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## ANALYSIS

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# BIG ENOUGH FOR ALL OF US: GEO-STRATEGIC COMPETITION IN THE PACIFIC ISLANDS

## EXECUTIVE SUMMARY

*The centre of global economic gravity has moved to the Asia-Pacific. The neglected and relatively poor Pacific end of the region is increasingly attracting the attention of outside powers as its neighbourhood has grown wealthier. In particular, China's profile in the Pacific Islands has grown and has spurred a resurgence of American interest in the region. These developments have led a number of analysts to speculate about a new great-power competition being played out in the Pacific Islands.*

*Placing China's activities in the region in a geo-strategic paradigm akin to that of East Asia is, however, inappropriate and potentially counter-productive, obscuring an understanding of the transformative economic role China could play in the region. There is little evidence that China is doing anything more than supporting its commercial interests and pursuing South-South cooperation. Even if China has other ambitions, its ability to seriously challenge the dominant role of established powers such as Australia and the United States in the region is limited.*

*Australia and the United States should cooperate with China in areas that support Pacific Island priorities rather than building any new security or diplomatic arrangements designed to compete with it. The goal should be to maximise the benefits of China's new role in the region, while helping to minimise the negative consequences that do flow from some of China's commercial and development activities in the Pacific Islands.*

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In early 2011 then United States Secretary of State Hillary Clinton told the US Senate Foreign Relations Committee that the United States was in competition with China in the Pacific.

Let's put aside the moral, humanitarian, do-good side of what we believe in and let's just talk straight, realpolitik. We are in a competition with China. Take Papua New Guinea - huge energy find. Exxon Mobil is producing it. China is in there every day in every way trying to figure out how it's going to come in behind us, come in under us. They're supporting the dictatorial regime that unfortunately is now in charge of Fiji. They have brought all of the leaders of these small Pacific nations to Beijing, wined them and dined them. I mean, if anybody thinks that our retreating on these issues is somehow going to be irrelevant to the maintenance of our leadership in a world where we are competing with China, that is a mistaken notion.<sup>1</sup>

The perception that China is in a geo-strategic competition with the United States for influence in the Pacific Islands region is not limited to Washington. In March 2013, two Pacific Island envoys to the United Kingdom talked of growing Chinese influence in an era of major-power competition in the Pacific Islands region. Solo Mara, the Fiji High Commissioner to the United Kingdom, said in an address on 6 March that Pacific Island countries 'have for years been warned by metropolitan neighbours of China's "questionable security intent" in the region' and that China had filled a 'vacuum' left when the US and the UK withdrew and which Australia did not adequately fill.<sup>2</sup> Winnie Kiap, the Papua New Guinea High

Commissioner to the United Kingdom, said in an address on 19 March that the Pacific Islands region was 'witnessing increased competition by major powers seeking strategic influence in the Asia-Pacific' and that Papua New Guinea was 'beginning to like China.'<sup>3</sup>

This Analysis will argue that viewing China's growing role in the Pacific from the perspective of geo-strategic competition is not only inappropriate, it is counter-productive. There is little strong evidence that China is doing much more than supporting its commercial interests and pursuing South-South cooperation in the region. Even if China's intentions go beyond these interests, its ability to seriously challenge the role of longstanding powers in the region such as Australia and the United States is limited. Placing China's activities into a geo-strategic paradigm risks obscuring the bigger and potentially more transformative impacts – both positive and negative – of its commercial and aid activities in the region. The region's established powers need to pursue a more sophisticated understanding of the real drivers of China's recent activism in the Pacific Islands in order to avoid counter-productive policy and assist Pacific Island countries to maximise the potential economic and development gains.

### Geo-strategic competition?

At the Pacific Islands Forum Post-Forum Dialogue in Rarotonga in September 2012, Secretary of State Hillary Clinton announced a new aid contribution of more than US\$32 million for economic development programs in the region. Clinton said the Pacific Islands region was strategically and economically vital and noted the security partnerships the US

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Coastguard had with nine Pacific Island nations. While her speech was less explicit in its concern about China's role in the Pacific than her 2011 statement, Clinton made plain America's intention to have an enduring role in the region:

We too, of course, are a Pacific nation. With that long history that many of you know so well, 70 years ago Americans made extraordinary sacrifices on many of the islands represented here. And we have since then underwritten the security that has made it possible for the people of this region to trade and travel freely. We have consistently protected the Pacific sea-lanes through which a great deal of the world's commerce passes. And now we look to the Pacific nations in a spirit of partnership for your leadership on some of the most urgent and complex issues of our times such as climate change. Our countries are bound by shared interest, and more importantly, shared values, a shared history, and shared goals for our future. The United States is already invested in the Pacific. Indeed, we are increasing our investments and we will be here with you for the long haul. Here in the Pacific, and indeed across the world, the United States seeks a model of partnership rooted in our common values, but which delivers practical benefits and helps you create stronger economies and societies.<sup>4</sup>

It is not the first time since the end of World War II that the Pacific Islands region has been seen as a theatre for geo-strategic competition. In the 1980s it briefly attracted the interest of the Soviet Union and Libya as part of Cold War strategic power plays. With that exception, however, the region has largely been

ignored by the world's great powers. In the 1990s and first part of the 2000s, the region was mostly inwardly focused, concentrating on development challenges and a number of domestic security crises, including the 1989-1998 Bougainville conflict, the 2000 and 2006 coups in Fiji, the breakdown of law and order in Solomon Islands from 1999, and riots in Solomon Islands and Tonga in 2006.

Clinton's statements and growing US engagement raise the question of whether the region's relative exclusion from great-power politics is about to change. Washington has become more cautious in public statements about the role of China in the Pacific Islands since Clinton's 2011 statement. Clinton herself even noted in Rarotonga in 2012 that the Pacific was 'big enough for all of us', in response to suggestions that increased United States engagement in the region was a hedge against China's growing influence.<sup>5</sup> Clinton's renewed focus on the Pacific Islands was also part of the Obama Administration's so-called 'pivot' or rebalancing to the Asia-Pacific, of which she and her Assistant Secretary of State for East Asian and Pacific Affairs, Kurt Campbell, were key champions. While it remains key to American policy in Asia, there is some question about the future of the pivot now that Clinton and Campbell have left office.

Nevertheless, in private conversations, American, Australian and Japanese diplomats and military officers still allude to their concerns about the growing influence of China in the Pacific Islands, and its potential to challenge American and Australian supremacy and undermine the Western alliance in the region.<sup>6</sup> The Australian Government's first *National Security Strategy (2013)* refers to the

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‘risk of another state seeking to influence Australia or its regional and global partners by economic, political or military pressure’.<sup>7</sup> While the Strategy stops short of naming China as a strategic threat to Australian influence in the region, the implication was clear.

The Australian *Defence White Paper 2013* labels the ‘growing reach and influence of Asian nations (which) opens up a wider range of external players for our neighbours to partner with’ as a ‘challenge’ in the South Pacific and cautions that Australia’s ‘contribution to this region may well be balanced in the future by support and assistance provided by other powers’.<sup>8</sup> The language of the White Paper is generally welcoming of China’s growing influence, and the Australian Government has elsewhere been supportive of China’s contribution to economic development in the region.<sup>9</sup> But it is fairly clear there is still some concern about China as a potential geo-strategic threat, with the reference in the White Paper to Australia seeking to ensure ‘that no major power with hostile intentions establishes bases in our immediate neighbourhood from which it could project force against us.’<sup>10</sup> Again, while it does not name China, this language at best sends a mixed message about Australia’s thinking regarding China’s intentions in the region.

Concerns about China are also reflected in a growing body of academic and think tank literature. Ron Crocombe’s seminal 2007 book, *Asia in the Pacific Islands: replacing the West* argues there is a new strategic paradigm evolving in the region and Asian powers are taking ‘ever more important roles’ in it.<sup>11</sup> Crocombe suggested Pacific Island countries could shift allegiances from the Western

Alliance to Northeast Asia or ASEAN, and claimed that Island states were part of a wider Asia-Pacific network that included military institutions.<sup>12</sup> Joanne Wallis has suggested that the United States could engage with China in a ‘concert of powers’ in the South Pacific in ways that would benefit broader Asia-Pacific stability and security.<sup>13</sup> Craig Hooper and David M. Slayton, writing in the *Proceedings of the US Naval Institute*, suggest the Chinese Navy could launch military assets to rescue threatened nationals in the Pacific Islands in the future, thus posing a direct threat to United States interests in the region.<sup>14</sup> The Australian Strategic Policy Institute’s *Our near abroad: Australia and Pacific Islands regionalism* argued the Asian century had given rise to strategic rivalry in the western Pacific.<sup>15</sup> A Pacific Institute for Public Policy discussion paper, *Patriot games: island voices in a sea of contest*, contended that Pacific Island nations were caught in the middle of a new ‘great game’.<sup>16</sup> Finally, Marc Lanteigne’s *Water dragon? Power shifts and soft balancing in the South Pacific* proposes the concept of soft balancing to describe geo-strategic competition in the Pacific Islands.<sup>17</sup>

**The China challenge?**

The Asia-Pacific region is now the most dynamic in the world, with a share of approximately 36 per cent of the world’s total gross domestic product.<sup>18</sup> It is fair to say, however, that this dynamism has not yet really been reflected in the Pacific Islands part of the region. It comprises 22 countries and territories dispersed over an area of 48 million square kilometres and with a total population of over 9 million people, approximately 7 million of

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whom live in Papua New Guinea. All 14 of the independent states of the region are either developing or least developed countries. Average per capita income ranges from US\$2,030 in Kiribati to US\$25,373 in French New Caledonia.<sup>19</sup> Papua New Guinea, Solomon Islands, Fiji and New Caledonia have a range of natural resources, while other island countries depend mainly on tourism, fisheries and remittances. For several countries, high transport costs and the absence of economies of scale limit the returns from agricultural exports. A number of the smaller countries in the region are aid dependent, probably in a permanent sense for some. The region is highly diverse in environmental, economic and cultural terms, but has developed a common sense of shared identity.

China's interests in the Pacific Islands prior to 2008 were driven largely by its competition with Taiwan for diplomatic recognition. Taiwan is recognised by six states in the region and competed actively for the shifting loyalty of various Pacific Island states in a period of rampant chequebook diplomacy. That era ended when Taiwanese President Ma Ying-jeou proposed a diplomatic truce in 2008. This saw both Taiwan and China promise they would no longer seek to persuade states that already recognised the other to switch their recognition. Since that time, China's increasing presence in the Pacific has been characterised by expanding trade, investment and aid ties with the region, driven by a diverse range of Chinese economic actors.

For its part, China has been careful to say it is not in the Pacific Islands to compete with anyone. Chinese Vice Minister for Foreign Affairs Cui Tiankai told journalists at the

Pacific Islands Forum in Rarotonga in 2012 that:

We are here in this region not to seek any particular influence, still less dominance. We are here to work with the island countries to achieve sustainable development because both China and the Pacific Island countries belong to the ranks of developing countries. China's assistance to other developing countries is in the framework of south-south cooperation so our origin, our policy approach and our practice are very different from those of the traditional donor countries. We are ready to exchange views, to compare respective practice and where possible and feasible, we're also open to work with them for the benefit of the recipient countries, particularly the island countries here in this region. We are here to be a good partner with the island countries; we are not here to compete with anybody.<sup>20</sup>

As with Clinton's remarks in Rarotonga, the Vice Minister's remarks were intended to take the heat out of perceptions of competition between the United States and China. As is the case for many countries with interests in developing countries, the real drivers of Chinese commercial and aid activities in the Pacific Islands do not always reflect the altruism that Minister Cui describes. Moreover, as with the United States, the official Chinese government position is not necessarily reflected by statements made by representatives of the military. One Chinese military officer claimed in early 2013, for example, that the United States would be forced out of the Pacific by a rising China.<sup>21</sup>

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Mixed messages like this do not provide much reassurance about Chinese ambitions in the Pacific Islands and encourage conjecture about China's geo-strategic goals in the region. But while it is true to say that China's ambitions could change over time, conjecture around these ambitions needs to be firmly grounded in an understanding of the political constraints on China's geo-strategic rise. As the Lowy Institute's Linda Jakobson has noted, 'China's new leaders face pressing foreign policy challenges. They must maintain a constructive relationship with the United States, find a way to defuse tensions over sovereignty disputes with Japan and Southeast Asian nations, and manage ties with North Korea.'<sup>22</sup> When managing China's substantial domestic challenges is added to these, it seems unlikely that pursuing geo-strategic positioning in the Pacific Islands would be very high on Beijing's agenda.

Ultimately, one can only focus on what China is actually doing in the region today rather than what it might be doing tomorrow. When looked at from this perspective, the three main elements of China's engagement with the region – trade and investment, aid, and diplomatic and military ties – provide, at best, a weak case for the argument that China has some grand geo-strategic design. But even if China did have some ambitions in this regard, what a review of these three elements also underlines is how far China is from being able to challenge a well-established order dominated by a number of key external powers with whom the countries of the region have long-standing and deep ties.

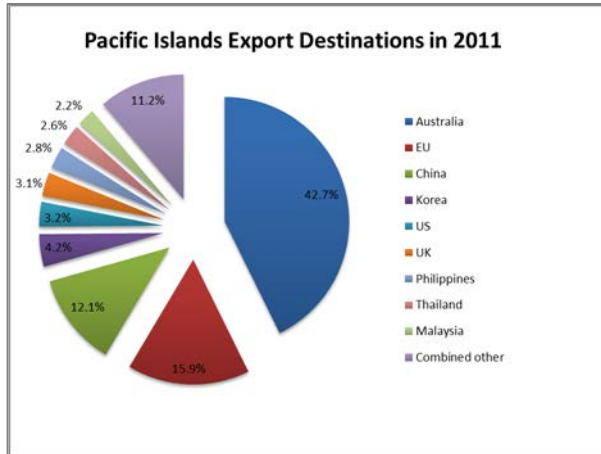
***Trade and investment***

China's trade with the region has increased sevenfold over the last decade. China's trade

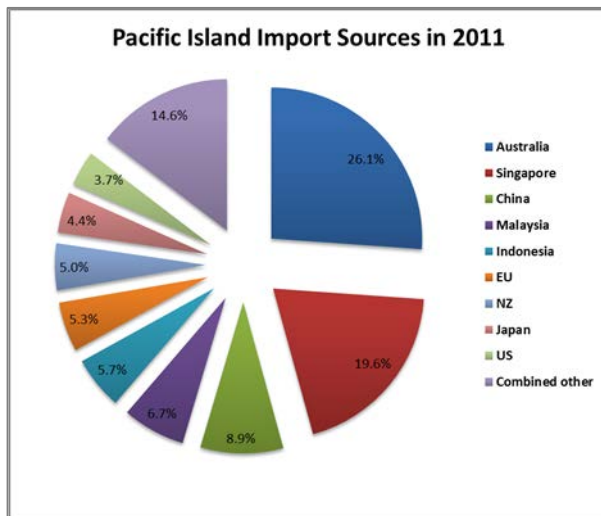
with Papua New Guinea alone increased tenfold between 2001 and 2011 to US\$1.265 billion.<sup>23</sup> Impressive though this is, China's trade with other parts of the world has increased by bigger factors over the same period; for example, China's trade with the African continent increased by a factor of fifteen – from US\$10.6 billion in 2000 to US\$160 billion in 2011.<sup>24</sup> Increased Chinese trade was partly facilitated by China's entry into the World Trade Organization, which marked the start of a policy of much deeper integration of the Chinese economy into the global economy.

But even as China has become the region's second largest bilateral two-way trading partner, it is still a long way behind Australia. According to ANZ Bank statistics, China's exports to the Pacific in 2011 totalled US\$897 million, well behind Australia's US\$2.6 billion and Singapore's US\$1.98 billion. The Pacific's exports to China in 2011 totalled US\$1.17 billion, while the region's exports to Australia in 2011 totalled US\$4.14 billion.<sup>25</sup> The European Union was the second biggest export market for the Pacific, with exports valued at US\$1.54 billion. The growth in exports from Asian countries such as Singapore, China and Malaysia to the Pacific Islands region has been higher than the growth in exports from Australia; illustrating the growing importance of Asia to Pacific Island economies.<sup>26</sup>

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Source: Paul Gruenwald and Daniel Wilson, *Pacific trade – who should be targeted in Emerging Asia?* ANZ Research Article, 16 August 2012.



Source: Paul Gruenwald and Daniel Wilson, *Pacific trade – who should be targeted in Emerging Asia?*

Chinese companies and investors in the Pacific Islands, mostly from provincial centres in China, have expanded beyond their traditional small retail business focus to the domain of infrastructure and mining. The rise of China’s investment in the region has been most visible

in Papua New Guinea, where it has been driven in large part by a desire to secure access to that country’s vast natural resources. For example, China’s Metallurgical Group Corporation has invested in the Ramu Nickel Project in Madang, Papua New Guinea, the largest Chinese investment in the region. Chinese construction companies are growing in number and influence in the region, with a particularly strong presence in Papua New Guinea and also in Fiji. Chinese companies have been responsible for the construction of roads in Central, Gulf, Morobe and Madang provinces and the construction of student dormitories at the University of Goroka in Papua New Guinea.

Chinese companies often work in cooperation with other foreign investors and multinational partners to complete projects in the Pacific Islands.<sup>27</sup> They also compete for and win World Bank and Asian Development Bank tenders in the Pacific Islands, which demand levels of transparency not previously associated with Chinese activities in the region. This aspect of Chinese commercial activities further complicates the perception that Chinese actors in the region are inherently different from Western actors.

Chinese investment also needs to be seen in the context of the activities of other foreign investors. It is difficult to collect reliable data on foreign direct investment in the Pacific Islands, in part due to weaknesses in Pacific Island government collecting agencies and a lack of transparency from some investors. Nevertheless, it is clear that there is growing diversity in an investment scene once dominated by Australia and New Zealand. There are a number of new external players in



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the resource, aviation and communication fields. The Irish telecommunications company, Digicel, has invested in the mobile phone markets of most Pacific Island countries and has driven a revolution in communications in the region.<sup>28</sup> Energy companies from France have investments in Fiji and Papua New Guinea as well as the French Pacific.

In Papua New Guinea, the United States oil and gas giant Exxon Mobil has a US\$19 billion investment in an integrated liquefied natural gas development in the Southern Highlands and Western Provinces that outstrips any other private sector investment in the region. Papua New Guinea hosts a range of other Asian investments, including a South Korean cassava ethanol project and a Japanese cement company. Malaysian companies dominate the logging sector in Papua New Guinea, and also have substantial interests in the palm oil industry, property, retail and media. The tuna processing industry has attracted investment from companies in the Philippines, South Korea, Malaysia, Thailand and China. Japanese company Yazaki is the largest private sector employer in Samoa. The Malaysian company MBf Holdings has investments across a range of industries in Fiji, Solomon Islands, Vanuatu and Tonga as well as Papua New Guinea. The participation of Chinese businesses in a competitive economic environment is not evidence of a threat to the established geo-strategic order.

*Aid*

Samoaan Prime Minister Tuilaepa, an outspoken but generally conservative and pro-United States leader, said in an interview in June 2012 that he considered China a better friend to Pacific countries than the United States. He

accused the United States of showing a lack of interest in the South Pacific and said China filled a gap that Australia and New Zealand could not by being flexible about aid delivery.<sup>29</sup> Most Pacific Island leaders take a similar view on the opportunities offered by China.

China's aid spending in the Pacific Islands tends to be highly visible as it has generally focused on infrastructure such as roads, bridges and government buildings. China's aid is frequently invoked by analysts and Pacific Island politicians and officials as evidence that China has strategic ambitions to replace the West by filling a gap left by the established donors. This interpretation would, however, appear to overestimate the actual quantum and intent of China's development assistance spending in the region.

The Chinese government characterises its spending on development as 'South-South cooperation' rather than traditional official development assistance. 'South-South cooperation' is portrayed as a framework for collaboration among developing countries in various fields including economic, political, social, environmental and technical, and is meant to take the form of a partnership where knowledge and skills are shared to promote development. Such altruistic explanations should not always be accepted at face value. China's aid often ends up supporting China's own economic development through investment in projects that deliver contracts to Chinese companies and employment to Chinese nationals. Pacific Island workers, who tend to be excluded from opportunities to work on infrastructure projects funded by Chinese grant aid, may not see these projects as partnerships. Moreover, as is the case for many other donors

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in the Pacific, Chinese aid is sometimes delivered with an expectation that the recipient country will be grateful enough to support a Chinese candidature in international organisations or the Chinese position on a vote in the United Nations.

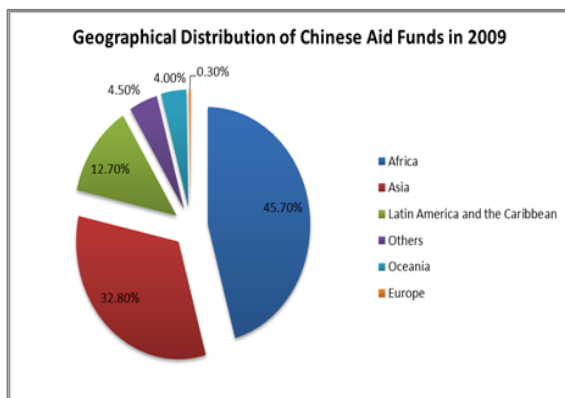
There is no single centralised aid agency in Beijing coordinating China's development assistance. Aid is typically delivered through a combination of grants and interest free loans, both managed by China's Ministry of Commerce (MOFCOM), and concessional loans, extended from China's Export Import (EXIM) Bank. China also provides other forms of development finance, which it does not classify as aid. Scholarships and technical assistance are generally extended through individual line ministries in China. Chinese diplomatic missions in the Pacific Islands have small discretionary aid allocations. Concessional loans dominate the dollar value of China's aid to the Pacific, but grants are responsible for the majority of individual aid projects.

Graeme Smith of the University of Sydney makes a compelling argument that it is 'Chinese infrastructure companies in the Pacific Islands, not aid agencies in Beijing' that are responsible for driving aid.<sup>30</sup> There is in fact very limited knowledge in the central government agencies of Beijing of the Pacific Islands region. Forty per cent of China's global foreign aid expenditure is for construction projects in which China provides some or all of the financing, services, materials and labour.<sup>31</sup> China's aid in the Pacific Islands is increasingly focused on Papua New Guinea, where the greatest number of opportunities for Chinese construction, manufacturing and mining

companies reside. It is these commercially-driven, albeit mostly state-owned, entities which are advocating for the attention of the Chinese Ministry of Commerce and the China Exim Bank in the Pacific Islands to ensure they have the right support to compete for tenders and expand their market share.

It is true, however, that there remain different interpretations of the motivations behind Chinese aid disbursement in the Pacific Islands, including in research conducted by the Lowy Institute on the subject in the past.<sup>32</sup> The opaque nature of the agencies responsible for delivering aid and lack of clarity around Chinese aid activities have complicated these debates and have made it difficult to make accurate estimates of annual aid totals. But as China matures as a donor, it has gradually released more information about the delivery of its aid, while the OECD and other donors have been able to gain a better understanding of Chinese aid policy through discussions with Chinese officials. China's first ever White Paper on Foreign Aid in 2011 published a geographical distribution of its foreign aid funds for 2009, which showed that 4 per cent of its total went to 12 countries in Oceania, compared to 45.7 per cent devoted to Africa, 32.8 per cent to Asia and 12.7 per cent to the Caribbean.<sup>33</sup> In April 2013 the Chinese government announced for the first time ever an annual figure (US\$6.4 billion) for its total global aid expenditure to more than 100 countries.<sup>34</sup>

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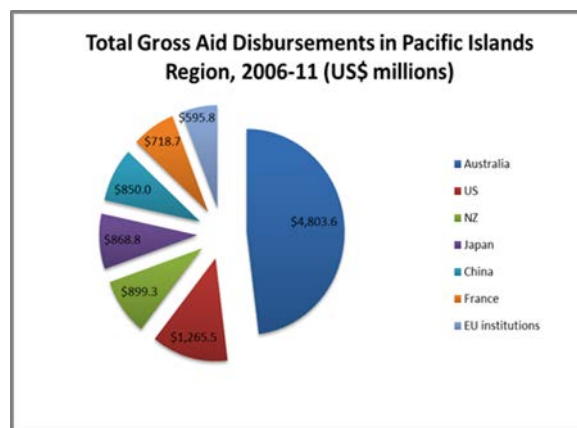


Source: China's Information Office of the State Council, *China's foreign aid*, 2011.

According to published and forthcoming research conducted by the Lowy Institute's Philippa Brant, China disbursed approximately US\$850 million in bilateral aid to the eight Pacific Island countries which recognise the People's Republic of China between 2006 and 2011.<sup>35</sup> Brant's research was based on a comprehensive, detailed survey of Pacific Island budgets and government reports, information from China's Ministry of Commerce, and interviews with Pacific Island and Chinese government officials. She argues that the complex and various methods of disbursement of China's aid in Pacific Islands make it difficult to extract accurate annual expenditure figures per country and a five-year total is more likely to be an accurate representation of Chinese expenditure on aid.

Using a five-year total to compare donors shows that even with its impressive rise in profile as an aid giver in the region, China is very far from challenging Australia's overwhelmingly dominant position. As reflected in the graph below, Australia is by far the lead donor in the region, disbursing US\$4.8

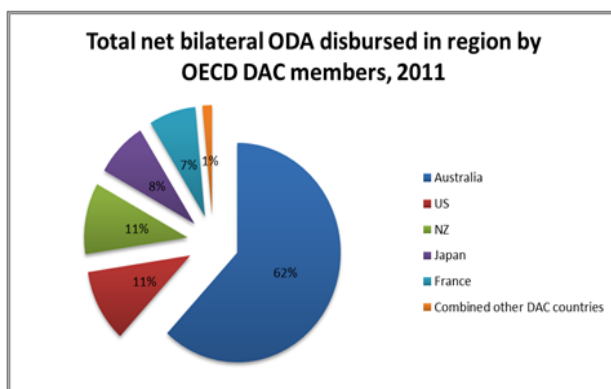
billion over five years, followed by the United States (US\$1.27 billion), New Zealand (US\$899.3 million), Japan (US\$868.8 million), China (US\$850 million), France (US\$718.7 million) and European Union institutions (US\$595.8 million).<sup>36</sup>



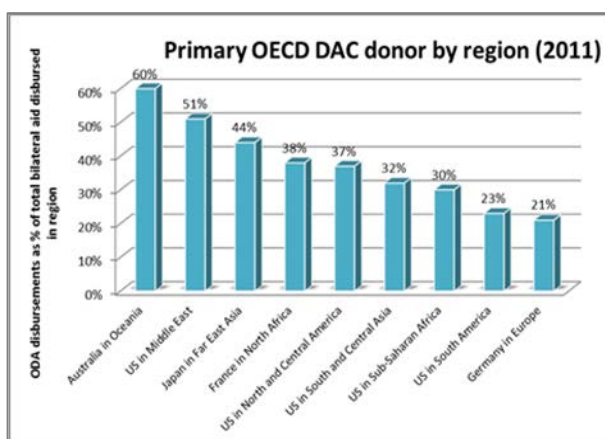
Source: OECD Creditor Reporting System, Dr Philippa Brant.

In fact nothing illustrates Australian predominance in the Pacific Islands better than its aid commitment to the region. In the 2012-13 financial year Australia committed A\$1.19 billion to the Pacific Islands, A\$829.5 million of which is being spent in Melanesia alone.<sup>37</sup> In 2011, the last year for which comparable statistics for other OECD donors are available, Australia's net disbursements totalled US\$1.209 billion, which respectively constituted 62 per cent and 55 per cent of the bilateral and the total aid received by the region.<sup>38</sup> There is no other region in the world where a donor dominates to the extent that Australia does in the Pacific. The next highest 'market' dominance is in the Middle East, where US aid constitutes 51 per cent of the total bilateral overseas development assistance (ODA) received by the region.<sup>39</sup>

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Source: OECD Development Assistance Committee, Development aid at a glance: statistics by region – Oceania.



Source: OECD Creditor Reporting System

***Diplomatic and military ties***

China maintains diplomatic missions in most of the countries which recognise it in the region. Chinese diplomats, like diplomats from many nations, leverage Chinese contributions to development in the region to shore up support with Pacific Island governments for China’s international positions. But in the competitive vote-buying environment that exists in the Pacific Islands, there is no evidence yet to

suggest that Pacific Islands are being particularly swayed by China.

China has not yet sought to project hard power into the Pacific Islands region. Two Chinese naval vessels (the training vessel Zhenghe and the frigate, Mian Yang) paid a goodwill visit to the region in 2010, stopping in Tonga, Vanuatu, and Papua New Guinea before heading to Australia and New Zealand. While this may signal longer-term military interests in the region, rumours about China setting up military bases in island states have not come to fruition. Senior Chinese military officers have paid visits to regional counterparts, provided military uniforms, vehicles and other non-lethal equipment and refurbished barracks in Fiji, Papua New Guinea and Tonga. While China has been criticised for supporting the military-led regime in Fiji, the nature of the military support it has made available to Fiji has been no different from that offered to Papua New Guinea and Tonga.

Indeed, once again, China’s diplomatic and military ties in the region lag well behind those of the existing powers. Australia remains the key security partner for many countries in the region and bears much of the security responsibility for the South Pacific, which is identified as one of four key strategic interests in the *Defence White Paper*, launched in May 2013. It commits Australia to implement the Pacific Maritime Security Program (replacing the Pacific Patrol Boat Program) to assist Pacific Island countries manage their exclusive economic zones. The Australian Defence Force maintains a A\$21 million Defence Cooperation Program with Papua New Guinea, comprising training, exercises, technical advice and infrastructure upgrades.<sup>40</sup> In the wider Pacific

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Islands (excepting Fiji), the A\$31 million Australian Defence Cooperation Program assists defence and police forces through the provision of advisers, capability and infrastructure development, and support for participation in exercises.

The United States' principal interests lie in the northern Pacific. The state of Hawaii is headquarters to the United States military presence in the region known collectively as the U.S. Pacific Command. The United States maintains three flag territories, American Samoa, the Commonwealth of the Northern Mariana Islands, and Guam, and has Compacts of Free Association with the Federated States of Micronesia, Palau and the Republic of the Marshall Islands. But despite its enduring official presence, the United States is perceived to have long been a silent partner in the southwest Pacific, and has looked to its close ally Australia to uphold their broadly mutual strategic interests.

New Zealand's influence is strongest in Polynesia and is amplified by its working closely with Australia across the region and in regional fora. In security terms, it provides for the defence of the Cook Islands, Niue and Tokelau. France's territorial interests in New Caledonia, French Polynesia, and Wallis and Futuna give it long-term responsibilities in the region. French defence forces, based in New Caledonia, provide the security guarantee for the French Pacific. France now cooperates actively with Australia and New Zealand on defence, disaster relief and regional maritime surveillance. Japan interacts with the region primarily through its triennial Pacific Island Leaders Meeting (PALM), through its aid

program and through trade and investment. It also consults regularly with Australia.

The stance of Pacific Island states to these established powers often reflects the somewhat fractious attitudes that result from close and long-standing familiarity. Nevertheless, most of the Island states in the region (with the possible exception of Fiji) are not seeking to change the existing order, even if they could, although they are keen to attract new external aid and commercial partners. Their attitude was best summed up by Papua New Guinea Prime Minister Peter O'Neill, in an address to the Lowy Institute on 29 November 2012. He said that Papua New Guinea's paramount strategic and security relationships were with Australia and the United States but that his country would continue to look for economic growth opportunities in Asia, as well as in Australia.<sup>41</sup>

**Economic not geo-strategic competition**

It could be argued that while viewing China's growing presence in the Pacific Islands through a paradigm of geo-strategic competition may not be entirely accurate, it is prudent given the uncertainty surrounding China's future trajectory. The problem is that relying on a geo-strategic paradigm obscures a better understanding of both the benefits and drawbacks of China's current economic and commercially-led aid activities in the region, and perhaps even obstructs the management of these activities. In that regard, in analysing the changing dynamics of the Pacific Islands region, it is important to be clear about the difference between normal economic competition and competition for strategic influence derived from diplomatic, defence and aid links.

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The real competition in the Pacific Islands region is economic, even if China, with its 'South-South cooperation' approach to development assistance and with the influence of Chinese commercial interests on its decisions about aid expenditure, often blurs the distinction between economic and development activities. The last five to ten years have seen an increase in international interest in the resources of the Pacific Islands to meet global demand. Private sector competition for those resources has intensified. Papua New Guinea hosts a range of investment partners, who compete for the country's abundant and valuable resources. Competition over Pacific Island fisheries is fierce, and, despite the efforts of the various agencies established to control the sector, it is difficult for Pacific Island countries to realise the full value of this valuable resource. The Pacific Islands Forum Fisheries Agency estimates the dollar value of the fisheries catch from the Pacific Islands region (including national and international waters) at approximately US\$5 billion (in 2010).<sup>42</sup> There are also prospects, as yet unrealised, for deep-sea mining across the region, which is likely to provoke competition.

The proximity of the Pacific Islands to resource-hungry East Asia will be very advantageous for the region over the long term. Already, this rise in demand for the resources of Melanesia in particular has seen regional annual GDP growth rates over the last decade that are higher than the global average. China's own experience in lifting millions of people out of poverty can serve as inspiration to Pacific Island countries in ways that the region's established powers cannot. But it would be a mistake to think, as some Pacific Island governments do, that any and all foreign

interest, including that of China, in the Island states should be welcomed simply because they contribute to the public purse.

China's loans to various Pacific Island countries have created debt burdens. For example, the IMF has assessed Tonga at being at high risk of debt distress due to two loans it has from China's EXIM bank. The loans, for the reconstruction of the capital, Nuku'alofa, and for roads, account for 61 per cent of Tonga's external debt, which in turn amounts to about 41 per cent of GDP, putting the external debt well above the present value of the debt-to-export distress threshold over the medium term.<sup>43</sup>

The commercial interests of foreign logging and mining companies have in some cases imposed lasting damage on the environments, and therefore the livelihoods, of communities in Melanesia. Moves by foreign firms, including Chinese-owned entities, into rural business sectors have caused some consternation in the islands. The Vanuatu government has discussed imposing restrictions on foreign investment to stop Chinese businesses dominating its retail sector.<sup>44</sup>

Large and small companies from China or other nations which favour employment of their nationals over locals are failing to meet local community expectations of benefits from investment. Resentment against Chinese-owned businesses was a factor behind riots in Nuku'alofa in Tonga and Honiara in Solomon Islands in 2006 and in Papua New Guinea in 2009. Frustrations about exclusion from job opportunities could resurface and be expressed in violent outbursts in almost any of the Pacific Islands.

**BIG ENOUGH FOR ALL OF US****Managing the future**

Australia, the United States and other traditional powers in the region should be seeking to engage and cooperate with China on its commercial and development activities. The region faces massive development challenges, and with its sizeable resources and experience in lifting millions of people out of poverty, China can make a significant contribution to addressing them. But as a relatively recent and still inexperienced donor and investor in the region, China would benefit from the experience of countries such as Australia. The challenge therefore will be to build the appropriate framework through which this can occur.

This is easier said than done. China has been reluctant to cooperate with other donors in the past. Australia established the Cairns Compact on Strengthening Development Co-operation at the 2009 Pacific Islands Forum in Cairns. The Compact was designed to facilitate cooperation amongst the region's donors and development partners but China declined to join. Wang Yongqiu, the senior Chinese delegate in Cairns, explained China's reluctance to participate in the Compact in a media interview:

'We have different approaches and practices from Western developed countries. We feel it is unnecessary to accept this multilateral co-ordination mechanism, but we need time to study it. China is open and transparent in providing aid.'<sup>45</sup>

Australia and New Zealand continued to press for China to participate in the Cairns Compact, to no avail. At the Pacific Islands Forum Post-Forum Dialogue in Auckland in 2011, Chinese

Vice Minister for Foreign Affairs Cui Tiankai said 'there was a difference between the aid China gave as a developing nation out of friendship and that of developed countries such as New Zealand, and Australia (which are extended) under commitments'.<sup>46</sup>

There are a number of possible reasons why China was unwilling to participate. It probably did not want its records on aid to the Pacific subjected to the rigours of transparency required by the Compact. Nor did it necessarily want to abide by rules it had no hand in negotiating. It may have also believed that its mechanisms of delivering aid were simply too different to fit into a framework set up to suit the region's established donors. Australia is right to insist that China needs to be more transparent about its aid activities in the Pacific. But ultimately it is also in the interest of established donors to bring China into regional arrangements such as the Cairns Compact and this probably means showing more flexibility and understanding of China's position as a relatively new aid giver. Otherwise, it will be difficult to move beyond the somewhat circular discussion between governments about the true intention of Chinese aid. This discussion, often played out in the public arena, only fuels mistrust between China and other donors and prevents cooperation on aid projects that may actually help to break down suspicion. It is in this context in particular that viewing Chinese activities in the Pacific Islands from a starting point of geo-strategic competition is counter-productive.

The private sector has demonstrated in the Pacific Islands that cooperation between organisations with different nationalities, philosophies and modus operandi can work in

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partnership to achieve common objectives. Chinese companies already work in partnership with Australian, French and local companies to deliver projects in the Pacific.

The Cook Islands and New Zealand have also proved that aid cooperation with China is possible. In a world first, the Cook Islands instigated trilateral cooperation on a NZ\$60 million project in 2012 to improve water quality in Rarotonga. That said, this initiative came about for a number of reasons that are not easily replicated by others. China had offered the Cook Islands a NZ\$32 million concessional loan for the project years earlier. The Cook Islands, which has a special relationship with New Zealand, proposed to involve New Zealand as a means of improving the effectiveness of the project. New Zealand, which also has a very positive relationship with China (it is the first developed country to have signed a free trade agreement with China), contributed NZ\$15 million towards the cost of the project and the Cook Islands government also contributed.<sup>47</sup> Secretary of State Hillary Clinton praised the initiative as a model the United States could follow.<sup>48</sup>

The Australian Government has made some positive strides in broadening and deepening its relationship with China. In April 2013, it agreed a Strategic Partnership with China that comprises an annual Foreign and Strategic Dialogue and an annual Strategic Economic Dialogue. Australia and China could use this dialogue to share views on development priorities in the Pacific Islands. Substantive discussions about the Pacific that focus on tackling serious development challenges in the region collaboratively with Pacific Island states, rather than on persuading China to join

existing Australian initiatives such as the Cairns Compact, would probably be more constructive for the Island countries. It should serve to build trust and could help to assuage any Chinese suspicions of external manipulation.

The new Australia-China Development Cooperation Memorandum of Understanding, also signed in April 2013, is meant to enable the two countries to cooperate on aid initiatives including regional health issues and water resource management.<sup>49</sup> Cooperation with China in the aid sector is difficult and this MOU represents a very valuable start to building a new relationship in the region, based on a higher degree of trust between Australia and China.

The inaugural South Pacific Defence Ministers' Meeting, held on 2 May 2013, which included participation from Australia, New Zealand, Papua New Guinea, Tonga, France and Chile, agreed it was important to build the awareness of the region's traditional and new partners around the region's unique security challenges. The meeting suggested certain new states could be invited to observe existing regional military activities and exercises, and declared humanitarian assistance, disaster relief and maritime surveillance as particularly important in this regard.<sup>50</sup>

Encouraging wider cooperation on disaster response preparedness exercises would be a constructive and non-politicised means of breaking down barriers between Pacific Island countries and its established and newer partners, and help Pacific Islanders to become more resilient. Natural disasters are crises that befall almost all Pacific Island countries on a regular basis, so there are many opportunities



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to put coordinated planning into practice. These exercises can be organised bilaterally and regionally, and if initiated by Pacific Island countries or regional bodies, China is more likely to be attracted to participating.

Australia, New Zealand and France already have in FRANZ a useful mechanism that assists Pacific Island countries in disaster response, but there is scope for more partners to assist. China has offered cash grants and in-kind donations to Pacific Island governments following past natural disasters. As there are now a large number of Chinese engineering firms based in the Pacific, China's role in disaster response could involve in-kind assistance provided by these firms to repair infrastructure. Building effective models of cooperation in this field would help all partners act as responsible stakeholders which are responsive to the priorities of Pacific Island countries. They would also lessen the chances of misinterpreting the motivations of external actors in the region.

### Conclusion

The fact that China seems to have permeated both the regional consciousness and international thinking about the Pacific Islands is probably a reflection of wider concerns about the rise of China rather than the reality of its current presence in the region. China is a very long way from approaching Australia's dominance of the aid, trade and strategic domains in the Pacific Islands region or displacing the United States as the dominant military power from the north. If China's aims in the region are to be described in terms of geo-strategic competition, then on the available

evidence, China is not a particularly committed competitor.

Hillary Clinton was right when she said the Pacific was 'big enough for all of us'. However, this concept needs to be extended beyond the security narrative in which it was cast. Australia and the United States should cooperate with China in areas that support Pacific Island economic and development priorities rather than building any new security or diplomatic infrastructure designed to compete with China. This will help to maximise the benefits of China's new role in the region, while helping to minimise the negative consequences that do flow from some of China's commercial and development activities in the Pacific Islands.

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