Australia's leading role in Melanesia.

With these fundamentals in mind, it becomes clear that Australia and other donors have a significant interest in working with China to improve the quality of its aid and reduce its destabilising side effects. As it seeks its place on the world stage as a responsible international power, China too has much to gain from improving its donor standing and engaging with other donors in a spirit of partnership.

Note: further details of this research, including a full bibliography, are available in Lowy Institute Analysis *The Dragon Looks South*.

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NOTES

¹ The Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

² China does not give aid to the other developing Pacific Islands Forum members because they recognise Taiwan.

³ Graeme Dobell, *China and Taiwan in the South Pacific: diplomatic chess versus Pacific political rugby*. Lowy Institute Policy Brief. Sydney, Lowy Institute for International Policy, 2007. See also Anthony Van Fossen, The struggle for recognition: diplomatic competition between China and Taiwan in Oceania. *Journal of Chinese Political Science* 12 (2) 2007.

⁴ Kiribati, the Marshall Islands, Nauru, Palau, Solomon Islands and Tuvalu.

⁵ See for example Dobell, *China and Taiwan in the South Pacific: diplomatic chess versus Pacific political rugby*.

⁶ Meryl J. Williams, *Enmeshed: Australia and Southeast Asia's fisheries*. Lowy Institute Paper 20. Sydney, Lowy Institute for International Policy, 2007, pp 40, 62.

⁷ China, Papua New Guinea sign \$650 mln mining deal at forum *Dow Jones Commodities Service*, 5 April 2006.

⁸ Sun Shangwu. *China, Africa adopt key partnership*. China Daily 6 November 2006:

http://www.chinadaily.com.cn/china/2006-11/06/content_725194.htm.

⁹ See *China denies increasing Fiji aid*. Fijilive 27 May 2008:

http://www.fijilive.com/news_new/index.php/news/how_news/5257. and Fergus Hanson, Don't ignore the big new player in Fiji. *Sydney Morning Herald*, 9 May 2008. The spokesperson was also reported as saying: 'The current programmes here in Fiji are the same programmes that I have highlighted to the

media on numerous occasions and we are very transparent with these aid programmes. The current programmes have already been proposed and some have been implemented....The others are still being discussed by the two parties'. The *South Asian Post* article cited in the *Fijilive* piece is a re-report of the opinion piece cited above.

¹⁰ See for example, Defence and Trade References Committee Senate Foreign Affairs, *China's emergence: implications for Australia*. Canberra, Foreign Affairs, Defence and Trade References Committee, 2006, p 182.

¹¹ *Kavieng Declaration on aid effectiveness: a joint commitment of principles and actions between the Government of Papua New Guinea and development partners*, 15th February 2008: <http://www.aidharmonization.org/download/257013/KaviengDeclarationonAidEffectiveness.pdf>.

¹² FSM National Government Federated States of Micronesia, *Non-compact and non-domestic revenue funded programs report, fiscal year 2007*. Pohnpei, FSM National Government, 2007.

¹³ Kevin Rudd. *Australia, the United States and the Asia Pacific Region: speech delivered at the Brookings Institution*, 31 March 2008:

http://www.brookings.edu/~media/Files/events/2008/0331_australia/20080331_australia.pdf. This was also recommended by a Senate Committee: Senate Foreign Affairs, *China's emergence: implications for Australia*, p 182.

ABOUT THE AUTHOR

Fergus Hanson has a Masters in International Law from the University of Sydney. His published thesis focused on regional stability in the Pacific. He worked for the Department of Foreign Affairs and Trade (DFAT) from 2004 to 2007. From 2005 to 2007 he served at the Australian Embassy in The Hague where he was responsible for Australia's relations with five international legal organisations and domestic political issues.

Prior to joining DFAT he was a fellow at Cambridge University's Lauterpacht Research Centre for International Law. Fergus has also studied at Uppsala University. Fergus is the Director of the annual Lowy Institute Poll.

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