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China's 'Charm Offensive' in the Pacific and Australia's Regional Order

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Abstract

In recent years, a perception has emerged among many policymakers and commentators that the deepening of the People's Republic of China engagement in the Pacific Islands Region, predominantly through its expanding foreign aid program, threatens to undermine the existing regional order, in which Australia is dominant. In this article, it is argued that China's apparent 'charm offensive' in the Pacific is mainly driven by commercial, not political, imperatives and is far more fragmented and incoherent than is often assumed. Hence, its (real) political effects hinge, not on any Chinese strategic designs for regional domination, or even a more limited resource security agenda, but on the intent and capacity of Pacific governments to harness deepening aid, investment and trade relations with China towards their own foreign and domestic policy objectives, which include limiting Australian interference in the internal governance processes of Pacific states. This argument is demonstrated by the case of Fiji after the December 2006 military coup.

Introduction

In recent years, a perception has emerged among many observers of the Pacific Islands Region,¹ sections of the media, and interested governments, that rising aid volumes from the People's Republic of China (PRC), along with increasing investment and trade flows, are changing the region's strategic balance. To be sure, Chinese aid to the Pacific is not new. It was historically motivated mainly by diplomatic competition with Taiwan, a competition that has largely abated since 2008. But Chinese interest in the Pacific has not waned. In November 2013, for example, PRC Vice-Premier Wang Yang announced a new 'package' to

¹ When using the terms 'Pacific Island Region' and 'Pacific Island Countries', as well as the abbreviated terms, 'the region' and 'the Pacific', I am referring to the 14 independent member-states of the Pacific Islands Forum, excluding Australia and New Zealand, but including the currently suspended Fiji. These are: Fiji, Papua New Guinea, Solomon Islands, Vanuatu, Samoa, Kiribati, Tonga, Tuvalu, Cook Islands, Nauru, Niue, Palau, the Federated States of Micronesia and the Marshall Islands.

PICs worth around US\$2 billion, half of which in concessional loans (Hayward-Jones and Brant 2013). This is in addition to the commitment made in 2006 by Premier Wen Jiabao to the Pacific Islands Forum (PIF) to provide US\$492 million in concessional finance to the region (Dornan 2013a), as well as investments made by Chinese state-owned enterprises (SOEs) and other businesses, which are growing fast albeit from a relatively low base.

Though the Australian aid program remains much larger, China's 'charm offensive' in the Pacific is causing concern among traditional donors, like Australia and New Zealand. This is mainly because of the perception that China's engagement with the region is part of a broader intensification of geopolitical competition with the US, manifesting on the American side in the Obama Administration's 'pivot' or 'rebalancing' to the Asia-Pacific (Firth 2013a). Indeed, US Secretary of State, Hillary Clinton, told the Foreign Relations Committee of the US Senate in 2011 that the US was already competing with China in this region (in Hayward-Jones 2013: 3), though she later attempted to downplay this statement, claiming the Pacific was 'big enough for all of us' (in Hayward-Jones 2013: 4). Suspicion of simmering great-power competition appeared to be confirmed when Clinton became the first-ever US Secretary of State to attend the 2012 PIF Leaders Meeting, apparently in response to the PRC also sending a large delegation (Firth 2013a).

For some observers, China is pursuing a potentially aggressive plan to ultimately 'replace the United States as the preeminent power in the Pacific Ocean' (Henderson and Reilly 2003: 95; see also Windybank 2005; Shie 2007; Lintner 2010; Brissenden 2013). Others do not see great-power military confrontation as a realistic prospect in the Pacific, but nonetheless view Chinese engagement as underpinned by a broader strategy, either one of 'soft balancing' American and Australian interests (Lanteigne 2012; Yang 2009; PIPP 2012; Wallis 2012), or a resource-driven attempt to dominate the global supply of raw materials for Chinese industrial needs. The latter was one of Hillary Clinton's explicit concerns: 'Take Papua New Guinea: huge energy find...ExxonMobil 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 under us' (in Brant 2012a: 167). Likewise, New Zealand's Foreign Minister Murray McCully has argued: 'China is simply doing in our neighbourhood what it is doing in every neighbourhood around the globe: undertaking a level of engagement designed to secure access to resources on a scale that will meet its future needs' (in Brant 2012a: 167). Chinese aid is often portrayed as unfairly advancing the interests of China's massive energy and mining SOEs by paying off unscrupulous politicians and public servants (Naím 2007).

Of additional concern to some, particularly in Australia, has been the perception that Chinese aid also undermines traditional donors' efforts to improve governance in PICs (Hanson 2009). Chinese aid does not usually come with governance 'conditionalities' and is therefore often popular with Pacific governments. Since the end of the Cold War Australian aid has been used to promote policy and governance reforms within PICs, purportedly to drive economic development (Fry 1994). After the 2002 Bali bombings, this emphasis on improving governance has often been underpinned by the objective of alleviating state fragility, rationalised as also necessary to reduce the potential risk to Australia from a range of so-called 'non-traditional' security (NTS) problems, such as terrorism, organised crime, infectious disease and environmental degradation, supposedly permitted by weak governance (Hameiri 2008; Firth 2013b: 362). Chinese aid is thus portrayed as irresponsible and exploitative, allowing Pacific governments to avoid necessary reforms (Sullivan and Renz 2012).

Against this backdrop, I make two interrelated arguments. First, that rather than part of a strategic 'master-plan', Chinese aid is primarily driven by commercial considerations from below, and is far more fragmented and incoherent than often assumed (Breslin 2013). China's Pacific engagement is driven and implemented mostly by various state-owned, private and public-private companies, which have links mainly with subnational governments, and which lobby governments in the Pacific and in China for aid-funded infrastructure and construction projects. Therefore, my second argument is that the political effects of Chinese aid in the region are produced mostly by the capacity and intent of Pacific governments to harness this otherwise fragmented aid towards supporting their own domestic and foreign political objectives. It is actually Pacific leaders' agency that creates a perception of China's rising political influence in the Pacific, not anything inherent in Chinese aid. This strategy has been occasionally successful in extracting concessions from Australia and other Western governments because of the perception, unbacked by evidence, that China's rise will likely lead to a new Cold War. This argument is demonstrated by the case of Fiji after the December 2006 military coup.

I begin by describing the regional order constructed and sustained through the Australian aid program. I then examine the nature of Chinese aid, as well as investment and trade, in the Pacific, to demonstrate that Chinese engagement is commercially driven and fragmented. In the third section, I look at post-coup Fiji to show the significance of domestic agency in producing an impression of rising Chinese challenge to existing powers in the Pacific.

Australian Aid and Australia's Regional Governance 'Frontier'

To understand the significance of Chinese aid and other forms of economic engagement such as investment and trade for PICs' domestic and international politics we must first comprehend the role of Australian aid in constructing an Australia-dominated regional order. Australian aid to the Pacific Islands is very significant in a region of aid-dependent states, accounting for more than half the total aid spending in the Pacific by Organisation of Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) members. On 2012-13 figures, the Pacific received over A\$1.1 billion of the overall A\$5.1 billion Australian official development assistance (ODA; see AusAID 2013: 335). But with a total population of about 10 million people, per capita disbursements of Australian aid in the Pacific are much higher than anywhere else, at about A\$122 annually. By comparison, Australia's largest bilateral ODA recipient, Indonesia, gets only about A\$2 per capita.

Crucially, Australian aid to the Pacific is driven primarily by security concerns, principally a concern with the externalities of state fragility. Veteran Pacific observer, Stewart Firth (2013b: 362) argues that although the term 'arc of instability' is no longer used in official discourse, this view continues to inform Australian policy towards the region. The correlation between Australian aid volumes and security considerations appears strong. In 2002, OECD aid to the Pacific had reached a low of US\$1.3 billion. Since, however, it has shot up 60 percent, with Australia responsible for 65 percent of the increase (Pryke 2013a). This spike is a direct consequence of the Australian aid program's reorientation towards security objectives after the September 11 and Bali terrorist attacks (Hameiri 2008). Almost three-quarters of the growth in Australian aid to the Pacific has gone to Solomon Islands, where Australia has been leading a large-scale statebuilding intervention since 2003, and to regional programs, often under the auspices of the Pacific Plan, also mainly focused on state capacity-building (Pryke 2013a; Hameiri 2009a).

The September 11 and Bali bombings have changed irrevocably the Australian government's perception of the significance of the Pacific for Australian security. The Howard government was influenced by the changing tune in Washington, which emphasised the growing security risk represented by failing states (Dinnen 2004). Countries where governance was poor, it was argued, threatened Australia by permitting the proliferation and potential spill-over of a range of NTS problems, like transnational terrorism and organised crime. Consequently, from 2003 onwards, the Australian government has reconcentrated its aid program in the Pacific and provided additional resources towards improving 'state

effectiveness' (see AusAID 2006). This was seen as a 'win-win' for Australia and Pacific Islanders, in that improved governance would, according to hegemonic development aid theories, improve development *and* security outcomes (Hameiri 2008).

Importantly, this agenda has focused on improving the quality of *domestic* governance, but the Australian government has no intention of governing Pacific countries directly. The result is the emergence of a contested and uneven Australian regional governance 'frontier' located within Pacific countries (Hameiri 2009b). In Solomon Islands, where the deepest intervention has occurred, Australian consultants and seconded public servants have been inserted into the bureaucracy, either in line positions or as advisors, but without challenging the country's formal sovereignty. Elsewhere, though less intrusive, Australian aid has nonetheless been used to promote highly prescriptive governance and policy objectives, relating not only to the old shibboleth of economic liberalisation, but also to transnational security concerns. And while the 2007-2013 Labor governments toned down the overt security rhetoric of the Howard government, their interest in the region was also clearly underpinned by an ongoing concern with state fragility (Rudd 2008: 20). Indeed, the development partnerships signed by Labor maintained a strong emphasis on domestic governance reform as a driver of successful development, representing mostly continuity with past practices (Hawksley 2009). As a result, the Australian aid program has become deeply involved in PICs' domestic politics.

That Australian aid is heavily governance-focused is evident by the high proportion of ODA spent on technical assistance (TA). In the Australian aid program, TA accounts for about 40 percent of total spending, down from approximately 50 percent in the middle of the previous decade, compared with an OECD average of about 20 percent (Keane 2010). Likewise, Australian aid ranked quite poorly in terms of its 'realness' in a large comparative report. Australia was placed 14th of 23 major donors, with 43 percent of the program considered 'substandard' by the report's authors, largely because of the considerable spending on non-recipient-driven TA, which ultimately ended in the pockets of Australian contractors (ActionAid 2011). In the Regional Assistance Mission to Solomon Islands (RAMSI), the Australian government's most expensive effort in the Pacific, more than 75 percent of the total annual budget of A\$200 million was spent on TA (Baser 2007).

This intrusive form of intervention has provided both challenges and opportunities to Pacific political leaders. This is particularly true in Melanesia, where approximately 85 percent of Australia's Pacific aid is spent. Political power in Melanesia generally depends on cultivating local support-bases through the dispensation of patronage, in a highly competitive

electoral environment. In the post-independence decades, this patronage was often available through access to state resources. But PICs are also usually aid-dependent. Eight PICs are among the world's 20 most aid-dependent states. In 2011, Solomon Islands, for example, was the second most aid-dependent country in the world with aid to gross national income (GNI) ratio of 51 percent (Pryke 2013b). This means foreign aid is essential to the reproduction of existing socio-political power relations. It also means that despite the challenges imposed by Australian interventionism, the capacity of local leaders to wholly reject external assistance from Australia is typically heavily circumscribed, though of course variable, subject to the country's aid dependency, the availability of other sources of income, and the effects of aid on leaders' support-bases. For example, it is unlikely that the 2001-2006 Kemakeza government would have become the first in Solomon Islands' history to complete its full term in office without the extraordinary amount of Australian aid buttressed by coercive force that RAMSI brought into the country from 2003. But Kemakeza paid a personal price for allowing in Australian intervention when he was jailed for his conduct during 'the tensions'.

Fiji, which is examined later, is somewhat unique in this respect, since as the region's most developed economy, it has a relatively low aid to GNI ratio of approximately 3 percent, though this has risen 37 percent in the decade from 2000, as the Fijian economy was hit by multiple crises (Pryke 2013b). Fiji is not, however, insulated from Australia's aid-based regional order. Indeed, as the Pacific's main political and economic hub and the home of most regional organisations, obtaining the Fijian government's support has been important to the consolidation of Australia's regulatory regionalism and as a result the Australian government has placed considerable diplomatic pressure on its Fijian counterpart, before and after the coup (see Herr and Bergin 2012). Since Fiji's economy remains largely dependent on trade with and investment from Australia and New Zealand, the Australian government has attempted to use the stick of exclusion from a new regional trade agreement to attain Fiji's cooperation (Morgan 2012). It was also able to leverage aid to pressure other Pacific countries into suspending Fiji from the PIF.

It is this context that shapes Pacific leaders' response to growing Chinese involvement in the Pacific, and Australia's sensitivity to this. The preponderance of Australian aid and its relative intrusiveness render it simultaneously indispensable and problematic for many Pacific governments. Less conditional sources of aid provide greater leverage to Pacific governments, both internally and at the international level. On the other hand, the securitisation of the Australian aid program and its associated emphasis on attaining particular *domestic* governance outcomes without usurping the formal sovereignty of

recipient governments, mean that the Australian government is far more vulnerable to resistance within PICs than the vast material disparities would suggest.

Chinese Aid and the Pacific

In recent years, Chinese aid to the Pacific Islands, along with investment and trade, has grown substantially. Although commentators disagree on the precise intent behind this closer engagement, many nonetheless concur that it reflects China's growing willingness to pursue its interests in the region. In this section, I describe what we know about Chinese aid in general, and in the Pacific specifically, and argue that Chinese aid is driven mainly by commercial imperatives, and is far more fragmented and incoherent than is commonly perceived. Therefore, as the next section will show, its most significant political effects are produced by the actions of recipient countries' leaders.

The Characteristics of China's Foreign Aid

Making authoritative claims on Chinese aid is notoriously difficult. Notable China observer David Shambaugh (2013: 204) argues, 'we know more about China's military budget than its aid budget.' In part, this owes to intentional opacity, which is a common feature of the entire Chinese Party-State, also motivated in this case by a concern within government of a popular backlash if it became known that China, still a developing country, was spending big on overseas development (Grimm et al. 2011: 4). The opacity of Chinese aid also, however, relates to the complexity of the policymaking and implementation apparatus (Shambaugh 2013: 204), described as a 'recipe for chaos' (Brautigam 2009: 116).

Power and authority within the Chinese state are generally quite dispersed. China's late development, the state's increasing marketisation, the delegation of many responsibilities to provincial governments in the post-Mao era, and the 'Going Out' economic strategy of recent years (see Breslin 2007; Gonzalez-Vicente 2011), have all contributed to the emergence of a multilevel governance structure within the Chinese state. The main role of the government in Beijing has become steering and regulating provincial governments, which fiercely compete over investment, resources and trade opportunities (ten Brink 2011). Some of China's national and provincial SOEs have also gained some independence vis-à-vis government, in part because of their growing economic might and in part because operating transnationally has in some cases forced their managers to demonstrate to regulators abroad an arms-length relationship with their government (Gonzalez-Vicente 2011). Contemporary Chinese aid is shaped by these trends.

The most significant official source of information on Chinese foreign aid is a White Paper, *China's Aid Policy*, published in April 2011 by the Information Office of the State Council (GoC 2011). The White Paper identifies the Ministry of Commerce (MOFCOM), specifically the Department of Foreign Aid, as the lead-agency in the Chinese overseas aid program, responsible for managing 90 percent of the aid budget (Grimm et al. 2011: 7). That the aid program is officially housed within MOFCOM is itself indication of the program's strong commercial orientation. The White Paper identifies three categories of aid – grants, interest-free loans and concessional loans – and distinguishes these from non-aid financing packages, although aid is often offered as part of a larger 'package' with non-aid components (Varrall 2013). It claims China's aid disbursements to 2009 totalled US\$39.59 billion. The White Paper does not provide country-specific data but states that about 45 percent of China's aid is disbursed in Africa, while only 4 percent goes to Oceania.

This information has to be taken with a grain of salt, however (Grimm et al. 2011: 4). At the most basic level, China is not an OECD member and therefore its government's definition of aid does not have to meet DAC standards, nor does it have to adhere to DAC's information disclosure principles. Definitional differences and opacity mean data comparisons with other donors are tricky (Shambaugh 2013: 202; Grimm et al. 2011: 4, 7; Brautigam 2009: 165). It is also unlikely that MOFCOM actually controls 90 percent of Chinese aid, since the internal processes of auditing Chinese aid figures involve considerable rancour over whether the Ministry of Finance could even report to MOFCOM other ministries' aid spending (Grimm et al. 2011: 7). Significant aid funds are allegedly concealed within the budgets of several government ministries and state agencies, including the Ministries of Health, Education, Agriculture and Foreign Affairs (Shambaugh 2013: 204). Lancaster (2007: 2) thus argues, 'it does not appear that any one point in the Chinese government controls aid-giving.' On the basis of available data from a variety of primary and secondary sources, Brautigam (2009: 168) estimates that annual Chinese aid to Africa was actually about US\$2.5 billion in 2009, while Brant (2012: 160) estimates overall Chinese foreign aid in 2011 at US\$4.5 billion. This is not an insubstantial amount, but it is still smaller than the Australian aid program.

Indeed, real Chinese aid disbursements are far smaller than the fantastical sums often reported in the international media, which conflate aid with overall Chinese economic relations with a particular country or region (Brautigam 2009: 173). This is because disentangling Chinese aid from investment and trade can be difficult (Brautigam 2009: Ch.

6). Deborah Brautigam (2009: 165), arguably the most authoritative scholar of Chinese aid, claims:

The Chinese aid program is frequently portrayed as enormous and secretive. It is true that China has proposed very large loan packages... but most of what is on offer is not official development assistance, as this is defined by the traditional donors.

Crucially, as already indicated by MOFCOM's centrality within the aid apparatus, Chinese aid is driven mostly by commercial imperatives, not political or geostrategic ones. China has adopted and adapted the Japanese 'request-based' model. In this model, private Chinese companies and SOEs identify economic opportunities abroad and ask, often together with an affiliated provincial government, for these to be financed through the aid program. One of China's 'policy banks', EXIM Bank is then asked to provide the loans. This generally leads to the development of a 'package' that includes grants and concessional loans, which are counted as aid, as well as commercial loans, usually in the form of buyer's and seller's credit to purchase Chinese goods and services, which are not counted as aid. The China Development Bank (CDB) is often involved in underwriting the non-aid component of the package. These aid-and-loan packages are typically announced with great fanfare during an official visit or public event, but actual disbursement depends on the successful negotiation of specific projects between recipient governments and Chinese companies (Brautigam 2009: 177). Grants and concessional loans, which more closely resemble DAC standards, are often deployed to finance the construction, by Chinese companies, of politically friendly projects, such as government buildings, stadiums, roads, bridges and hospitals. According to Brautigam (2009: 160), the Chinese genuinely strive to meet the infrastructure requests of recipient governments, even if these are for projects such as sporting stadiums that other donors consider inappropriate. Projects financed through Chinese aid are generally still profitable for the companies involved, but normally at a relatively low level of 1-2 percent. However, Chinese corporations and government officials see these less profitable projects as springboard towards future economic opportunities in recipient countries (Brautigam 2009: 148). In further demonstration of the commercial orientation of Chinese aid, EXIM Bank expects all loans to be repaid *in full*. And unlike World Bank loans, for example, which are to be repaid within 30-40 years, EXIM loans are typically for 15-20 years (Brautigam 2009: 185).

The commercial imperative driving the Chinese aid program is a result of the marketisation process of the past 30 years, reinforced by the more recent 'Going Out'

strategy, whereby SOEs, subnational governments and large private companies are encouraged and supported by the Chinese government to invest abroad. As mentioned, the marketisation of the Chinese state has created a highly competitive structure at the subnational level, as well as between different national and subnational SOEs. Meanwhile, China's global economic integration has led to the internalisation of the global over-accumulation crisis of the past 40 years within the Chinese domestic economy, which as a result has become intensely competitive with low levels of profitability (Hung 2008). Consequently, provincial governments, SOEs, and even large private companies, which are almost invariably informally linked to provincial governments (ten Brink 2011), have become keen to find new opportunities to profit offshore, beyond the increasingly saturated domestic economy. Aid plays part in this strategy by providing Chinese corporations contracts and by helping to establish connections abroad which would, it is hoped, become more lucrative later. Crucially, Chinese governments usually view this transnational expansion as part of an *internal development strategy*. The most obvious case is that of the impoverished Yunnan Province in southwest China, the key Chinese node in the large-scale Greater Mekong Subregion (GMS) program. The Chinese government sees Yunnan's role in the GMS explicitly as a means of providing economic opportunities to a province otherwise locked out of the coastal development corridor (Su 2012).

Unlike Western aid, Chinese aid is renowned for not being attached to any particular governance or political 'conditionalities' (Brautigam 2009; Hayward-Jones 2013). Aid provided by DAC members has particularly since the end of the Cold War been linked to the adoption by recipients of liberal economic policies and supportive governance institutions. In some cases, bilateral donors have conditioned their aid on the adoption of democracy and human rights standards. By contrast, Chinese officials refrain from commenting on other countries' political regimes or economic policies. They are careful to say China's aid is a form of 'South-South cooperation', which supposedly benefits both sides equally without imposing Chinese interests or ideas on recipients. For this reason, as well as because the Chinese aid program funds construction and infrastructure projects chosen by recipient governments, Chinese aid is often popular with recipients, at least at the elite level, and very visible, relative to Western aid (Hayward-Jones 2013).

The main exception to the dominance of commercial imperatives is related to Chinese efforts to promote the One China policy (see Yang 2011), to which I will return below. But the China-Taiwan rivalry has subsided, at least temporarily, since the election of Taiwanese

President Ma in 2008. In any case, this does not explain more recent aid pledges, which have been available only to countries that recognise the PRC.

In summary, the perceptions, common in the media and in some policy circles, that Chinese aid and loan packages follow a Beijing-driven ‘grand strategy’ are unbacked by available evidence. Ultimately, Chinese aid, whichever way defined, is primarily ‘about generating *business*’, driven by a multitude of companies and government agencies, with a particular focus on large-scale construction and infrastructure projects (Brautigam 2009: 279, original emphasis).

Chinese Foreign Aid to the Pacific

Chinese foreign aid to the Pacific region follows this pattern closely. It is shaped mostly by commercial interests, and is often deployed to promote Chinese investment and trade (Hayward-Jones 2013; Yang 2009, 2011). Ironically, despite the spike in Chinese aid, trade and investment over the past decade, contemporary Chinese engagement in the Pacific is actually *less politically motivated* than before, particularly following the 2008 diplomatic ‘truce’ with Taiwan (see Atkinson 2010: 420). This commercially focused agenda is also more fragmented than is often assumed, with funded projects promoted by a range of companies in various sectors, such as construction and computing. It does not merely exist to promote the interests of big SOEs pursuing large-scale resource-extraction projects (Brant 2012a; Smith 2013). Jenny Hayward-Jones (2013: 10) summarises:

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.

As I shall elaborate, these characteristics do *not* support the view of a Chinese strategy to dominate the Pacific.

China is not a new donor in the Pacific. Earlier Chinese involvement was mainly motivated by diplomatic competition with Taiwan, though other geopolitical considerations were also pertinent (Fry 1981: 459). The rivalry began when the PRC took over Taiwan’s seat at the United Nations Security Council in 1971. The two Chinas’ approach to the Pacific has been derogatively characterised as ‘chequebook diplomacy’ – diplomatic recognition in

return for no-strings-attached aid (Atkinson 2010: 408; Lintner 2010) – though it would be misleading to argue their aid funds have had no positive development outcomes (Crocombe 2007: 255). Pacific governments actively fuelled competition between the two Chinas to maximise their leverage, with at least some governments courting both sides simultaneously. Eventually, this competition reached a stalemate in the early 2000s with the two Chinas facing rapidly diminishing political returns on rising costs. Currently, six Pacific states formally recognise Taiwan and eight, the PRC and Taiwan now has exactly the same number of Pacific allies as it did in the 1980s. This realisation led both governments to attempt keeping costs down. After the election of President Ma in 2008 an agreement was reached, though the Chinese government has never publicly confirmed this, to refrain from using aid to lure away each other’s allies (Atkinson 2010). While this does not necessarily mean the rivalry is dead and buried, the heat appears to have come off it and the bidding war in the Pacific has deescalated.

Therefore, the substantial increase in Chinese aid to the Pacific over the past decade arguably has less to do with this historical competition with Taiwan than it does with the broader trends, surveyed above, driving the growth of Chinese aid worldwide. Indeed, the bulk of Chinese aid in the Pacific is now harnessed towards expanding economic opportunities for Chinese companies within countries that already recognise the PRC, rather than towards winning over Taiwan’s allies.

Even a cursory glance at the available aggregate figures for Chinese aid, trade and investment in the Pacific suggests the thesis of a coming Chinese strategic challenge is problematic. As elsewhere, obtaining accurate data on Chinese aid to the Pacific is quite difficult, as is clearly distinguishing between aid, trade and investment. Philippa Brant has conducted the most comprehensive survey of Chinese aid to the eight Pacific countries that recognise China, collating information from Pacific government budgets and reports, media reports, MOFCOM, as well as from interviews with officials in the Pacific and China. She estimates Chinese aid from 2006 to 2011 totalled US\$850 million – roughly 6 percent of overall aid to the Pacific (Brant 2012a; Hayward-Jones 2013; Pryke 2013a). In the same period, Australia disbursed nearly US\$5 billion in the region (Brant 2013; Hayward-Jones 2013: 11). Notwithstanding the methodological problems associated with comparing Chinese and Western aid, China is clearly far off attaining parity with Australia’s aid program. Even New Zealand gave more aid than China to the Pacific between 2006 and 2011. The US\$1 billion announced in November 2013 will likely improve China’s position relative to other donors, but these funds could take up to a decade to be spent. Because disbursement requires

additional negotiation between Pacific governments and Chinese companies and officials over specific projects, and as many PICs cannot take on any more public debt, the new package is not a game-changer (ABC 2013a; Dornan 2013a; Hayward-Jones 2013).

Along with aid, trade between China and PICs and Chinese investment in the region have also increased substantially. In the decade to 2011, Chinese trade with the Pacific has grown sevenfold, with China becoming the Pacific's second biggest bilateral two-way trading partner, totalling \$US2.067 billion in 2011. While this seems like a remarkable figure, we should remember that Chinese trade with Africa in the same decade grew more than twice as fast, and that the Pacific's two-way trade with Australia is still double the size of its trade with China (Hayward-Jones 2013: 7). Likewise, Chinese investment in the Pacific appears to have grown, though concrete data are hard to obtain. This appears to be part of a broader diversification of foreign investment in the region, beyond the traditional investment sources, Australia and New Zealand (Hayward-Jones 2013: 8-9). Chinese foreign direct investment in PNG, for example, had quadrupled between 2005 and 2010 to \$US323.3 million. While this represents substantial growth, it is still a relatively small figure, compared with Australian investment (Hameiri 2012).

Beyond these headline figures, an investigation of the specifics of Chinese aid clearly shows it is linked to efforts to promote Chinese economic engagement in the Pacific, not to any obvious political or geostrategic objective (Yang 2009). There is scant evidence that the Chinese government is seeking to establish close security ties with Pacific governments, or attempting to project 'hard power' into the region by establishing permanent bases or sending naval ships to regularly patrol Pacific waters. Chinese aid has been used occasionally to provide uniforms, vehicles and other non-lethal equipment to Pacific security forces, as well as to upgrade military and police barracks, but this small component of the overall aid program does not suggest a security orientation (Hayward-Jones 2013: 12; Wesley-Smith 2013: 353). In fact, the PRC's only security installation in the Pacific – a satellite-tracking station in Kiribati – was removed in 1997, when Kiribati switched its allegiance to Taiwan. The Chinese government has also attempted to ease Australian concerns of a challenge to the latter's governance agenda by pledging support to the Pacific Plan and signing a memorandum of understanding with the Australian government in April 2013 to coordinate its aid program in the region (Wesley-Smith 2013: 362; DFAT 2013).

Moreover, the commercial objectives pursued through Chinese aid are far less strategic and more fragmented than some observers claim – 'a bottom-up rather than a top-down process' (Smith 2012; see Breslin 2013). It is often argued, for instance, that China's

growing engagement with the Pacific, much like its engagement with Sub-Saharan Africa, is part of a global resource security strategy, designed to ensure cheap and reliable supplies of important mineral commodities. In this view, aid is an important part of China's resource diplomacy strategy, helping to buy the support of local politicians at the expense of good governance and markets (see Crocombe 2007; Lintner 2010; Naim 2007). This claim is again not supported by evidence (Brant 2012a; Wesley-Smith 2013). Rather than a trailblazer for large mining and energy SOEs expanding Chinese control over the world's mineral resources, aid in the Pacific is mostly driven by 'Chinese infrastructure companies in the Pacific, not aid agencies in Beijing' (Smith 2012).

PNG provides a case in point. As the Pacific Islands' largest economy overall, PNG accounted for an estimated 58 percent of China's aid to the region in 2009 (Hanson and Fifita 2011) – a significant proportion but smaller than PNG's share of the region's population. Unsurprisingly, PNG is also the Pacific's most important investment destination for Chinese companies and China's biggest trading partner. This conjunction has led many, including as mentioned Hillary Clinton, to assume that China is in PNG to get hold of its mostly untapped mineral wealth. *The Australian* newspaper's Rowan Callick (2007) has thus argued that China's engagement in PNG is resource-driven and amounts to 'neo-colonial slavery'. This view is not supported by the facts. To begin with, China's aid to PNG is heavily focused on infrastructure and construction projects, such as student dormitories in the University of Goroka, and is driven by construction companies looking for work (Smith 2012). But even the idea that Chinese *investment* in PNG is focused on mineral resources is problematic. Of course, the availability of vast reserves of mineral resources in PNG is potentially attractive to Chinese SOEs, just as it is to investors from elsewhere. But the headline-grabbing US\$1.4 billion Ramu nickel mine in Madang, developed by the China Metallurgical Corporation, remains the only significant Chinese investment in the mining sector to-date. Meanwhile, investment by small- and medium-size companies in the retail and wholesale sectors accounts for nearly half of the overall Chinese outbound direct investment in PNG. Furthermore, 13 of the 20 biggest Chinese companies registered in PNG in 2012 were actually in the construction sector, 'ranging from subsidiaries of large state-owned companies to loosely affiliated semi-private firms' (Smith 2013: 329). As the PNG example demonstrates, Chinese companies are clearly in the Pacific looking for opportunities and they undoubtedly attempt to harness the aid program towards their commercial objectives (Smith 2013; Hayward-Jones 2013). But it is hard to conclude that Chinese engagement in the Pacific Islands is underpinned by any grand strategic design, or even a more limited resource security agenda.

Post-Coup Fiji and the Politics of China's Rise

That Chinese aid in the Pacific is commercially driven and fragmented does not imply it is not politically significant; likewise China's deepening investment and trade engagement. This should be obvious enough from the scale of the debate over China's rise and its effects in the region (see Wesley-Smith 2013). But the main political effects of Chinese engagement in the Pacific are derived not from its inherent characteristics, nor the agenda set by Chinese policymakers, but from the intent and capacity of Pacific governments to harness it towards their own domestic and international political objectives. Post-coup Fiji provides an instructive example.

Fiji, which gained its independence from Britain in 1970, is the Pacific Islands' most developed economy, with per capita GNI of US\$3,720 in 2011, compared with PNG's US\$1,480 (ADB 2013). Its capital city, Suva, is the hub of Pacific regionalism, including the PIF Secretariat complex and the main campus of the University of the South Pacific. Fiji also, however, has a history of coups: two in 1987, another abortive 'civilian' coup in 2000, and most recently in December 2006, a military coup led by the current interim Prime Minister Voreqe Bainimarama. Bainimarama's coup was justified as necessary to stop the alleged abuses of power and corruption characterising the government led by Laisenia Qarase. It was also justified as a way of dealing with the long-standing inter-communal tensions between indigenous Fijians and the large Indian community. Indigenous Fijians' dissatisfaction with the electoral success of Indian-backed political parties caused constitutional crises, which then led to coups. The 1997 Constitution created an electoral system that enshrined the dominance of indigenous Fijians, specifically the Great Council of Chiefs. Unlike previous coups, Bainimarama's coup was aimed not at reinforcing traditional indigenous authority but purportedly at circumscribing it (Firth and Fraenkel 2007a, 2007b).

As with previous coups, following the 2006 coup the Australian government demanded a swift return to democracy (Firth 2013b: 360). It later imposed 'smart' economic sanctions and travel restrictions on members of the Fijian ruling regime and their families. Bainimarama did not relent, arguing that before democratic elections could be called, corruption had to be eradicated and 'good governance' secured (Larmour 2012). Under Australian and New Zealand pressure, PIF member-states issued an official warning to the Fijian government on 1 January 2009 that it had until 1 May to call an election or be suspended from the Forum. When this did not occur, Fiji was suspended until a return to democracy. Fiji's suspension generated a tit-for-tat diplomatic dispute between the Australian

and Fijian governments, culminating in the expulsion in November 2009 of Australia's High Commissioner to Fiji for allegedly meddling in Fijian domestic politics and the recalling of Fiji's envoy to Canberra (Hayward-Jones 2009a).

The period following the coup saw a marked increase in Chinese aid pledges to Fiji. By some estimates at the time, which would later prove rather exaggerated, Chinese aid grew sevenfold between 2006 and 2007, to US\$160 million (Hanson and Hayward-Jones 2009). Some saw this as proof that the PRC had seized the opportunity provided by the souring of Fiji's relations with traditional allies and stepped into the breach to deepen its influence over one of the Pacific most important states. Beijing, it was argued, was 'propping up the military regime by supplying hundreds of millions of dollars in aid' (Pearlman 2009; also Hanson 2008; BBC 2009; Garnaut 2012; see Yang 2011). Yet, the presumption of causality between this aid increase and a more assertive Chinese Pacific strategy is problematic for at least two reasons. First, the massive growth in pledged Chinese aid to Fiji relates not to the coup, but to Premier Wen Jiabao's aforementioned announcement in 2006 of a new aid and loan package to the entire region (Yang 2011: 307). That 2007 was simultaneously the first year after Bainimarama's coup and a bumper year for pledged Chinese aid to Fiji is mere coincidence. Fiji, with its relatively low levels of public debt by Pacific standards (see Dornan 2013b), was simply one of the few PICs capable of taking on the loans on offer (see Hayward-Jones 2013). And since the Chinese government consistently refrains from attaching political conditions to its aid, the coup was immaterial to its willingness to engage in Fiji. Second, analysis of actual Chinese aid to Fiji also does not support the thesis of a deliberate move to displace traditional allies or use chequebook diplomacy to buy influence. As Yang (2011: 307-8) documents, Chinese aid in 2007 was concentrated in three major projects: an eGovernment Programme, squatter resettlement, and the Nadarivatu Hydro Power Project. The first is a relatively small project of about US\$20 million, which was actually approved before the coup. The second was a large construction project, typical of the kinds of projects Chinese companies seek to promote through the aid program. This project is yet to be implemented at the time of writing because of apparent disagreements over quality and the use of local labour. The hydropower plant, also a large infrastructure development, is in fact a commercial venture, co-funded by the CDB and the Australian ANZ Bank. Even the Lowy Institute's Fergus Hanson, who led the chorus of alarmed reporting on Chinese aid to Fiji in 2007 admitted by 2010 that the hype did not amount to much (Yang 2011: 308; Hanson 2010; Brant 2012b). In September 2012, a new concessional loan of F\$200 million [about US\$114 million at the time] was announced by the Chairman of the Standing Committee of the

National People's Congress, Wu Bangguo, during a visit to Fiji. This loan is again dedicated to infrastructure projects to be delivered by Chinese companies, such as paving the 70km road between Nabouwalu and Dreketi (*China Daily* 2012). This is entirely commensurate with the broader characteristics of Chinese aid discussed earlier.

Closer interrogation thus reveals that it is in fact the Fijian government, including Bainimarama personally, that has sought to create the impression that a rising China is undermining Australian, and Western, influence in the Pacific. In 2010, for example, Bainimarama argued: 'We need to forget about the (Pacific) Forum, about Australia and New Zealand. Let's maintain the trade but forget about the politics... China is the only nation that can help assist Fiji in its reforms because...they think outside the box' (in *The Australian* 2010). Bainimarama thus claimed Fiji had to align with 'visionary China', 'the one country that understood the reforms he was trying to implement' (*The Australian* 2010). Vice-President Ratu Epeli Nailatikau said in 2009 at the height of Fiji's diplomatic stoush with Australia and New Zealand that 'Fiji regards the relationship with the government and the people of the People's Republic of China as one of its most important' (in BBC 2009). After Wu's 2012 announcement, a Fiji government spokesperson claimed: 'China – unlike Australia and New Zealand – hasn't isolated us, nor has it tried to intervene in political issues' (in FBC 2012). Upon visiting Beijing in May 2013, Bainimarama claimed that the invitation showed Fiji's regional leadership (*Islands Business* 2013), by this inferring that China was now the most important power in the Pacific.

No such statements have been made by the Chinese government. Aside from a reassertion of the principle of non-interference in domestic politics, the Chinese government ...has been at pains not to over-exploit the opportunity for regional influence provided by the former military commander and current Prime Minister Frank [Voreqe] Bainimarama so as to avoid any direct confrontation with Fiji's traditional partners, particularly Australia (Wesley-Smith 2013: 367).

To explain Bainimarama's capacity and intent to pursue this agenda we must look at the particular nature of Australian-Fijian relations, as well as the political and economic circumstances within Fiji. For the Fijian government, assertions of a closer relationship with a rising China are in fact part of a broader and rather desperate effort to break its diplomatic isolation and, most importantly, deal with a rapidly deteriorating economy.

As the Pacific's most developed and least aid-dependent economy, Australia's sway over Fijian domestic politics and governance has been more limited than in other PICs, even before the coup. Therefore, the diversion after the coup of Australian and other Western aid

from the state towards nongovernmental and community organisations would not have had a serious impact on the Fijian government's budget. Australian aid to Fiji, while initially declining after the coup, has more recently actually increased substantially because of the country's worsening poverty problems (Yang 2011: 315). The Australian government does, however, have real power over decision-making in other PICs, as mentioned, because of the significance of its aid program. This explains its capacity, along with New Zealand, to coerce reluctant Pacific governments to suspend Fiji from the PIF.

But as the sanctions imposed on Fiji did not extend to restrictions on private-sector investment and trade, Australia remains Fiji's most significant bilateral trading partner: two-way trade is currently worth more than A\$1.8 billion per annum; Fiji's tourism industry – which contributes 20 percent of GDP and employs 10,000 people – is dependent on the approximately 300,000 Australian visitors it receives each year, about half the total number of tourist arrivals; and Australia is the most significant source of foreign investment in the country (DFAT 2013; Hayward-Jones 2009b: 4).

Although no investment and trade sanctions have been imposed by Australia and New Zealand, a confluence of factors, including a slump in business confidence after the coup, the global financial crisis, the phasing out of EU quotas for Fijian sugar, and devastating floods in 2009, has created a serious economic crisis in post-coup Fiji. Per capita GNI, for example, declined about 8 percent from 2008 to 2011 (ADB 2013; Hayward-Jones 2009b: 4). Investment's share of GDP also slumped from 18 percent in 2006 to 13 percent in 2009, as foreign investors have avoided Fiji. It has recovered since to 2006 levels, as the government attempts to grow the economy by borrowing to invest in infrastructure (Dornan 2013b). The unemployment rate rose from 5.8 percent in 2006 to 7.5 percent in 2008 (Trading Economics n.d.), but according to Fiji's union leader, Felix Anthony, 60 percent of workers are paid below the poverty line (ABC 2013b). Fiji's locus, at the heart of the Pacific regional economy, also means that the economic crisis there has had significant adverse implications for the economies of smaller PICs (Hayward-Jones 2009b: 5). Thus, although Bainimarama's military-backed government has not had to face serious internal resistance in Fiji, its situation is precarious and so it has been forced to look around for new sources of investment, trade and aid. As Tarte (2011) points out: 'Although often dubbed Fiji's "look north policy", the foreign policy trend in 2010 [as in other years since the coup] was to collaborate with everyone and anyone'; anyone that was not the West, that is.

The Fijian government's attempts to make its relationship with China look more politically significant than it is, in order to put pressure on its traditional allies to relax their

diplomatic pressure, has had some success. In mid-2012, the Australian government announced it would normalise diplomatic ties with Fiji, despite the fact that elections were only due in September 2014. It also did not criticise the Fijian government for rejecting a draft democratic constitution, despite considerable uproar among Fijian opposition groups. Though the softening of Australia's stance was never openly justified in these terms, then Foreign Minister Bob Carr said in the same period that Australia had to be more pragmatic and get used to China's 'chequebook diplomacy' in the Pacific (Kerin 2012). As Firth (2013b: 370) concludes:

In the South Pacific, where China's investment, trade and aid grows year by year, and where new external players are offering Islands leaders more freedom for diplomatic manoeuvre, Australia will be less inclined to isolate Fiji – whether it is under democratic government or not.

In the event, diplomatic relations were not normalised after Fiji refused to grant Australia's new envoy her visa. The Abbott government in Australia, which was elected in September 2013, also appears to be pursuing a similar strategy of reengaging Fiji, though at the time of writing it is too early to know how these overtures have played out.

Conclusion

This article has made two key claims. First, that increased flows of Chinese aid, as well as trade and investment, into the Pacific Islands Region, do not reflect a Chinese strategy for regional domination, or even a more limited resource security agenda. Rather, Chinese aid to the region is driven by commercial interests from below and is therefore also more fragmented than is often assumed. This argument was demonstrated through an analysis of Chinese aid in general and to the Pacific in particular. It is hard to find evidence of any strategic direction in how aid is allocated. My second argument has been that the impression of a rising China has little to do with the actual nature of its aid program. It is rather produced through the actions and words of Pacific leaders keen to dilute Australia's influence in particular. Australia is incredibly preponderant in this region and the Australian government has used its aid to push through an intrusive and regulatory regional governance agenda, designed to improve the 'effectiveness' of PICs. Since the implementation of this agenda requires the consent of Pacific governments, the Australian government is more vulnerable to domestic resistance than the overwhelming material disparity would suggest. In the case of Fiji, it is clearly the post-coup Fijian government that has promoted the view that Chinese power is on the rise in the Pacific and Australia's on the wane. This strategy has had some

success in getting Australian officials to soften their stance on Fiji's diplomatic isolation and attempt to reengage Fiji, as well as in reigniting the US government's interest in the region. In this sense, Chinese aid has real political significance in the Pacific, not because of what it is, but because of a perception, largely unbacked by evidence, that China's rise heralds the possibility of a new Cold War.

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