

Chapter 3

China's Role in the Pacific Islands Region

Jian Zhang

Executive Summary

- China's emergence as an increasingly consequential power in the Pacific Islands region has been one of the most important developments in regional affairs over the past decade. Chinese interests in the region are wide-ranging and expanding over time.
- While concerns about China's growing presence abound, fears of Chinese ambitions to dominate the region are unwarranted. Instead, China's active engagement provides important new and potentially long-lasting developmental opportunities for Pacific Island countries.
- China's distinctively different approach to regional engagement, particularly its controversial aid program, poses acute challenges for traditional aid donors in the region. In the foreseeable future, substantial coordination between China and other aid donors is unlikely due to a significant "perception gap" between Chinese and Western views of the nature and impact of China's foreign aid program. However, there is room for cooperation.
- Whether China's growing presence will spark destabilizing strategic competition in the region will be determined not only by Beijing's behavior, but also by the responses of other external great powers. China's rising regional influence needs to be accommodated; attempts to resist and contain Chinese emergence would likely be unsuccessful and potentially divide countries in the region.

Introduction

On Nov. 22, 2014, Chinese President Xi Jinping paid a state visit to Fiji, where he held a summit meeting with leaders of the eight Pacific Island countries that have diplomatic ties with China. During that meeting, Xi and his Pacific counterparts announced their decision to elevate the relationship between China and the eight Pacific Islands countries to the level of “strategic partnership.”¹ More than anything else, Xi’s visit symbolizes China’s growing presence in the Pacific Islands region, and its far-reaching consequences for the evolving regional order.

The South Pacific has long been perceived as either “an American lake” or Australia’s and, to a lesser extent, New Zealand’s traditional area of influence. Such perceptions, however, no longer reflect the region’s changing geopolitical landscape. Over the last decade, the People’s Republic of China (PRC) has emerged as an increasingly consequential player in the region through active political and diplomatic engagements, significant aid provisions and expanding trade and economic ties. Xi’s visit represents the latest example of increasingly closer ties between China and Pacific Island countries.

Moreover, Chinese interests in the region reflect the country’s new-found economic strength and evolving diplomatic and economic agendas. As rightly noted by some commentators, China’s increased presence provides valuable new opportunities for regional economic development.² However, its distinctively different approach to engagement with Pacific Island countries also complicates the efforts of Western countries to promote good governance and sustainable development in a region facing a multitude of development and security challenges.

1 “China, Pacific island countries announce strategic partnership,” *Xinhua News Agency*, November 22, 2014, http://news.xinhuanet.com/english/china/2014-11/22/c_133807415.htm.

2 For example, see Yongjin Zhang, “China and the emerging regional order in the South Pacific,” *Australian Journal of International Affairs*, 61(3), 2007, 367-381.

China's Growing Presence in the South Pacific

China's growing presence in the Pacific Islands region is first and foremost demonstrated by its substantial aid activities. While the PRC has a long history of providing aid to the region, dating back to the 1970s, it is over the last decade that the nation has become a major aid donor to the poverty-stricken region. According to a study, in 2009 China was the third largest aid provider in the South Pacific, after Australia and the United States.³ Another analysis estimates that between 2006 and 2011, China provided a total of \$850 million in aid to the region, making it the fifth largest donor after Australia (\$4.8 billion), the United States (\$1.27 billion), New Zealand (\$899.3 million), and Japan (\$868.8 million).⁴ According to China's two foreign aid white papers published in 2011 and 2014 respectively, the South Pacific's share in China's total foreign aid increased from 4 percent in 2009 to 4.2 percent during the period 2010 to 2012, demonstrating Beijing's increased attention to this region.

While some commentators rightly point out that the overall size of Chinese regional aid is still far smaller than that of some long-standing aid donors, such as Australia and the United States, it should be noted that aggregated aid figures (as shown above) do not reveal the full extent of the significance of Chinese aid. One must evaluate not only the size of China's aid, but also how the nation delivers it. China's approach to aid provision differs from that of OECD⁵ donors in two aspects: unlike OECD countries that often use aid conditionally as a tool to promote agendas, such as good governance, human rights and civil society development, China attaches virtually no political conditions to its aid. This is based on its long-held foreign policy principle of non-interference in nations' internal affairs.

3 Mary Fifita and Fergus Hanson, "China in the Pacific: The New Banker in Town," *Issues & Insights*, 11(5), April 2011, 3, http://csis.org/files/publication/issuesinsights_v11n05.pdf.

4 Jenny Hayward-Jones, "Big Enough for All of Us: Geo-strategic Competition in the Pacific Islands," analysis, Lowy Institute for International Policy, 11, May 2013, http://www.lowyinstitute.org/files/hayward_jones_big_enough_web.pdf.

5 OECD: Organization for Economic Co-operation and Development.

Additionally, OECD donors tend to focus aid on projects promoting political and economic reforms. China's aid, however, funds infrastructure projects and public facilities, such as roads, bridges, dams, schools, hospitals, sports facilities and government buildings. China also funds commercial projects that can deliver immediate economic benefits for recipient countries. It's not surprising, therefore, that many Pacific Island governments have seen Chinese aid as a preferred option to increasingly condition-attached development assistance from traditional OECD aid donors.

Moreover, while at the regional level, the overall size of China's aid is still considerably smaller than Australian and U.S. aid, in some individual countries, Chinese aid is becoming most consequential. This is perhaps best illustrated in Tonga. Over the last few years, the country received a number of large Chinese "concessional loans" worth more than \$100 million. This led to a Tongan accumulated debt load that, as of 2009, was 32 percent of its GDP, raising concerns about the country's vulnerability to future Chinese manipulation.⁶

Another case is Fiji. After its 2006 coup, the country went through a considerable period of sanctions, diplomatic isolation and aid reduction from many Western countries, especially Australia and New Zealand. Beijing, however, continued to actively engage with the interim government, led by the coup leader, Commodore Frank Bainimarama. Indeed, Beijing provided a total of \$121 million aid to Fiji in 2007, attracting strong criticism from Australia and other Western countries. China's aid and diplomatic engagement, however, drew praise from Fiji's military government.

Apart from its aid program, China's growing presence is further reflected in its expanding economic and trade ties with the region. Between 2000 and 2012, China's trade with the eight Island countries with whom it has diplomatic ties⁷ rose from \$248 million to \$1.767 billion, a more than sev-

6 Fifita and Hanson, "China in the Pacific," 7.

7 Fiji, Papua New Guinea, Tonga, Vanuatu, Cook Islands, Samoa, Niue and Federated States of Micronesia.

en-fold increase.⁸ In 2009, China became the second-largest trade partner in the region, after Australia. According to a report by China's Ministry of Commerce, based on 2012 Chinese customs statistics, China's total trade with all Pacific Island countries, including those having no diplomatic ties with Beijing, was as high as \$4.5 billion.⁹ Additionally, China has become an important export market for some Pacific Island economies. For example, around 45 percent of Solomon Islands' 2013 exports went to China.¹⁰ For Papua New Guinea, China has become the largest market for its timber exports over the last decade.

Together with expanding trade ties, Chinese investments in the region have increased significantly. Between 2003 and 2012, Chinese enterprises invested more than \$700 million in Pacific Island countries. Papua New Guinea (PNG) has been, by far, the largest recipient of Chinese investment, receiving a total of \$313 million, followed by Samoa (\$265 million) and Fiji (\$111 million).¹¹ China's investment in the \$1.4 billion Ramu Nickel Project in PNG is the largest Chinese investment in the region.

In addition to direct investment, Chinese enterprises have become increasingly active in the region, bidding for large government projects or projects financed by external multilateral financial institutes, such as the World Bank and Asian Development Bank. Up to 2012, Chinese enterprises reportedly had won a total of \$5 billion in contracts for various projects.¹²

Not surprisingly, China's active diplomatic engagements within the region have been equally impressive. In particular, while Beijing has formal diplomatic relationships with only eight of 14 Pacific Island countries — Fiji, PNG, Samoa, Tonga, Vanuatu, Cook Islands, Niue and the Federated States of Micronesia — it reportedly deploys more diplomats in the region than

8 Yu Chensen, Chang Chenguang and Wang Xuedong, eds., *The Blue Book of Oceania: Annual Report of Development of Oceania 2013-14* (Beijing: Social Sciences Academic Press, 2014), 8.

9 Ibid.

10 "Solomon Islands," Australian Department of Foreign Affairs and Trade factsheet, <http://www.dfat.gov.au/trade/resources/Documents/solo.pdf>.

11 Yu, Chang and Wang, eds., *The Blue Book of Oceania*, 15-16.

12 Ibid., 17.

any other country. Moreover, in recent years, China's active diplomatic engagement has been further characterized by high-profile, senior-level visits. For example, in 2006, Chinese Premier Wen Jiabao visited Fiji, announcing the establishment of the China-Pacific Island Countries Economic Development and Cooperation Forum (CPICEDCF).

In 2009, China's then vice-president, Xi Jinping, visited Fiji. In the same year, China's then senior vice-premier, Li Keqiang, visited PNG. As mentioned earlier, President Xi visited Fiji again in November 2014 after attending the G20 Summit in Australia. These regular visits by top Chinese leaders highlight the importance Beijing has attached to the region. It should also be noted that leaders of Pacific Island countries have also visited China frequently, often sponsored by Beijing.

In addition to its bilateral relationships with Pacific Island countries, Beijing has also actively engaged with regional multilateral institutions. Having been a dialogue partner of the Pacific Islands Forum (PIF) since 1989, Beijing has shown more interest in PIF in recent years, sending senior officials (often at the vice-foreign minister level) to attend meetings. In 2000, China also set up the China-PIF Cooperation Fund and sponsored establishment of a PIF trade office in Beijing in 2002. It is noteworthy that, apart from its contacts with PIF, Beijing has also developed close relationships with other sub-regional groups, such as the Melanesia Spearhead Group (MSG). China funded the building of the MSG headquarters in Vanuatu.

China also created its own multilateral platform to engage with the region, the aforementioned CPICEDCT, comprised of China and its eight diplomatic partners in the region. In the Forum's first meeting, held in Fiji in April 2006, Wen, among others, pledged a total of RMB 300 million¹³ aid over the next three years to the region as well as a number of tariffs reductions and debt waiver initiatives. In November 2013, the Forum's second meeting was held in the Chinese city of Guangzhou, during which Chinese Vice-Premier

13 RMB: Chinese monetary unit (yuan).

Wang Yang announced an aid package of \$1 billion to the eight Pacific Island countries and promised to set up a \$1 billion fund to support infrastructure development in the region.¹⁴

As part of its overall regional engagement, China has, in more recent years, sought to actively expand its cultural influence in the region. For example, in 2006, Beijing set up the Confucius Institute at the University of South Pacific in Fiji, offering courses on Chinese languages and culture. Between 2004 and 2012, the Chinese foreign ministry also organized six training workshops for South Pacific diplomats. In the aforementioned 2013 meeting of the CPICEDCF, Wang also announced the offer of 2,000 scholarships in the next four years to support students from South Pacific island countries to study in China. According to one seasoned observer of China-South Pacific relations, among all the other external powers in the region, China has been the most active in promoting the study of its national language. During Xi's visit to Fiji in November 2014, he also announced the establishment of a Chinese Culture Centre in that nation.

The last decade has also seen an expanding Chinese diaspora in the region. As a result of China's opening its doors to outward migration, numbers of Chinese migrants (legal and illegal) in the region have increased significantly. While accounting for only a tiny percentage of the entire population in the South Pacific, the Chinese community arguably has a disproportionately high economic influence in the region, partly because Chinese business people have tended to dominate certain economic sectors, such as retail and restaurants. The often held perception, however, that some Chinese community members engage in illegal activities or have close relationships with corrupted local officials, makes the Chinese community a target of local resentment in Pacific Island countries. The growing Chinese community, thus, adds an element of complexity to Beijing's relationship with these countries.

14 "Address of Wang Yang at the 2nd China-Pacific Island Countries Economic Development and Cooperation Forum," Ministry of Commerce, People's Republic of China, November 12, 2013, <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201311/20131100386982.shtml>

China's Evolving Interests in the Region

What drives China's growing engagements in the region? A prevailing view is that as China rises as a potential hegemonic power, its enhanced activities in the South Pacific are driven by an ambition to dominate the region, challenging the longstanding strategic primacy of the United States and its allies. Thus, for some, the South Pacific represents a microcosm of the US-China rivalry in the broader Asia-Pacific region.¹⁵ Others, however, are dismissive of such a view, arguing that China's regional interests are limited and largely driven by its economic and trade interests, especially its growing appetites for the region's resources and consideration for South-South cooperation.¹⁶

In reality, Chinese regional interests are diverse, wide-ranging and expanding over time; objectives include enduring political and diplomatic interests, expanding economic and trade considerations, and managing growing new security concerns and needs. As noted by many scholars, Beijing's diverse interests do not mean it has a clearly-thought, well-coordinated grand strategy for the region.¹⁷ Instead, many of its activities have appeared spontaneous and lacking coordination, with some even undercutting the effectiveness of others.

Political and diplomatic interests have always been high on Beijing's agenda since the PRC began its Pacific Islands engagement. Beijing's official links with the region started in 1970s when Island countries were acquiring independence as a result of the decolonization process sweeping the region. Beijing, for example, established formal diplomatic ties with Fiji and Samoa

15 Joanne Wallis, "The South Pacific: Microcosm of future US-China competition?" *e-International Relations*, September 12, 2012, <http://www.e-ir.info/2012/09/19/the-south-pacific-microcosm-of-future-us-china-competition/>.

16 For example, see Hayward-Jones, "Big Enough for All of Us." South-South cooperation broadly refers to developmental cooperation between developing countries. As China still sees itself as a developing country, it tends to treat its aid activities to other developing countries as part of South-South cooperation. For more information on South-South cooperation, see United Nations Development Programmes at http://ssc.undp.org/content/ssc/about/what_is_ssc.html.

17 For example, see Zhang, "China and the emerging regional order;" see also Hayward-Jones, "Big Enough for All of Us."

in 1975 and with PNG in 1976. Throughout the Cold War period, China's regional policy was driven by ideological factors — such as the desire to build a united front with developing countries to oppose the two superpowers — and pragmatic considerations, particularly its competition with Taiwan for diplomatic ties with Pacific Island countries.

Following China's reforms, its "opening up" in the late 1970s, and the Cold War's end, the diplomatic rivalry with Taiwan became a main theme in Beijing's regional policy. This is due to Taiwan's pro-independence movement, which gained momentum in the early 1990s. Given that six out of twenty-two countries in the world that recognize Taiwan are Pacific Island nations, it is not surprising the region has become a major focus of the Taipei-Beijing diplomatic rivalry. Both Beijing and Taipei have engaged with the region through intensified aid, attracting widespread criticism of the destabilizing impacts of their "check book diplomacy" on various Island countries. The diplomatic competition was particularly stark under pro-independence Taiwanese President Chen Shuibian from 2000 to 2008. During Chen's term, two Pacific Island countries, namely Kiribati and Nauru, switched their diplomatic recognition from Beijing to Taipei. Despite a diplomatic truce announced by both sides after the election of Taiwan President Ma Ying-jeou in 2008, the issue of diplomatic recognition is still important for both Beijing and Taipei.

While Taiwan has been an important driver of China's regional activities, Beijing also has other broader political and diplomatic interests in the region. Enlisting the support of Island countries for China's agenda in the international arena has also been a long-term and enduring consideration driving Chinese activities in the region. For example, in 2008, a number of Island nation leaders attended the opening ceremony of the Olympic Games in Beijing when leaders of certain Western countries chose not to do so amid widespread calls in the West for boycotting the event due to China's human rights issues.

Compared to its long-standing and enduring political and diplomatic interests, China's economic interest in the region is relatively new, but no less important. This interest has grown strongly due to China's "go global" strategy since the early 2000s. China's heightened demand for overseas resources and markets add further impetus to its Pacific Islands engagement. The region's rich mineral, timber, fish, and potential seabed resources are all of great interest to China. The Pacific Islands have also emerged as new markets for Chinese products, thus giving China a stake in the economic development of the region.

The growing importance of economic considerations is perhaps most clearly reflected by the fact that China is actually trading more with Island countries with which it has no formal diplomatic ties than with those with which it has formal relations. This suggests economic interests, more than political considerations, drive China's engagement with the region. As mentioned earlier, China's total 2012 trade volume with Pacific Island countries exceeded \$4.5 billion. Its trade with the eight Island countries with which it shares diplomatic ties accounted for less than 40 percent of this figure.

This trade pattern contrasts sharply with China's aid distribution in the region, with nearly all funds going to countries that diplomatically recognized Beijing. In more recent years, China's engagement with the region, as in other parts of the world, is driven by growing concerns about the safety and security of the increasing number of Chinese citizens working and living in Island countries. The issue is particularly significant in the South Pacific region, where in a number of Island countries, Chinese communities have been targets of attacks by local residents during domestic riots. For example, in the aftermath of the 2006 anti-Chinese riot in the Solomon Islands' capital, Honiara, China undertook an urgent evacuation operation to remove more than 300 Chinese out of the country.

Moreover, Xi, who came to power in November 2012, has enlisted Island countries' support for Beijing's effort to pursue corrupt Chinese officials

hiding overseas, many of them in Island countries. During his visit to Fiji in November 2014, Xi expressed particular gratitude for that nation's assistance in this area and vowed further cooperation between the two nations' law enforcement agencies.

The latest Oceania Blue Book, an authoritative annual development report published by the Centre of Oceania Studies at China's Sun Yat-sen University, summarized China's varied interests in the region:

“Politically to reinforce China’s political ties with the region, economically to explore potential economic opportunities for mutually beneficial development through increased trade, investment and aid, exploring the Oceania market, pursuing economic interests and improving China’s influences in the region.”¹⁸

Aid Coordination with China?

So far, China's increased regional engagements have generated considerable concerns and criticisms in countries like Australia and the United States, which have exercised significant regional influence. Many critics target China's aid policy. According to China's 2011 foreign aid white paper, key features of this policy are:

- Unremittingly helping recipient countries build up their self-development capacity
- Imposing no political conditions
- Adhering to equality, mutual benefit and common development

¹⁸ Yu, Chang and Wang, eds., *The Blue Book of Oceania*, 6.

- Remaining realistic while striving for the best
- Keeping pace with the times and paying attention to reform and innovation¹⁹

This represents a sharply different approach to aid provision from that of Western donors both in terms of focus (prioritizing development over governance) and style (attaching no political conditions, but emphasizing mutual economic benefits). To many Western commentators, China's aid program, especially its "no-strings-attached" approach, has not only undermined the influence of other aid donors, but is also detrimental to Island nations' interests by ignoring issues of good governance, and political and economic reforms.

Others are more positive, seeing that China's emergence as a major aid provider has created new development opportunities for the Pacific Islands. However, they also call for changes in the no-strings-attached policy, requesting China undertake greater coordination with other aid donors by aligning with Western aid norms and practice. The recent trilateral cooperation between China, New Zealand and the Cook Islands on a water-quality improvement project is widely perceived as a major breakthrough for this desired coordination.

While coordination between China and aid donors should certainly be encouraged, a case could be made that any such coordination will be limited, if not symbolic, in the foreseeable future. For a number of reasons, it is unlikely China will change its distinctively different aid policy to match the practice and principle of OECD donors. First, despite its rapid rise, China still perceives itself as a developing country and undertakes its aid program

¹⁹ "China's Foreign Aid," Information Office of the State Council white paper, April 2011.

as part of South-South cooperation. Consequently, it sees its relationships with countries receiving its aid as fundamentally different from the traditional donor-recipient relationship between developed countries and developing countries. Thus, China's long-held principles such as "non-interference of each other's internal affairs," "equality" and "mutual benefits" have been central to China's aid policies.

Moreover, contrary to external criticism, Chinese policy-makers and commentators see their nation's aid program as a distinctively more effective model of development assistance than the Western model. In particular, a widely held belief in China is that development is the pre-condition for good governance rather than vice versa. Chinese officials and scholars generally believe that China's focus on improving development capacities suits the need of receiving countries more than Western donors' focus on governance, and political and economic structural reforms.

Such confidence is boosted by China's own developmental experiences and the positive response to Chinese aid programs from many Pacific Islands leaders. Indeed, China's 2011 foreign aid white paper proudly claimed that China's foreign aid program has emerged as an effective model with its own unique characteristics. In this context, it's not surprising that, despite aforementioned cooperation between China, New Zealand and Cook Islands, China still refuses to join the 2009 Cairns Compact, designed for promoting greater donor coordination and aid transparency in the Pacific Islands region.

Conclusion

Given China's diverse and expanding regional interests, and its rising economic and strategic strength, one can expect that Chinese presence in the region will only grow stronger in the coming decades. China's growing regional presence is a new reality that needs to be accommodated, not resisted. On the one hand, Chinese activism in the region has provided important developmental opportunities for regional countries. On the other hand, given Beijing's expanding ties with Pacific Island states, resisting Chinese influence will only lead to a zero-sum strategic competition that could divide the region.

Accommodating China's role, however, requires great understanding of Chinese interests and views. Given the substantial difference between Chinese and Western views about China's unique aid policy, effective aid coordination between China and other aid donors must be based on a two-way socialization process, with both sides acknowledging the merits of each other's aid practices. Simply requesting that China conform to rules set up by traditional aid donors is unlikely to work; other donors might need to consider how to refine their own aid approaches by learning from the positive aspects of Chinese practices.