

# State Society and Governance in Melanesia

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Briefing Note



## The Rise of China in the Pacific

Central to the Australian Government's approach to the Southwest Pacific is the view that Australia has a special role to play in the region. Enhancing Australia's leadership role in contributing to security and stability in the region is at the core of this approach. The perceived withdrawal from the region by the United States has heightened the importance of Australia's role and to a lesser extent New Zealand's, which has been Australia's main partner in regional peacekeeping operations.

According to some commentators, Australia's dominant role in the region is now being challenged by China, which has increased its use of 'soft power' in the region, primarily through diplomatic and economic influence. Some sources estimate that China has become the third largest provider of foreign assistance in the region, consisting mostly of loans, infrastructure and large construction projects (which, unlike Australian aid, is notably free of any preconditions on the part of receiving countries - the one exception being the adherence by receiving countries to the 'one-China' policy).

The rise of China is not limited to the Pacific region. China has been increasing its diplomatic and economic ties elsewhere, most notably in Latin America, the Caribbean and Africa. Although commentators remain divided about China's long-term intentions, suggested motives for its increased engagement across the globe include the need for domestic harmony and regional stability to ensure China's continued economic development (which has consistently averaged 11% per annum in recent years), the drive to secure energy supplies and other natural resources, and its national identity as a good neighbour and responsible world citizen. China's rivalry with Taiwan for diplomatic recognition from Pacific Island nations presents another key motivating factor for China's increased engagement in the Pacific region.

China is not alone in increasing its focus on the Southwest Pacific region. In 2006 summits focusing on the region were held by China, Taiwan and Japan. Major increases in development aid were announced at all three summits. The diplomatic tussles between these countries - most notably the competition between China and Taiwan for diplomatic recognition by Pacific Island countries and China's opposition to Japan's desire to obtain a permanent seat on the UN Security Council - complicate the scene and have the potential to interfere with the domestic politics of Pacific Island countries. The United States has also recently re-entered the picture—in early 2007 the Bush Administration pledged to re-engage with the region and declared 2007 the 'Year of the Pacific'.

The increased engagement in the region by China and Taiwan, combined with the growing economic presence of the Chinese in the Pacific (including Chinese and Taiwanese governments and nationals, overseas Chinese, and locally born Pacific Island Chinese), have contributed to a growing resentment towards ethnic Chinese in the region. Rioting in 2006 in both Tonga and the Solomon Islands in which Chinese businesses were targeted attracted significant media attention. The increased presence of China in the region, and the growing resentment towards the ethnic Chinese in Pacific Island countries, have direct implications for Australia's development assistance to the region.

### Key Points

- The Australian Government's foreign policy in the Southwest Pacific is based on the view that Australia has a key role to play in the region, particularly in contributing to security and stability.
- In recent years, China has increased its presence in the region, with some sources estimating that China is now the third largest provider of foreign assistance in the region.
- Chinese businesses have a growing presence, with over 3,000 Chinese state-owned and private enterprises registered in the Pacific region, representing investments of about \$800 million.
- The competition between China and Taiwan for diplomatic recognition by Pacific Island countries has intensified in recent years.
- Perceived interference by China and Taiwan in domestic politics, coupled with the strong economic presence of the ethnic-Chinese in Pacific Island countries, has contributed to a growing resentment among ethnic Chinese in the region.
- Financial assistance provided to Pacific Island countries by China and Taiwan has the potential to frustrate Australia's attempt to link the provision of aid with improved governance outcomes.



China's Premier Wen Jiabao at the first China-Pacific Islands Countries Economic Development & Cooperation Forum held in Fiji in April 2006.. Photo courtesy of *Islands Business*

## CHINESE BUSINESSES IN THE PACIFIC

The profile of Chinese in the Pacific is also being raised by the strong and growing business presence in the region - over 3,000 Chinese state-owned and private enterprises have been registered in the Pacific region, with investments of about \$800 million. Investment by China and Taiwan has been welcomed by the governments of Papua New Guinea, Fiji and Solomon Islands as part of their "look north" foreign policies.

While Chinese businesses have been operating legitimate and valued businesses in the region for several decades, in some instances businesses in the new wave of arrivals (post 1980) have been associated with criminal activities. Some new arrivals are involved in short-term extractive industries, such as logging, and profits are frequently invested overseas rather than in the local community. The tendency to employ Chinese workers and, in some cases, the treatment of local workers by Chinese businesses have also been highlighted in the media in some Pacific Island countries. These factors have contributed to a perception that Chinese businesses operating in the region are not sensitive to local community needs.

## THE CHINESE POPULATION IN THE PACIFIC ISLANDS

Although as discussed above, the Chinese population in the Pacific Island region is economically influential, the number of Chinese in the region remains low. Chinese populations in the Pacific Islands generally make up less than 1 per cent of the total population. Emeritus Professor Ron Crocombe estimated the total Chinese population in the Pacific Islands at around 80,000 as of October 2006. The main concentrations are around 20,000 each in Papua New Guinea and Fiji, 15,000 in the Commonwealth of the Northern Marianas, 14,000 in French Polynesia, and 4,000 in Guam.

The leading authority on Chinese communities in the Pacific Islands, Emeritus Professor Bill Willmott, emphasises that these communities are distinct from each other and also internally differentiated by factors such as class, time of arrival, and place of origin. While Pacific Island Chinese develop a local identity, local loyalties and local connections over time, most still marry other Chinese, and family remains their prime social focus. Rates of inter-marriage between Chinese communities and local indigenous populations vary between localities. Chinese Pacific Islanders are invariably prominent in business, although the most recent generation are also well represented in professions such as doctors and lawyers.

Concern has been expressed, often in local media, about recent Chinese arrivals' lack of sensitivity to local ways. Many in the local communities are just as likely to view these arrivals as disruptive competitors rather than as potential business or marriage partners. These latter arrivals, known as *huayi*, are distinguished from previous migrants by their weak ties to mainland China and their high degree of mobility in search of opportunities in the global economy. While businesses of the more established Chinese benefit locals, those of *huayi* tend towards 'get rich quick' enterprises that bring little benefit to local communities.

Until the 1980s, Chinese came to the Pacific Islands in limited numbers as traders or labourers. Chinese migration

into the Pacific has increased markedly since the opening up of China and the economic reform program initiated by Deng Xiaoping in the late 1970s. This period also saw a rise of activities in Island states to extract relatively untapped natural resources, such as timber, fish and minerals. These activities are largely controlled by *huayi* businessmen from Chinese Diaspora communities in Southeast and East Asia who invest their profits overseas. They have allies within the ranks of local politicians, but are generally disliked by the local population as a whole. The post-1980 wave of Chinese initially consisted largely of low-skilled factory and extractive industry workers. This new wave gradually expanded into other sectors.

## IMPLICATIONS FOR PACIFIC ISLAND COUNTRIES

The small island states of the Pacific have much to gain from the increased engagement with China. China provides an alternative to traditional donors to Pacific Island countries (which - with the exception of adherence to the 'one-China' policy - is free of the pre-conditions accompanying aid from Australia and other funding bodies). Increased engagement with the Chinese also offers new opportunities for economic growth and development in the region.

However, the relative poverty of these nations, coupled with their lack of appropriate institutional mechanisms to ensure political and bureaucratic accountability, leave them prone to financial influence and corruption. In particular, there is concern that without appropriate safeguards, aid assistance may not be directed to where it is most needed or it may find the way into the hands local politicians or officials. The problems associated with this competition can be exacerbated when the practice of gift giving - an inherent practice in many Pacific Island cultures - is exploited.

Opinion remains divided on the consequences of the increased presence of China in the Pacific Islands. There is general consensus amongst commentators that the political rivalry between China and Taiwan in the Pacific does not provide an environment conducive for the most effective use of development assistance. There is also concern that the China-Taiwan rivalry is planting the seeds for longer-term tensions for Pacific Island nations.

Graeme Dobell and others note mounting concern in the Pacific Islands, Canberra and, to a lesser extent Wellington, about the implications for Island state stability due to the rising Chinese presence. At particular issue is Chinese crime syndicates and corrupt businessmen, and the rivalry between China and Taiwan fostering corruption in domestic politics due to their failure to adhere to the normal rules of the 'aid game' and to the recent OECD guidelines for donor assistance. Dobell notes that these concerns have only gathered momentum in the last five years, with China's economic take off and the perceived diminishing of US influence in the Asia Pacific region. Former New Zealand diplomat Michael Powles is less concerned, believing China's record and statements consistently demonstrate a willingness to abide by international conventions, while obviously pursuing its own national interest.

The increased engagement in the region by China and Taiwan, and the growing business presence in the region of ethnic Chinese, have contributed to a growing resentment towards ethnic Chinese in the region. In some cases, public

### Box 1: The Chinese Population in Papua New Guinea

Papua New Guinea has one of the largest population of Chinese in the Pacific, currently estimated at 20,000. The first large group of Chinese (the 'Old Chinese') came to Papua New Guinea in 1889 as indentured labourers for the Germans. Nearly all were repatriated at the end of their contracts. By 1913 there were just over 1,000 free Chinese migrants in German New Guinea. When Australia acquired New Guinea as a Mandated Territory in 1921, it immediately applied the *Australian Immigration Act*, which further limited Chinese immigration. The small Chinese population that remained in the country tended to be unobtrusive politically and socially. Although there were minor incidents in which resentment was expressed against Chinese businesses, there was little overt racial antagonism.

After World War II there was a significant change in Australian immigration policy - the New Guinea Chinese were allowed to take Australian citizenship. This, combined with the turmoil in postwar China and the victory of the communists that effectively prevented the New Guinea Chinese from visiting mainland China, contributed to a tendency for the Chinese community to develop stronger ties with Australia. When independence was achieved in 1975, many of the Chinese in Papua New Guinea had Australian citizenship and investments in Australia.

In the 1980s the foreign population of Papua New Guinea underwent significant change. In 1972, there were over 50,000 non-citizens in the country; of these the most numerous were Australians. Around 3,500 were Asians (nearly all were Chinese by ethnicity but not by place of birth or nationality). The total number of foreigners in the country declined after the country gained independence, as more foreigners chose to leave. There was also a sharp change in the composition of the foreign population - during the 1980s Asians began to outnumber Australians. By the 2000 census, the total non-citizens were fewer than 20,000, with Australians making up just 19% of this figure.

The visible Chinese presence in Papua New Guinea is not reflected in the official census figures. According to the most recent census in 2000 the Chinese made up fewer than 15% of the non-citizen population. But informal estimates put the Chinese population at well over 10,000, which would make them the most numerous of all foreigners in the country. Possible reasons why they do not show up in official statistics include: they are the citizens of countries other than China, they have arrived illegally, and/or they have entered since the 2000 census.

Emeritus Professor Hank Nelson recently categorised the Chinese population in Papua New Guinea into four groups:

1. The Old Chinese who were in New Guinea when Australia took control of the German colony and who survived the war against Japan; they were allowed to take Australian citizenship from 1957. Many developed merchant, shipping and plantation interests in Australian New Guinea and later Papua. Few from this group now remain in the country.
2. The Chinese from Southeast Asia, particularly Malaysia, who have broader business interests—they are best known through their investments in timber. Their direct engagement with politicians and aggressive public relations tactics contrast with the unobtrusive approach of the 'Old Chinese', and allegation of corruption in the public and private sectors are rife. The Rimbunan Hijau group—the largest logging company operating in PNG—also owns the daily newspaper (*The National*).
3. The Chinese from mainland China, whose entry is sanctioned and supported by the People's Republic of China (often with a focus on obtaining resources). The commitment of the Chinese company Metallurgical Group Corporation (MCC) to develop the Ramu nickel / cobalt mine highlights the shift of Chinese capital, expertise and labour into Papua New Guinea.
4. The Chinese, most from mainland China, who have entered Papua New Guinea illegally or have over-stayed their visas, and who now dominate many small businesses. Some are engaged in illegal or marginally illegal businesses, and there are some connections within this group to gangs and organized crime.



Chinese Ambassador to PNG, Wei Ruxing, PM Sir Michael Somare & MCC Chairman, Yang Changheng toast the Ramu mine. Photo courtesy of *The National*

While the 'old Chinese' generally kept clear of politics, some of the more recent Chinese migrants are aggressively involved in decision-making from local government through to national department heads and cabinet. The increased profile of the Chinese population, including their obvious success in small business, and a perception that Chinese interests have benefited in some cases from political favours, has generated resentment among some Papua New Guineans. This resentment has been expressed in various newspaper articles and letters to the editors of the local newspapers - issues of concern include environmental and human rights abuses, tax evasion and the flow of illegal immigrants into the country.

anger against the national government has spilled over into the simmering resentment against ethnic Chinese businesses. An example is the rioting in Nuku'alofa, Tonga in 2006, in which three-quarters of the commercial district was destroyed. The riots were alleged to have been sparked by anger over the perceived slow pace of political reforms - frustration over unemployment and the growth of ethnic Chinese-owned businesses were also blamed. Approximately thirty Chinese-owned businesses were destroyed and in the aftermath between 200-300 Chinese nationals returned to China. Chinese businesses were also targeted in rioting in Honiara in 2006 in post-election violence. Among the allegations of the rioters was that both the former and newly-appointed governments were corrupt and unduly influenced by local Chinese businesses and interests and Taiwan government money.

### IMPLICATIONS FOR AUSTRALIA

Diminishing Australian influence and increased Chinese influence are the new Pacific regional realities Australia must plan for. Australia faces a major decision about its Pacific policy in regard to the increasing Chinese influence in the region. The cost and difficulties involved in operations in Solomon Islands and East Timor suggest that Australia cannot go it alone.

Unconditional aid provided by the Chinese Government and Taiwan may exacerbate underlying political, economic and social problems in the region. The lack of preconditions accompanying expanding Chinese aid is particularly problematic from the Australia Government's perspective, as it has potential to frustrate Australia's efforts to link the provision of development aid to Pacific Island nations to improved governance outcomes. A recent example is Fiji, where Chinese aid has complicated attempts by Australia and New Zealand to tie aid to democratic reforms by the military government.

There is concern that the China-Taiwan rivalry is planting the seeds for long-term tensions in the Southwest Pacific and that it does not provide an environment conducive for the most effective use of development assistance. The 2006 Pacific Island summit held by Japan, at which new aid to Pacific Island nations was announced, introduces another element with potential to impact on the region. The possibility of a three-way bidding war between China, Taiwan and Japan for support from Pacific Island countries has been raised.

The Australian Senate Foreign Affairs, Defence and Trade Committee's report on the implications of China's rising prominence urged adherence to the OECD principles on official development assistance by all parties in the Pacific, and recommended that Australia should cooperate with China on development assistance in the Pacific. The principles were field tested in nine countries over 2006-2007, including in Solomon Islands. Although the results of the pilot were promising, the question of how to engage non-OECD countries in supporting these types of principles remains.

Paul D'Arcy has broadly identified two main scenarios for future engagement with the region:

- Increase Australian aid to Pacific Island nations in an attempt to counter Chinese influence in the Pacific and persuade or influence Pacific Island governments to adopt policies it sees as best for the region.
- Seek to work cooperatively with China and Taiwan and Pacific Island governments to deliver development that benefits Islanders and preserves all parties' national interests through a degree of compromise.

Whether Australia's future foreign policy centres around either or both of the above, there is increasing consensus in Canberra and Wellington that interventions to restore order in Pacific Island nations experiencing unrest, such as in the Solomon Islands and Tonga, must be accompanied by much longer-term, deeper engagements to tackle the root causes of problems and dissatisfaction in Pacific Island nations. This intermeshing of local, regional and global interests has complicated the search for solutions, highlighting the need to work closely with Island countries and also with international partners, now including China, in delivering improved development aid and governance outcomes in recipient countries.

*This briefing note was based on Paul D'Arcy's paper 'Introduction: A New Era in Chinese-Pacific Engagement' and Hank Nelson's paper 'The Chinese in Papua New Guinea'. Nancy Krause compiled the Policy Briefing Note based on this work.*

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