

# POLICY BRIEF

**LOWY INSTITUTE**  
FOR INTERNATIONAL POLICY

JULY 2009

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## CHINA: STUMBLING THROUGH THE PACIFIC

### WHAT IS THE PROBLEM?

*China lacks a coherent strategy for its aid program in the Pacific – beyond checking and reversing diplomatic recognition of Taiwan – and tends to pursue short-term objectives. China pledges aid in an erratic manner, funds projects without regard to recurring costs, and the secrecy surrounding its program obstructs development outcomes, and breeds suspicion. This short-termism has likely led China to miscalculate by over-engaging the dictatorship in Fiji. This approach is a legacy of its long-running battle with Taiwan.*

### WHAT SHOULD BE DONE?

*China offers significant potential advantages to the Pacific. It should seize the opportunity presented by the diplomatic truce ushered in by the election of President Ma to refocus its Pacific aid program – \$US 206 million in pledged grants and loans in 2008 – towards longer-term development goals that also better serve Chinese national interests.*

*Traditional donors should explore innovative ways of engaging China. Pacific states should put pressure on China to allow greater use of local labour, increase grant to loan ratios and assess recurring costs before projects are built.*

*This Policy Brief reports confirmed Chinese aid pledges to the Pacific for 2008 in an effort to boost coordination and better understand China's aid program.*

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The views expressed in this paper are entirely the author's own and not those of the Lowy Institute for International Policy.

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**Introduction<sup>1</sup>**

This Policy Brief updates two previous publications detailing Chinese aid to the Pacific over the period 2005-2007.<sup>2</sup> This report covers the developing members of the Pacific Islands Forum that recognise China (China does not give official aid to countries that recognise Taiwan). These countries include: the Cook Islands, the Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu.

The Policy Brief reports the scale of China's aid to the region in 2008 and examines the short-term attitude to aid that has dominated China's recent approach. It concludes with an assessment of the outlook for China's engagement with the Pacific and suggested recommendations.

**China's aid program: 2008**

China continues to regard the details of its aid program as a state secret and publishes no annual reports. Previously,<sup>3</sup> due to a lack of official information, it was impossible to confirm several Chinese aid pledges reported in the Pacific media and on Pacific government websites.

For the 2008 period, extensive cooperation with numerous officials across the region – on the condition of anonymity – has allowed for the most accurate assessment of Chinese aid pledges to the Pacific to date, although the figures could still be enhanced.<sup>4</sup>

Due to the improved quality of data it was possible for the first time to disaggregate

Chinese grants from soft loans. In 2008, China's pledged grant aid to the Pacific was \$US 53 million with an additional \$US 153 million pledged in soft loans, making a total of \$US 206 million for 2008. A full list of pledged Chinese aid projects in the Pacific for 2008 by country is set out in Annexure I.

In relation to the soft loans, it is important to note that only the interest subsidy (and debt forgiveness) component can properly be counted as aid. The terms of these concessional loans appeared to be the same as in previous years: a two per cent interest rate over 20 years with a five-year grace period, during which only the interest component must be repaid.

In past reports Chinese aid (grants and soft loans combined) was estimated to have been \$US 33 million in 2005, \$US 78 million in 2006 and \$US 293 million in 2007. As noted in those reports the figures for 2007 were somewhat distorted by a large \$US 150 million soft loan to the interim regime in Fiji and a \$US 58 million soft loan to Tonga, both of which are still being dispersed in 2009 and so distorted the yearly figure of pledged aid. Instead, an annual estimate of Chinese aid was offered at between \$US 100-150 million.

Given that figures for 2008 still fail to value most in-kind aid or grass roots aid administered by the Chinese embassies, as well as the fact that comprehensive lists were not available for Fiji or PNG, total Chinese aid in 2008 was probably closer to the \$US 100 million figure.<sup>5</sup>

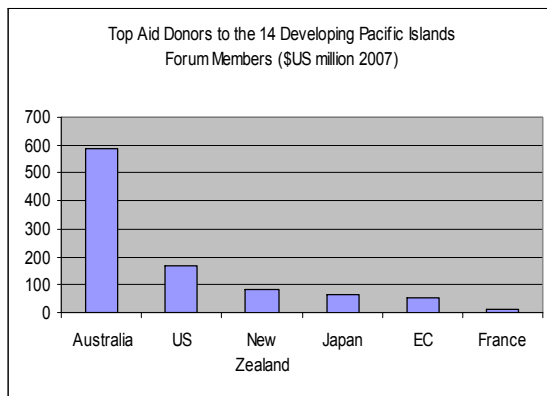
A comparison with other donors (Figure 1) suggests China is pledging aid to the region at a similar level to other significant donors like

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New Zealand, Japan and the European Community, but does not come close to rivalling the significance of Australia as a donor.

Figure 1



Source: OECD

Some patterns have begun to emerge regarding China's approach to loans versus grants. Two officials confirmed that it is common for China to give grants in either \$Y 10 million or \$Y 20 million amounts and this is also supported by figures reported across the region. One official commented:

'These sorts of agreements are normally signed during high level visits from and to Beijing. The funds are included in a pool of funds which the PRC draws on when they receive requests from the....government. The fund is also used for items like medical practitioners and...coaches.'

Soft loans tend to be given for specific projects worth more than \$Y 20 million<sup>6</sup>, although, sometimes unrelated projects are tacked on to these. For example, in the Cook Islands, a loan of \$NZ 13.5 million (\$US 9.6 million) was

agreed in 2007 to build facilities for the South Pacific Mini Games and to cover operational expenses associated with the games, but \$NZ 1.6 million (\$US 1.1 million) was set aside to fund construction of a new education administration building.

**Playing the short-game**

China is often portrayed as pursuing a well-thought out, long-term strategy to extend its influence in the Pacific.<sup>7</sup> There is no doubt its aid program and diplomatic engagement in the region have increased in recent years in an effort to reverse diplomatic recognition of Taiwan.<sup>8</sup> However, there is little evidence it has a comprehensive grand strategy guiding its approach beyond its tussle with Taiwan.

Instead, the evidence suggests that one consequence of this diplomatic battle is that China tends to pursue short-term opportunism that often undercuts its longer-term interests as well as those of the region.

However, since President Ma assumed office in May 2008, there has been a steady warming of relations between China and Taiwan including the publication of a Taiwanese aid white paper<sup>9</sup> rejecting the old approach to dollar diplomacy. During this period there has not been a single change in the diplomatic balance – with Taiwan maintaining its remaining 23 diplomatic allies.

This is despite several Central American states actively positioning to switch from recognising Taiwan to recognising China.<sup>10</sup> The fact not a single one of these states has made the change – in the case of El Salvador the winning

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presidential candidate made it an election promise – suggests a deliberate strategy by China to delay or stop them as part of an effort to keep the wider warming in China-Taiwan relations on track.<sup>11</sup>

In the Pacific the truce also appears to be holding, although the big test will come in April 2010 when Solomon Islands – the jewel in Taiwan’s Pacific crown – holds elections. The truce offers China the opportunity to refocus its aid program towards longer-term Pacific development goals that also better serve China’s national interests.

The legacy of short-termism that the China-Taiwan rivalry has left can be seen through the unpredictability of pledged aid, the projects it funds with that aid, the secrecy with which it approaches aid and the response to the coup in Fiji. These are explored below.

*Unpredictable aid*

With a growing data series on China’s aid program in the region, it is possible to observe the unpredictability of Chinese aid. Pledges often take multiple years to be dispersed (as is common with other donors) but also often vary wildly between years. In Micronesia, for example – where particularly good figures are available – China pledged \$US 15.8 million in 2007 but just \$US 4.5 million in new funding in 2008 or just 28 per cent of the aid pledged the previous year.

This drop in aid could reflect waning Chinese interest following the warming in China-Taiwan relations and consequent reduced incentives to compete diplomatically, the loss of key personnel in Micronesia who dealt with Chinese officials, or the lack of agitation by

Micronesian officials for Chinese assistance. Whatever the actual reason, it suggests Chinese aid is irregular.

The Cook Islands offers another useful illustration. Figures obtained on economic and technical cooperation grants pledged by China since 2001 reveal how amounts vary between years – \$Y10 million was pledged in 2001, 2002 and 2006, but \$Y 20 million in 2004, 2005, 2006 and 2008. The figures not only fluctuate between years, but seemingly also take no account of inflationary changes since 2001. In addition, of the seven pledges made, only two were actually utilised.

*Poorly designed aid*

The projects China funds also point to short-termism. China tends to focus the bulk of its aid on infrastructure projects. The Pacific is in critical need of good infrastructure; however, the criticisms leveled at China’s infrastructure projects tend to focus on sustainability, debt burdening and lack of flow-on benefits.

Regarding sustainability, China tends to build major infrastructure projects without any consideration of ongoing operating or maintenance costs. Thus, Samoa now has a \$US 12.9 million swimming complex that one official quipped would be beyond the ability of even New Zealand to maintain.

Elsewhere in the Pacific, the Cook Islands – population 21,000 – has borrowed \$US 9.6 million for facilities related to the South Pacific Mini Games.

The associated issue of debt burdening is also problematic. The Cook Islands Chamber of Commerce called for the government to

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reconsider the large loan. The Chamber's President was quoted as saying:

'We call on the Cook Islands government to take a really deep breath and step back from the brink of mortgaging our future in this way. It took our country over a decade to extricate ourselves from the Sheraton debacle at enormous cost and this new loan could be even more disastrous for the long term well-being of the Cook Islands.'<sup>12</sup>

When the Cook Islands Deputy Prime Minister Sir Terepai Maoate was asked by ABC Radio whether the Cook Islands were going to be able to pay the loan back he said: 'We hope New Zealand will be at our aid to assist us with this'.<sup>13</sup> Chinese officials also appear concerned about open discussion of the suitability of their aid: when debate about the loans heated up in the Cook Islands, government officials confirmed reports that China was unhappy about the unfavourable media coverage.<sup>14</sup>

In Tonga, concern was expressed over the difficulty of repaying the loans.<sup>15</sup> Tonga's GDP is estimated to be \$US 259 million (current prices) in 2009<sup>16</sup> while the soft loan China pledged in 2007 was \$US 57.8 million (\$Y 440 million) or approximately 22 per cent of its GDP.

In Fiji, the ousted Prime Minister Laisenia Qarase criticised the interim government's excessive borrowing from China saying: 'Borrowing is good as long as there is a balance but if they keep borrowing at this rate then control would be lost'.<sup>17</sup> Another former prime minister, Sitiveni Rabuka, joined him:

'The Kings Road from Korovou towards Ra and the sports complex are only two examples [of Chinese projects] that we know to have not ended well....Will our President agree with our nation being betrothed to another nation just because they have been able to buy us?'<sup>18</sup>

One official speculated that one difficulty China might still be coming to terms with was just how small the Pacific Island countries are, and that one major loan has the potential to seriously undermine the fiscal situation of many regional governments. In China's defence, it was also noted that it has, to date, never insisted on repayment of a soft loan where that was manifestly not possible. There is even an emerging sense that some Pacific governments are taking on these large loans with the expectation that China will invariably forgive them and so capacity to repay them need not be considered seriously.

The lack of flow-on benefits to the local economy is another criticism. As one report in Tonga put it:

'The real beneficiaries are actually the Chinese, because they have secured an agreement to provide all materials, labour, engineering and all necessary supplies for the construction. China will also receive the funds so no tangible financial exchange takes place. All funds will remain in China and all Tonga will get is the end product in the form of bricks and mortar.'<sup>19</sup>

One of the conditions of Chinese soft loans is that 'Chinese enterprises should be selected as contractor/exporter' and 'Equipments [sic], materials, technology or services needed for the

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project should be procured from China ahead of other countries. In principle, no less than 50% of the procurements shall come from China.”<sup>20</sup>

The tied nature of these loans reflects the commercial nature of China’s aid program – it is administered by the Ministry of Commerce, not an aid agency – and China’s status as a developing country keen to limit the cost of its aid program. It nevertheless reduces the development impact of its aid and is a source of some criticism in recipient countries, where local suppliers, contractors and labourers are locked out of work opportunities.

***Secretive aid***

Further evidence of China’s short-term approach is the secrecy surrounding its aid giving. China not only refuses to publish figures on its aid program in any region, it also refuses to be transparent with the recipients of its aid. This tends to generate suspicion from other donors as well as recipients, undermining China’s long-term interests.

For donors and recipients it is important for all donors to coordinate their aid efforts, because most Pacific countries suffer from major capacity constraints, and to prevent duplication of aid. To measure Chinese participation in coordination efforts an anonymous survey was conducted with stakeholders across the region, the results of which are set out in the table below.

	FSM	PNG	Samoa	Tonga	Vanuatu
In your experience, do Chinese officials attend donor coordination meetings...?					
All the time				X	
Most of the time					
Occasionally		X			X
Hardly ever	X				
Never			X		
In your experience, what is the average level of attendance by all participants at donor coordination meetings?					
Senior official			X	X	
Mid-level official	X	X			
Junior official					X
In your experience, what is the level of Chinese participation at donor coordination meetings?					
Senior official					
Mid-level official		X			X
Junior official	X			X	
No official present			X		
Who generally calls donor coordination meetings, the host government or a donor?					
Host government			X	X	X*
Donors	X	X			

NB: In the Cook Islands and Niue, New Zealand is the only resident donor. In Fiji, the Ministry of Finance stopped arranging donor coordination meetings after the coup and other donors do not regularly hold them. \*In Vanuatu, donors often lead coordination on specific sectoral issues.

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The results indicate that in only one country (Tonga) China regularly attends donor coordination meetings. This suggests China is inadvertently increasing the burden on local government officials and failing to adequately participate in attempts to coordinate development efforts.

Beyond on-the-ground engagement, AusAID has made significant efforts to engage China. AusAID engages in working-level discussions with the Department of Aid to Foreign Countries within the Ministry of Commerce on donor issues, including its approach to aid effectiveness and staff training. In February 2009, AusAID hosted a training workshop for 17 mid-level officials from the Ministry of Commerce to expose Chinese aid officers to Australian best practice systems and approaches, and it was subsequently agreed to make this an annual event. On 5 February 2008, China's Foreign Minister, Yang Jiechi, travelled to Canberra for the inaugural ministerial strategic dialogue that reached agreement to 'strengthen regional cooperation to mutually promote regional peace and stability'.<sup>21</sup>

There are signs that the failure by China to be transparent with recipients of its aid is also leading to suspicion. In correspondence for this report one Pacific official wrote:

'The evidence on the buildings is anecdotal but the comparative value of the buildings Chinese construction v local it appears that the projected cost for construction may be overstated against the real cost. The money is not received just the building. There is no transparency in materials used or the associated cost of these materials. So too

with the labour component. There is also the issue of loan currency and the possible effect of currency fluctuations on the loan....It is a complex and somewhat murky affair that does not afford the country a lot of control over the end product....'

Another complaint raised in the Tongan press suggested frustration with China's approach:

'One of the stumbling blocks with regards to the construction is that the construction company is also the architect. Normally, the architect is a different entity who would come along to inspect the construction, not only to make sure that the construction is in accordance with the plan but to make sure that the materials used are what was stated in the plan and that the concrete and the steel used is in accordance with the plan.'<sup>22</sup>

Whatever the merits of these suspicions, they highlight the unintended consequences China's secretive approach has on its own interests and reputation in the Pacific. On the positive side, one official noted that having the design and construction of projects packaged as one allowed them to be built speedily and provided a single point of responsibility.

*Miscalculating in Fiji?*

The most striking example of China's short-term approach to the region has been its support for the interim regime in Fiji. It is highly probable the regime lacks popular support.<sup>23</sup> The coup leader 'Frank' Bainimarama has failed to implement his reform agenda and shown no efforts to change the ethnic balance in the security forces or



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improve transparency. And if past coups in Fiji are any indicator of likely future outcomes, Bainimarama's leadership is not a guaranteed long-term proposition. Despite this, China has ploughed ahead with an ambitious engagement strategy with the interim regime.

Before the December 2006 coup, China and Fiji were engaged in discussions on a large \$US 150 million soft loan. However, it was only after the coup that China concluded the deal. China followed this loan up with a pledge in 2008 of \$US 83.1 million (\$F 132.45 million) in the form of a soft loan to partly finance the Nadarivatu hydropower project. It has also maintained an active visit diplomacy with Fiji, including the 'stop-over' by Vice President Xi Jinping in February 2009 on his way to Mexico.<sup>24</sup>

Initially, a plausible explanation for this active engagement was that if China failed to engage a regime starved of Western funds it would inevitably turn to Taiwan for assistance. But with the election of President Ma in March 2008, and the subsequent diplomatic truce that emerged, this no longer explained the extent of China's engagement which has gone well beyond what normal relationship management would require. Furthermore, China had significant diplomatic leverage it could apply against Taiwan in Central America, where a string of states were poised to switch from recognising Taiwan to recognising China.<sup>25</sup>

The extent of China's engagement with the interim regime suggests a miscalculation on China's behalf. There is no doubt it has been successful in currying favour with the interim regime but it would seem a risky way to position itself in the longer term in Fiji.

**Outlook and Conclusion**

China's recently expanded engagement in the Pacific offers significant opportunities. The latest IMF statistics show China's total trade with the developing members of the Pacific Islands Forum grew 32 per cent from 2006 to 2007. Xinhua reported China-Pacific trade might reach \$US 2 billion in 2009 and \$US 3 billion in 2010.<sup>26</sup>

China's engagement expands the pool of available donor funds and China has shown itself to be a supplier of potentially valuable low-cost infrastructure. Finally, China's own successful experience with development also offers valuable lessons for the Pacific.

The long-running struggle with Taiwan has left China without a coherent approach to its engagement in the region, but the recent diplomatic truce offers the opportunity for it to refocus on longer-term development outcomes that will better serve China's reputation and interests in the region.

There are tentative signs China might already be considering reform. In 2008, there were far fewer promises of flashy infrastructure projects than there were in previous years – although many of those pledged in previous years are currently being built. In some countries limited use of local labour was also allowed. It also recently took up observer status at the OECD Development Assistance Committee.

The truce poses the risk that China might reduce its engagement in the region, but this is unlikely over the medium to long term because, as a rising power, China sees its interests in global terms – that includes engagement in the

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Pacific – and the outlook for the truce remains uncertain.

It is unclear what concessions China expects from Taiwan as part of the warming relationship. In the lead up to the next presidential election in Taiwan, Ma would appear to be in a strong negotiating position with China to keep the truce intact, as China would be wary of arousing nationalist sentiment in Taiwan. But after this it could unravel if China's expectations exceed Ma's capacity to deliver.

For this reason, diplomatic recognition will continue to be China's primary motivation for engaging in the Pacific. Other interests remain largely unchanged since the last report including secondary resources interests – in those few Pacific states that have them.<sup>27</sup>

One new motivator, however, may be a rising concern over the need to protect people of Chinese heritage caught up in anti-Chinese riots. The deadly May 2009 anti-Chinese riots across PNG (following similar episodes in Solomon Islands and Tonga in 2006) served as a reminder of the deep anti-Chinese sentiment in the region and the need for Chinese officials on the ground to engage in more active preventative measures with local counterparts.

A related concern for China is the integration and behaviour of new Chinese migrants in the Pacific. Following the riots in Honiara in 2006, Lu Weixiong, the Director of the Overseas Chinese Affairs of Guangdong, and a colleague flew to Solomon Islands for a private visit and produced an 'internal but influential report'.<sup>28</sup> They found the Chinese migrants – 80 per cent of whom originated from Guangdong Province

– of 'low quality' and that 'their "outrageous" (lipu) behaviour...turned the local people's respect to the Chinese into resentment'. They went on to state:

'China is a "responsible power". However, if the world does not have a positive image of the overseas Chinese, we will not be able to win the respect and trust of the international society and the people in the world, whatever we say about 'the harmonious world'.<sup>29</sup>

The report highlights the enormous image problems China faces in the region. However, it suggests the interest China has in re-focusing its aid program towards longer-term development goals and in cooperating with local counterparts on a broader range of transnational issues, such as illegal logging and immigration.<sup>30</sup>

**Recommendations**

China should use the opportunity presented by the diplomatic truce to refocus its Pacific aid program towards longer-term development goals that also better serve Chinese national interests. It should explore options to ensure aid flows are more regular. It should start including recurring and maintenance costs as integral parts of its aid projects, look to boost opportunities for local workers and look at a more sustainable approach to debt burdening particularly in micro states. It should improve the transparency of its aid.

In the wake of the diplomatic truce other donors should explore innovative ways of

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further engaging both China and Taiwan in aid discussions.

Efforts to strengthen on-the-ground coordination should be pursued, including via top-down support through the Australia-China ministerial strategic dialogue. Anecdotal reports suggest China is more likely to participate in donor coordination meetings if they are called by the host state, and wherever possible donors should work to ensure this becomes the norm.

Although a medium-term prospect, efforts to include China in the recently formed Pacific Region Infrastructure Facility (PRIF)<sup>31</sup> should be actively pursued, given China's preference for building infrastructure projects and expertise in this area. The facility's demand-driven philosophy also aligns closely with China's own approach. The PRIF could be expanded, for example, to allow Chinese firms to win infrastructure contracts, provided they utilise Pacific workers as well. They should also offer China the opportunity to take on projects scoped by PRIF members. China has already shown itself amenable to this type of coordination, having taken on projects in Fiji like the Nadarivatu hydro project scoped by the World Bank.

AusAID should look at other best practice examples of engagement with China, such as the joint DFID-World Bank Partnership that seeks to engage China in development projects in Africa, and which required only a minor initial investment from DFID, and that could be applied in the Pacific.

Pacific states should look to develop a more structured and united approach to their engagement with China, by putting more

pressure on China to allow local workers opportunities to work on Chinese infrastructure projects, by increasing the grant to loan ratio of Chinese aid, by insisting provision be made for recurring costs and by requesting detailed budgets for aid projects. All aid – including that from China – should be transparently reported in government budget statements. Publically tracking aid in this way would provide the added incentive for all donors to deliver on their pledges. All of these initiatives would also help improve China's image problem in the region.

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NOTES

<sup>1</sup> The author would like to thank, especially, Mary Fifita, for her excellent research work for this project over several months.

<sup>2</sup> Fergus Hanson, *The dragon looks south*, Lowy Institute Analysis, June 2008 and Fergus Hanson, *The dragon in the Pacific: more opportunity than threat*, Lowy Institute Policy Brief, June 2008.

<sup>3</sup> Fergus Hanson, *The dragon looks south*, and Fergus Hanson, *The dragon in the Pacific*.

<sup>4</sup> The figures, again, only deal with pledged - rather than dispersed - aid, they often fail to capture the small grass roots aid programs administered directly by the Chinese embassies on the ground and values for several in-kind aid projects (provision of scholarships, seconded personnel such as doctors and training of local officials) were unavailable in many cases. In Fiji – under dictatorship since 2006 – official figures were impossible to obtain and it was only possible to confirm one new project during the period under review.

<sup>5</sup> Considering the likely grant element of these and previously issued soft loans as well as the time taken for them to be dispersed

<sup>6</sup> China Eximbank, Chinese Government concessional loan: <http://english.eximbank.gov.cn/business/government.jsp>.

<sup>7</sup> See examples cited in Jian Yang, China in the South Pacific: hegemon on the horizon?, *The Pacific Review*, 22 (2) May 2009, pp 140-141 and *China's foreign policy and "soft power" in South America, Asia, and Africa*. A study prepared for the Committee on Foreign Relations, United States Senate by the Congressional Research Service, Library of Congress, April 2008, p 40.

<sup>8</sup> Six of Taiwan's 23 diplomatic allies are in the Pacific: Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands and Tuvalu.

<sup>9</sup> *Progressive partnerships and sustainable development: White Paper on foreign aid policy*,

Ministry of Foreign Affairs Republic of China (Taiwan), May 2009.

<sup>10</sup> Jenny Hsu, Nicaragua-Taiwan ties still strong: ambassador, *Taipei Times*, 25 October 2008.

<sup>11</sup> Sorry, the offer's closed, *The Economist*, 25 June 2009.

<sup>12</sup> Cook Islands commerce chamber warns against China loan, *Asia Pulse*, 24 March 2009.

<sup>13</sup> ABC Radio Australia, Pacific Beat program, 23 March 2009:

<http://www.radioaustralia.net.au/pacbeat/stories/200903/s2523363.htm>.

<sup>14</sup> Chinese said unhappy with "negative comments" on Cook Islands loan, *BBC*, 1 May 2008.

<sup>15</sup> Article warns China the real beneficiary of Tonga loan, *BBC* (reporting *Tonga Review*), 21 April 2008; Chinese loan seen as "huge risk" given Tonga's economic base, *BBC* (reporting *Tonga Review*) 17 April 2008.

<sup>16</sup> Department of Foreign Affairs and Trade, *Tonga. Fact sheet*: <http://www.dfat.gov.au/geo/fs/tnga.pdf>.

<sup>17</sup> Qarase knocks regime loans, *Fiji Times*, 6 April 2008

<sup>18</sup> Rabuka: Learn from past experiences, *Fiji Times*, 12 February 2008.

<sup>19</sup> Article warns China the real beneficiary of Tonga loan, *BBC* (reporting *Tonga Review*), 21 April 2008.

<sup>20</sup> China Eximbank, Chinese Government concessional loan.

<sup>21</sup> China, Australia hold first strategic dialogue, Chinese Embassy Media Release, 6 February 2008: <http://au.china-embassy.org/eng/sgfyrth/t406171.htm>

<sup>22</sup> Work on rebuilding Tongan capital to start after coronation, *BBC* (reporting *Matangi Tonga*), 7 May 2008.

<sup>23</sup> A poll, reported in February 2009, found just 27 per cent of respondents saw Bainimarama as the preferred Prime Minister. Laisenia Qarase only just beat him with 31 per cent. Qarase still ahead as preferred PM, *Fiji Times*, 20 February 2009. The

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soundness of the results, given the intimidating environment in Fiji, is questionable, but they still suggest the low level of popular support for the regime.

<sup>24</sup> Chinese vice president meets Fiji leaders on cooperative partnership, *Xinhua*, 9 February 2009.

<sup>25</sup> Jenny Hsu, Nicaragua-Taiwan ties still strong: ambassador, *Taipei Times*, 25 October 2008.

<sup>26</sup> Regional trade figures reported in Annexure II. China to step up trade with Pacific Island countries, *Xinhua*, 7 September 2008:

[http://en.chinagate.cn/internationalcoop/2008-09/07/content\\_16407117.htm](http://en.chinagate.cn/internationalcoop/2008-09/07/content_16407117.htm).

<sup>27</sup> Fergus Hanson, *The dragon looks south*, and Fergus Hanson, *The dragon in the Pacific*.

<sup>28</sup> JianYang, China in the South Pacific, p 149.

<sup>29</sup> Lu and Zheng cited in Yang, China in the South Pacific, p 149.

<sup>30</sup> Powles examines China's responsibility in the area of transnational crime and suggests the region put a 'united regional view' to China on the issue, Michael Powles, China's rise: a Pacific view, *Asia NZ Online*, March 2009.

<sup>31</sup> AusAID, *Pacific Region Infrastructure Facility*: [http://www.aisaid.gov.au/hottopics/pdf/prif\\_flyer.pdf](http://www.aisaid.gov.au/hottopics/pdf/prif_flyer.pdf).

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**ANNEXURE I: Chinese aid in the Pacific 2008**

Where figures were not supplied in US dollars they have been converted using a year average exchange rate for 2008 (with the original currency amount reported in brackets). In several cases, supplied lists of Chinese aid included projects reported in previous years.<sup>32</sup> These were removed from the below list.

**Cook Islands**

- \$US 2.9 million (\$Y 20 million) 'possible/probable' economic and technical cooperation grant.
- \$US 1.1 million (\$NZ 1.6 million) soft loan to construct a new education administration building (part of a \$US 9.6 million (\$NZ 13.5 million) soft loan the bulk of which was for Mini-Games facilities and Mini-Games operational costs reported in 2007 aid figures).
- Sports coaches to train athletes for the Mini-Games.

**FSM**

- \$US 0.03 million for a language instructor at the College of Micronesia, FSM.
- \$US 0.32 million for four full scholarships to study at Chinese universities.
- \$US 0.16 million for human resource development.
- \$US 0.014 million for the provision of computers to the FSM Congress.
- \$US 3.5 million discretionary grant to assist government reforms in Chuuk.
- \$US 0.5 million discretionary grant to assist government reforms in Kosrae.

**Fiji<sup>33</sup>**

- \$US 83.1 million (\$F 132.45 million) soft loan to part finance the Nadarivatu hydropower project.
- \$US 3.1 million (\$F 5 million) for a new hospital at Navua (assumed to be a grant but possibly part of the soft loan announced in 2007).
- \$US 3.8 million (\$F 6 million) for the Naqali bridge project (assumed to be a grant but possibly part of the soft loan announced in 2007).
- Technical assistance to the Fiji justice sector.
- MoU signed on the production of ethanol from cassava.

**Niue**

- \$US 0.2 million (\$NZ 0.3 million) for asbestos reroofing.

**PNG**

- \$US 1.6 million grant for undisclosed projects.
- \$US 2.9 million grant.
- \$US 3.7 million (\$K 10 million) grant.
- \$US 12 million loan: repayments extended for 10 years.
- Agreement for a Chinese medical team comprising eight doctors, an interpreter and a chef to work at the Port Moresby General Hospital.
- 30 scholarships to study in China.
- \$US 0.13 million (\$K 0.35 million) for the Taurama hospital.
- \$US 1.9 million (\$K 5 million) for a technical co-operation agreement.

**Samoa**

- \$US 2.9 million (\$Y 20 million) MoU signed 21 January (grant).

**POLICY BRIEF**

**CHINA: STUMBLING THROUGH THE PACIFIC**

- \$US 1.4 million (\$Y 10 million) MoU signed 7 September (grant).
- \$US 2.9 million (\$Y 20 million) MoU signed 17 September (grant).<sup>34</sup>
- \$US 40 million soft loan for infrastructure development for a parliamentary office complex, the ministry of justice and courts complex, a new government complex to house all utilities and four government ministries and a convention centre. (This is additional to a \$US 20 million soft loan agreed in 2007 (previously reported as \$US 21 million)).
- Grassroots aid program administered directly by the Chinese Embassy in Samoa.
- Five scholarships to study in China.

**Tonga** (For financial year 2008/2009)

- \$US 3.6 million (\$T 7 million) grant for the Tongatapu Trunk Road.
- \$US 2.9 million (\$Y 20 million) grant for the construction of Mu'a Super Health Centre, Vaini Health Centre and the Prince Ngu Health Centre.
- \$US 0.7 million (\$Y 5 million) grant for a piggery-biogas-vegetable demonstration farm.
- \$US 0.5 million for eight trucks for the Tongan Defence Force (an aircraft was also promised).
- \$US 0.7 million (\$Y 5 million) grant for the Ha'apai high school maintenance project.
- \$US 12.1 million (\$T 23.6 million) grant awarded as part of sale of Tonga Satellite
- 15 scholarships to study in China.
- 40 officials and technicians sent to China for training.

**Vanuatu**

- \$US 28.8 million (\$Y 200 million) soft loan for an e-government project.
- \$US 1.4 million (\$Y 10 million) grant for economic and technical co-operation.

Country	Total grants (\$US million)	Total loans (\$US million)	Total Loan + Grants (\$US million)
Cook Islands	2.9	1.1	4
FSM	4.5	-	4.5
Fiji	6.9	83.1	90
Niue	0.2	-	0.2
PNG	10.23	-	10.23
Samoa	6.7	40	46.7
Tonga	20.5	-	20.5
Vanuatu	1.4	28.8	30.2
<b>TOTAL</b>	<b>53.33</b>	<b>153</b>	<b>206.33</b>

<sup>32</sup> Fergus Hanson, *The dragon looks south*, Lowy Institute Analysis, June 2008.

<sup>33</sup> The only figure for Fiji able to be confirmed was the \$US 83.1 million soft loan. The other projects were based on media reports.

<sup>34</sup> The \$Y 50 million for three MoUs were used to fund the construction of two new primary schools, the renovation of another primary school, the renovation of the women's and youth centre, sports coaches for archery and weightlifting and the provision of H1N1 virus testing/surveillance equipment. (NB: \$US 0.5 million of this funding for the primary school in A'ele was included in 2007 figures so is deducted from totals shown).

**POLICY BRIEF**

**CHINA: STUMBLING THROUGH THE PACIFIC**

**ANNEXURE II: China-Pacific Trade**

Total Trade 2007 (Imports + Exports) (\$US millions)

	World	Australia	Japan	China	NZ	US	EU
FIJI	2570.45	439.23	85.02	72.39	323.21	206.09	179.35
NAURU	77.46	22.73	0.55	0.04	0.12	8.7	2.84
KIRIBATI	101.93	27.12	7.94	16.69	4.58	2.8	2.5
PALAU		0.94	29.59	0.74	0.46	0	
PNG	10385.8	3545.18	871.66	659.96	151.64	176.63	667.59
SAMOA	508.66	105.61	23.92	12.98	79.27	23.92	6.22
SOLOMON IS.	660.5	90.63	34.07	176.97	16.13	7.6	32
TONGA	179.14	12.29	7.34	8.09	46.07	21.25	4.95
TUVALU	58.38	3.66	17.78	6.7	2.1	0	1.26
VANUATU	590.61	67.65	36.72	23.4	36.77	27.29	17.08
<b>TOTAL</b>	<b>15132.93</b>	<b>4315.04</b>	<b>1114.59</b>	<b>977.96</b>	<b>660.35</b>	<b>474.28</b>	<b>913.79</b>

Source: IMF Direction of Trade Statistics CD-ROM



## ABOUT THE AUTHOR

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

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

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