Europe China Research and Advice Network (ECRAN)

2010/256-524

Short Term Policy Brief 84

China and Australia in the Pacific

July 2014
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EXECUTIVE SUMMARY:

• This paper examines what areas of cooperation and competition exist between Australia and China in the Pacific and provides recommendations for maximising productive relations in the future.

• The paper argues that while there are a number of areas of common interest for China and Australia, these are currently pursued in parallel, not cooperatively. Current levels of economic competition between Australia and China are normal, and no cause for immediate geo-strategic concern.

• To maximise both its own interests in the region, as well as those of other Pacific countries, Australia should develop and enact consistent policies in the Pacific, and avoiding mixed signals about its views of China’s increased role in the region.

• The EU has a number of priority areas in the Pacific that overlap with both Chinese and Australian interests. To maximise its impact, the EU needs to review and intensify its Pacific engagement.

1. OVERVIEW

For Australia, the Pacific has been of particular interest since Europeans first settled in the region. There are three main dimensions to this interest: security (including resource security and broader geo-strategic concerns); commercial; and humanitarian. Chinese traders and workers first arrived in the region in the late 1800s. Today, China and Australia share many regional interests in the Pacific. However, where they exist, overlapping interests are pursued in parallel, rather than cooperatively. There are also areas of competition, but these do not exceed normal economic competition, revolving around access to resources rather than geo-strategic influence. To avoid counter-productive behaviour in the Pacific, Australia needs to review its approaches to the region, and also add considerable nuance to its relationship with China in the Pacific. There exists a strong tendency for Australia and other Western stakeholders to view the Chinese state as one monolithic entity directing various actors as tools for its great strategic quest for power. This is a misunderstanding, and one which runs the risk of antagonising the very people Australian ought to reach out to – the leaders and people of both China and the Pacific.
Map of the Pacific, including Australia and China.

2. WHERE DO CHINA AND AUSTRALIA SHARE COMMON UNDERSTANDINGS IN THE PACIFIC?

To understand where China and Australia share common understandings, it is useful to map out their respective interests in the Pacific.
2.1 Interests and drivers for Australia’s Pacific presence

Australia has had a presence in the Pacific since Europeans first arrived. For some time, Australia’s key interests in the Pacific region have focused on security, humanitarian, and commercial aspects.

Regarding security, maritime control of its neighbourhood, incl. the absence of potentially hostile forces, has been a long-standing priority for Australia. The 2013 Australian Defence White Paper warned that the “growing reach and influence of Asian nations (which) opens up a wider range of external players for our neighbours to partner with”, cautioning that Australia’s “contributions to this region may well be balanced in the future by support and assistance provided by other powers”. The White Paper also notes that Australia needs to ensure “that no major power with hostile intentions establishes bases in our immediate neighbourhood from which it could project force against us”. Additionally, the Australian Government’s first National Security Strategy (2013) notes the “risk of another state seeking to influence Australia or its regional and global partners by economic, political or military pressure”.

Australia’s second key area of interest is commerce. To this end, Canberra seeks to maintain and develop export markets for Australian goods, as well as to secure access to foreign resources; in short, to ensure a stable commercial environment. Supporting those industries which supply goods to Australia and provide markets for Australian products remains a continuous goal of Canberra’s regional policy. Australia’s exports to the Pacific region in 2011 were valued at USD2.6 billion, while the region’s exports to Australia in 2011 totalled USD4.14 billion. Australia’s main importas include gold, crude petroleum, silver, coffee, pearls and wood. The Pacific Island countries’ (PICs) ability to finance imports varies, but tends to be limited. Apart from Fiji, Papua New Guinea (PNG) and the Solomon Islands, the Pacific Islands all have substantial and chronic trade deficits. Australia has long been concerned with reducing the latter in an effort to support the Pacific economies in becoming self-sufficient. The civil conflict that can arise from economic dependence associated with resource extraction poses significant challenges to Australian policy-makers. The resulting instability not only would threaten Australia’s commercial and security interests, but also undermine progress made with regard to economic development. In addition, the profits to be gained from large-scale
resource extraction, including in mining, logging, and fishing, may create incentives for business elites to neglect social and environmental standards.

Australia’s third key interest in the Pacific is humanitarian assistance—development aid. Worldwide, there is no donor who dominates aid in a region as Australia does in the Pacific. In the 2012-13 financial year, Australia committed AUD1.19 billion (USD1.08 billion) to the Pacific. Australia’s net disbursements constituted 62 percent of bilateral aid and 55 percent of total aid received by the region. Australia’s ‘special responsibility’ to assist the Pacific Islands through aid and development assistance simultaneously serves strategic and commercial goals.

2.2 Interests and drivers behind China’s Pacific presence

By and large, the motives underlying China’s engagement in the Pacific region mirror those of Australia: Beijing’s key interests are strategic goals, trade and investment, and aid. It is important to note that ‘China in the Pacific’ is not a single actor with a single strategic objective, but comprises a myriad of stakeholders whose interests may overlap or contradict each other.

While China certainly pursues strategic interests in the Pacific, the resulting geo-strategic implications tend to be overestimated. Some have argued that China’s key objectives in the Pacific are to parry US challenges on the one hand, and to challenge Australia’s position of dominance on the other. These commentators describe China’s approach as “coordinating its economic assistance with a sophisticated strategy for diplomacy”, as part of its deliberate “charm offensive”. However, other analyses of China in the Pacific do not share this conclusion. They argue that China’s quest for a larger global role should not be misinterpreted as a desire to extend its power into the Pacific beyond its immediate neighbourhood.

That is not to say that increasing Beijing’s influence never enters the minds of Chinese actors in the Pacific. China and Taiwan used to compete for diplomatic recognition by means of ‘chequebook diplomacy’, before agreeing in 2008 to cease such activities. Likewise, the People’s Liberation Army (PLA) at times has expressed somewhat hawkish views on the region. For instance, a Chinese military officer in early 2013 announced that a rising China would force the United States out of the Pacific. However, the extent to which these views are representative of the People’s Liberation Army is questionable. Accordingly, such statements
should not be seen as evidence of a well-designed strategy, but rather as an indication of the multiple interests within China, and of the rather chaotic way in which Chinese actors are engaging in the Pacific. Overall, there is little compelling evidence that China’s increasing activity in the Pacific region is motivated by anything but domestic economic imperatives and a desire to increase South-South cooperation, something that is true of its engagement almost everywhere else. Even if China did have intentions beyond supporting its own economic security, its ability to seriously challenge the role of established regional powers such as Australia will remain very limited for at least another decade.

In terms of trade and investment, it is no revelation to observe that China’s economic growth is rendering Beijing increasingly reliant on foreign resources. Naturally therefore, secure access to the latter is a key driver of China’s activities in the Pacific. The PICs have minerals, hydrocarbons, timber, gold, and vast ocean areas for fishing, all of which attract Chinese interests. Beijing imports significant quantities of fish from the PICs, including from the Solomon Islands and PNG. The same is true for timber. China has a particular interest in PNG’s energy and mineral resources. It is also requires enormous amounts of nickel to produce steel alloys. The controversial Ramu nickel and cobalt mine in PNG is the largest public Chinese enterprise in the region, expected to produce 32,800 tonnes of nickel annually, all of which will be exported to China. China’s largest oil company has been discussing plans for a liquefied natural gas plant in PNG. The China Exploration and Engineering Bureau signed an agreement with the PNG government in 2006 to explore further opportunities to develop gold, copper, chromites, magnesium, or other mineral resources.

On the basis of ‘South-South cooperation for development’, China has become a major aid donor in the Pacific region. However, the motivations and modalities are quite different from Australian aid, illustrated by the fact that China’s Department of Foreign Aid (DFA) sits within the Ministry of Commerce. Consequentially, China’s development projects in the Pacific are often driven not so much by policy, but rather by Chinese infrastructure companies, who will design project to be implemented by themselves as the recipients of ‘development funding’, often through Eximbank concessional loans. Loans can be repaid by resources rather than cash, often termed ‘the Angola model’. In the Angolan case, negotiations for loans were undertaken by the Chinese Ministry of Commerce (MOFCOM) and Eximbank, with a small role for the MFA given the strategic nature of the deal (the latter being involved at the State Council’s directive). Projects funded by grant aid likewise tend to be implemented by Chinese
companies. While grant aid bears no expectation of payback, it effectively reduces local control of funds. However, although commercial benefits may be a key criterion for Chinese aid projects, they are not the sole focus. Projects funded by Eximbank loans are governed by guidelines that specify consideration of social benefits, and the DFA is increasingly focusing on international norms of development aid.

3. WHAT EVIDENCE EXISTS TO SUGGEST CHINA IS INCREASING ITS ACTIVITY IN THE REGION?

That China is increasingly engaged in the Pacific region is now conventional wisdom. The China-Pacific Island Countries Economic Development and Cooperation Forum, first held in Fiji in 2006, signalled a new direction for trade, investment, aid, and technical cooperation with the Pacific. While Chinese tourism is increasing exponentially, military and defence activities remain more or less consistent.

3.1 Trade

China’s trade with the Pacific has increased sevenfold over the last decade. In PNG alone, China’s trade increased tenfold to USD1.266 billion between 2001 and 2011. In 2000, a Pacific Trade Office was established in Beijing, and between 2000 and 20004, bilateral trade with China doubled from USD267 million to USD530 million. By 2005, China had become PNG’s top trading partner and the largest buyer of its lumber. Trade with Tonga, nonexistent in 1998, has grown rapidly. By 2004, China had become the country’s second largest export trading partner and fourth largest import partner. Since 1999, trade with Fiji, Samoa, the Solomon Islands, and Vanuatu has seen dramatic increases. Since Fiji and China concluded a Free Trade Agreement in December 1997, the former has become China’s second largest trade partner among the South Pacific islands (after PNG). China’s exports to the Pacific in 2011 totalled USD897 million, compared to imports of USD1.17 billion. However impressive these numbers may be, it should be remembered that, over the same period, China’s trade with other parts of the world has increased by even larger factors. Furthermore, China remains far behind Australia, whose exports to the Pacific in 2011 totalled USD2.6 billion.

3.2 Investment

It is difficult to collect reliable data on Chinese direct investment in the Pacific, partially due to the PICs limited capacity for data collection, but also resulting from a lack of transparency on
China’s part. However, evidence suggests that Chinese companies and investors in the Pacific, though not necessarily related to Beijing, have expanded beyond the traditional focus on small retail business, and forayed into infrastructure and mining. Chinese investment companies are growing in number, particularly in PNG and Fiji. In PNG, Chinese companies have undertaken diverse projects, including the aforementioned Ramu mine, but also the construction of roads and student dormitories. In Fiji, Sinohydro has signed a USD123 million contract to build a hydro-electric dam at Nadarivatu, funded through a loan from the China Development Bank. The project aims to produce about 90 percent of Fiji’s electricity needs. In the Cook Islands, the Chinese company Shanghai Deep Sea Fisheries signed an agreement to build 10 fishing vessels and invest millions of dollars in the floundering Cook Islands Fish Exports plant. There are many more examples. Chinese companies tend to work in cooperation with other foreign investors and multinational projects to undertake projects in the Pacific, but also compete for tenders by the World Bank and Asian Development Bank.

3.3 Tourism

Shortly after joining the South Pacific Tourism Organisation (SPTO) in 2003, China donated USD100,000, becoming the single largest paying member. So far, seven island nations have received Approved Destination Status (ADS) from the Chinese government, and in 2012, 70,000 Chinese tourists visited the islands. The SPTO is currently planning to set up a representative office in China to boost tourism in countries like Fiji, Samoa and Tonga.

3.4 Aid

It is impossible to estimate the extent to which Chinese aid to the Pacific has increased in recent years. Complex and various methods of disbursement make it difficult to extract annual expenditure figures per country. Chinese aid overall has been increasing by around 20 percent per annum on average over the past few years, although its distribution remains unclear. China’s 2011 Aid White Paper issued by the State Council notes that Oceania receives 4 percent of China’s total aid budget, which in 2013 was USD3.23 billion. This means Pacific Island Countries were budgeted to receive around USD129 million in aid – excluding concessional loans. Accurate concessional loan figures (administered by Eximbank) are hard to come by, but reliable sources suggest that the annual amount has been around USD1.63 – USD2 billion in recent years. Whether their distribution reflects that of aid overall is unclear though. Other sources calculate that over the five years between 2006 and 2011, China

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disbursed approximately USD850 million in bilateral aid, including concessional loans, to the eight PICs which recognise the People’s Republic of China. By comparison, around one third of Australia’s total bilateral foreign aid goes to the Pacific, more than any other region, and by far the most on a per-capita basis.

3.5 Diplomacy
Diplomatic visits between Chinese and Pacific Island officials have also increased in recent years. When then-Premier Wen visited Fiji in 2006, it was the first time that any Chinese premier had visited the Pacific. The heads of state of eight Pacific countries paid official visits to Beijing between March 2004 and July 2005 at the invitation of the Chinese government, during which the leaders met with President Hu Jintao, Premier Wen, or both. Given the delegations’ size, it appears likely that the Chinese provided financial support for these visits: For instance, PNG Prime Minister Michael Somare’s February 2004 delegation to China included 80 business and government officials, the country’s largest ever delegation to travel on an official state visit. Bilateral visits between trade ministers, foreign ministers, party leaders and business delegations have also increased. In addition to bilateral relations, China has been building relations with the region as a whole, particularly through the Pacific Islands Forum (PIF). The Chinese ambassador to Fiji was first invited to the precursor of the PIF, the South Pacific Forum, in 1998, followed by China’s first delegation one year later. Since 1990, China has sent a government representative to attend the annual post-Forum dialogue meetings.

3.6 Military/security
China has not projected any hard power into the Pacific region, and there have been no signs of an increased military presence. In 2010, two Chinese naval vessels on the way to Australia and New Zealand paid a goodwill visit, stopping briefly in Tonga, Vanuatu, and PNG. While some have interpreted this visit as a signal towards longer-term military interests in the region, there is little evidence to suggest this is the case. Rumours of China setting up military bases in island states have not been proven. It was suspected that China’s satellite tracking station in Kiribati, opened in 1997, was used for monitoring the US missile range in the adjacent Marshall Islands. However, subsequent inspections concluded that this was not the case, and the station was shut down following Kiribati’s diplomatic recognition of Taiwan in 2003. Military exchanges and support have been limited to Chinese military offices paying visits to regional counterparts; providing military uniforms, vehicles and other non-lethal
equipment; and refurbishing barracks in Fiji, PNG, and Tonga. While a former Tongan military officer warned Australia and New Zealand to be wary of China’s growing military influence in the Pacific, so far this concern seems unwarranted. As is the case in the many other fields in which Chinese activity has been increasing, Neijing lags far behind the established powers with regard to regional involvement. Australia remains the key security partner for many countries in the region and bears much of the security responsibility for the Pacific, identified as one of the four key strategic interests in Australia’s 2013 Defence White Paper.

4. IMPACTS – NEGATIVE AND POSITIVE

Much of the small but growing literature on China’s increasing role in the Pacific starts from a position of suspicion vis-a-vis Beijing’s motives and its influence on the island societies. This literature tends to suggest that a unified actor – Beijing – simultaneously exploits and encourages corruption and instability in the region, somehow hindering the economic and political development of the Pacific countries. In addition to these external commentaries, anti-Chinese sentiment has been expressed within PICs regarding development effectiveness, the environment, labour laws and land rights as well as political influence.

However, clearly there exist a number of positive effects arising from China's engagement in the Pacific. The rising demand for resources has resulted in high regional annual GDP growth rates over the last decade. Furthermore, while the present balance of trade favours China, and benefits certain Chinese companies, the overall commercial relationship is vastly more important to the PICs than it is to China. The same can be said for tourism – the benefits arising from the growing number of Chinese tourists have benefited the Pacific states more than Beijing. Overall, China’s increased involvement appears to offer a broader menu of options to the PICs, and to provide opportunities which would not have been available otherwise.

4.1 Development effectiveness

The effectiveness of China’s development assistance to the Pacific has been questioned by locals and external analysts alike. Australian policy commentators have been critical of China’s growing aid programme in the region, raising concerns regarding the absorptive capacity of the island nations, and their ability to maintain infrastructure built with Chinese aid. China’s loans to various Pacific countries have created debts that could be viewed as unsustainable. The IMF has assessed Tonga at being at high risk of debt distress due to two loans from China’s
Eximbank which amount to 61 percent of Tonga’s external debt, approximately 41 percent of GDP. The loans are for reconstructing the capital Nuku’alofa, and building roads. China’s economic attention is unevenly spread, with trade and investment tending to be concentrated in places that supply raw materials. Also, the emphasis on primary exports may inhibit economic diversification and obstruct other initiatives, potentially causing local tensions. In the Cook Islands in the early 2000s, in the context of the ‘chequebook diplomacy’ debate, misgivings were raised in Parliament about China’s aid strategy, and there were calls for a boycott of the opening ceremony of a Chinese-built courthouse. Local people around the Ramu Nickel mine in PNG protested against a perceived lack of local consultation, as well as ignorance of and disregard for local issues and concerns. In response, Chinese mine managers pointed to the construction of roads, bridges, and schools.

At the same time, Chinese aid is welcomed by PICs leaders who note that it is often made available quickly and easily, planned and delivered in a spirit of South-South cooperation and equality.

4.2 Environmental situation

Concerns have also been raised regarding potential negative environmental impacts. Both external analysts and local fishermen, e.g. in the Cook Islands, have noted illegal fishing by Chinese fishermen as a serious problem. The commercial interests of some Chinese companies, for example in the logging and mining industries, are reported to have imposed lasting damage on the environments of communities in the region. The likely impact on the marine ecology of Astrolabe Bay in PNG of the underwater dumping of tailings from Ramu Nickel mine is another example. At this stage, there exists few readily available examples of positive environmental impacts from Chinese activity in the region – but this is not to say that none exist.

4.3 Social unrest

There has been some significant anti-Chinese sentiment across the region as a result of negative perceptions of increased Chinese activity in the Pacific islands, particularly regarding Chinese migration; the use of Chinese labour in infrastructure projects; and land use. Chinese domination of trade in the Solomon Islands was a major factor in the 2006 post-election riots, in which domestic political frustrations turned into violence against Chinese businesses. Kiribati, Tonga, Vanuatu, the Marshall Islands, and others have all experienced difficulties with
official schemes to sell passports to Chinese, resulting in strong anti-Chinese sentiment. In 2004, the Kiribati Parliament repealed a 1996 investor passport scheme that sold passports to Chinese for USD15,000 each with the expectation that the new citizens would invest in Kiribati, as no investment took place. Some ethnic Chinese locals and Chinese nationals have been linked to domestic and transnational crimes in several Pacific nations, exacerbating anti-Chinese sentiment.

Moves by Chinese-owned entities into rural business sectors have also caused consternation in PICs. In Vanuatu, for example, the government has discussed imposing restrictions on foreign investment to stop Chinese businesses dominating the retail sector. Another issue is market substitution – Pacific countries with labour-intensive manufacturing industries find it difficult to compete with Chinese products both at home and for export. The often-noted tendency for Chinese construction companies to bring in their own labourers rather than hire locals exacerbates negative perceptions about China in the region. Labour practices in the Ramu Nickel project in PNG are one example, and in 2007 the PNG Labour Secretary threatened to close the operation unless the situation improved. The perception that Chinese companies used Chinese rather than local labour, along with, for example, landowner disputes and worker safety issues, played a major role in riots in PNG in 2009. Extensive use of Chinese labour is a feature of the Ramu mine, as well as other Chinese projects, but use of local labour can be negotiated should the partner country government particularly push for it. However, whether large-scale Chinese resource ventures are faring any worse than counterparts from other countries with landowner and environmental issues is not certain.

4.4 Local political influence

China’s increased activity in the Pacific has also raised questions around China’s political influence on PIC leaders’ decision-making, in particular, the chequebook diplomacy between Taiwan and China. In Kiribati during the 2002 legislative elections, China’s use of the Tarawa satellite base was a major election issue. China was accused of interfering in the campaign, and the Chinese Ambassador to Kiribati admitted donating funds to a group with ties to the President. Six months after the election, Kiribati switched its diplomatic recognition to Taiwan. There is also the matter of China (among others) utilising their relations with small island countries to maximise their interests via the one-country-one-vote rule at the United Nations. It is generally accepted that aid and investment is in return for votes at international fora. However, while some argue that manoeuvring for local political influence has dangerous
implications for governance and regional stability, overall there seems to be little evidence that China is using its increased role in the region to influence Pacific leaders in ways that have any direct geo-political impact for Australian interests.

4.5 Conclusion
Increased Chinese engagement in the Pacific has both positive and negative impacts. There are many actors pursuing their own interests and agendas, and the Chinese government does not have ultimate control over, and cannot be held ultimately accountable for, their activities in the region. Additionally, different generations of Chinese are perceived very differently. For example, in PNG earlier generations of Chinese immigrants are seen to have settled in well, whereas the more recently arrived Chinese are criticised for being more interested in making a quick profit and getting out. Local resentment against the newer Chinese players in the Pacific has little to do with China’s foreign policy, and indeed may serve to complicate Beijing’s diplomatic relationships in the region. It is likely that for both commercial and diplomatic reasons, Beijing will, where it can, work to maximise the positive impacts of its engagement in the Pacific.

5. HOW DOES CHINA SEE EU ENGAGEMENT IN THE PACIFIC?
According to the EU’s Pacific strategy, the EU aims to “strengthen political dialogue, place greater focus on development cooperation and improve the effectiveness of aid delivery”. The strategy “reflects the growing environmental, political and economic importance of the Pacific region”. For the most part, the EU focuses on sustainable development, with three priority areas: governance, regionalism and sustainable management of natural resources. China views the EU in the Pacific as somewhere between multilateral actors such as the Asia Development Bank and World Bank, and national-interest focused bilateral donors. As such, China does not consider the EU in the Pacific as a competitor, which could provide ripe possibilities for cooperation.

6. WHAT ARE THE PROSPECTS FOR SINO-AUSTRALIAN COOPERATION IN THE REGION IN THE NEXT FIVE TO TEN YEARS?
As China and Australia move away from their relationship as recipient and donor, there is considerable potential for cooperation in the Pacific. Cooperation should depend on to what extent PICs themselves want China and Australia to work together. In the next five to ten years, the two countries could cooperate more in areas that support Pacific Island countries’
own economic and social development priorities. This would ideally provide enhanced benefits for the region, and also increase mutual understanding between China and Australia.

Currently, Australia and China’s relationship in the Pacific could be described as ‘amicably suspicious’. Australia can work to maximise the potential for cooperation by adopting and adhering to consistent policies across a range of areas. Despite having a relatively stable and ongoing set of interests in the region, Australian policy has fluctuated greatly. The principles underlying Australian government policies towards the Pacific have been highly changeable depending on ministerial attention, and a tendency to be distracted by other pressing issues. On occasions, Australia’s policies emphasise respect for sovereignty; or promoting economic reform; or intervening directly in ‘failing’ states. This unpredictability means that successive Australian governments have found it difficult to achieve their objectives in the Pacific, undermining the credibility of Australia’s foreign policy in the region, and leading to Pacific leaders resisting Australian intervention rather than welcoming it. Similarly, Australia’s stance towards China has been criticised for being somewhat schizophrenic in nature.

Australia should seek opportunities for dialogue and communication and enhance efforts to understand China’s activities from a Chinese perspective. One means is of course the new Sino-Australian annual Strategic Dialogue. Another channel that could usefully be pursued simultaneously is ongoing working-level interactions between Chinese and Australian researchers and bureaucrats. It would be helpful to view Chinese principles such as ‘mutual benefit’ more objectively, particularly when Australia appears to be moving further towards adopting that approach. Also, Australia should avoid castigating China for not wanting to be involved in forums that discuss the Pacific, but which PICs have not instigated, such as the Cairns Compact. However, in the three main areas of shared interest, there is room for further cooperation.

6.1 Geo-strategic
Military and security interests are areas where China and Australia could cooperate more, although mutual mistrust currently undermines potential. While neither Australia’s Defence White Paper nor the National Security Strategy name China as a strategic threat to Australia’s interests in the Pacific region, the implication is clear. China, more so than other Asian nations with a presence in the region, is regarded as a potential geo-strategic threat to Australia. However, China’s increased presence in the region is not tantamount to an interest in pushing
Australia out. Training military and police forces, along the lines of Australia’s RAMSI programme in the Solomon Islands, is one area where Chinese and Australian interests overlap, and where cooperation would be feasible. This could also function as a trust-building exercise.

6.2 Trade, investment and commerce

China and Australia are both interested in developing the resources available in the Pacific for their own domestic needs, and for PICs’ economic development. As such, they could work together in the Pacific region to build infrastructure that provides access to resources that the host country could sell on the open market. Chinese companies building infrastructure projects could work with Australian companies as well as NGOs to share lessons and experiences on environmental and social standards that can support the long-term sustainability of infrastructure investments. This could be by means of company-to-company partnerships, or come under the framework provided by the 2013 China-Australia MOU for development cooperation. Sino-Australian engagement in the next five years could also promote developing tourism infrastructure, which would be of benefit to PICs’ economic growth, and provide much-needed employment.

6.3 Development assistance

For regional stability and security, as well as for ease of trade and investment, a peaceful and prosperous Pacific region is critical. Both China and Australia would benefit from the regional stability and security increased development would bring. In the past few years, perhaps from around the time of the global financial crisis in the late 2000s, Chinese and Australian views on development have been converging to some extent, for example, regarding how aid, trade, economic growth and human development intersect. China and Australia both take an ‘enlightened self-interest’ approach to human development in the Pacific, although China is more upfront about the ‘win-win’ and ‘mutual benefit’ nature of its development activities. In China, development actors are under pressure to reform their practices, and there is considerable interest within the Chinese government in learning about international approaches – although the ultimate model is not clearly envisaged. Under the new Abbott government, the line between Australian foreign aid and trade policy is becoming more blurred. This increasing alignment of views has implications for mutually pursuing shared interests in the Pacific region.
To date, China has been reluctant to cooperate with other actors in the Pacific unless invited directly by a Pacific nation to do so. For example, China declined to participate in aid dialogues such as the 2009 Cairns Compact on Strengthening Development Cooperation. This has been read by many analysts to mean that China is reluctant to cooperate. However, China’s strong identity as a developing country means it has little interest in being bundled in with ‘traditional donors’ and their colonial baggage. Experience from other aid actors suggests that it will take several years to move from tentative exploration to active and concrete cooperation, but five years from now Australia and China could very feasibly be working side-by-side on concrete development projects that go even further than the present China-New Zealand cooperation in the Cook Islands. MOFCOM-affiliated researchers are currently undertaking research with UNDP and Australia in the Pacific to map out the development challenges, and identify potential areas for development cooperation (due to be completed May 2014).

In addition to direct development assistance, in the next decade, Australia could also pursue cooperation with Chinese SOEs and private enterprises in areas like corporate social responsibility, and share some of its experiences and lessons learned in working with the complex social and environmental realities in the Pacific. Likewise, China could share with Australia some of its experiences in planning and executing infrastructure projects; and its approach of equality and respect.

7. POLICY RECOMMENDATIONS

7.1 Recommendations for Australia
If looking to increase engagement with China in the region, Australia should:

• Ensure local country governments actively support any Sino-Australian cooperation.

• Work with Pacific governments to identify complementarities, and ensure that any requests for cooperation come from local governments, like the Cook Islands trilateral.

• Avoid sending mixed messages to both China and the Pacific, including overestimating China’s activity in the region as a geo-strategic threat.
Note that China is not a new, inexperienced or emerging donor – while China acknowledges that they have much to learn, it has been an active provider of foreign assistance for over six decades. Recommendations such as those by the Lowy which suggest that “China would benefit from the experiences of countries such as Australia” should be avoided.

7.2 Recommendations for the EU

Over the past decade, the EU has carefully considered its role and interests in the Pacific, for example with the Strategy for a Strengthened Partnership (2006); the 2012 Joint Communication on renewing the EU-Pacific development partnership; and the Cotonou Agreement (2000). In the context of continued strong interest from Australia, and a growing Chinese presence, some suggestions for the EU include:

• The EU and Australia share similar views around the goal of protecting and nurturing global public goods such as forests and fisheries, and mitigating climate change. As such, cooperation with Australia is likely to be uncomplicated. However, more direct as well as indirect benefits could be gained by working with China to a) build local governments’ capacity to negotiate, e.g. fishing and forestry regulations and licences; and b) supply technical expertise and equipment to increase monitoring and governance capabilities, e.g. for illegal logging and fishing. China has considerable expertise and hardware, and cooperation with the EU to determine sustainable and needs-based approaches to utilising these competitive advantages could be of benefit for PICs. This kind of cooperation experience could also have longer-term strategic benefits for how China’s engages internationally in the future. However demand for cooperation involving China would need to come from the Pacific governments, not the EU.

• The EU wishes to increase political dialogue with the Pacific to strengthen cooperation in global fora on issues such as human rights, democracy, good governance, and sustainable development, as well as respecting the UN Charter and international law worldwide. To do so, the EU needs to continue to be acutely cognisant of China’s potentially different position on these issues, its relative influence in the Pacific, and how it achieves and utilises that influence. In addition to participating actively in the PIF and PFD, working with China directly through the EU in Beijing to understand and discuss changing global norms should be complemented by careful thought as to how best to demonstrate the
value and applicability of EU positions to Pacific Island Countries.

- As with global public goods, traditionally the EU and Australia have tended to see Pacific development in a similar light. However, the absorption of AusAID into the Department of Foreign Affairs and Trade (DFAT) may reflect a shift in Australian priorities that should be examined.

Furthermore, Australia’s reputation as a development actor in the Pacific is not entirely positive. The EU could have an advantage over traditional actors like Australia given its non-bilateral status, lack of regional colonial baggage, and not having a history of involvement marked by periods of aggressive interest followed by periods of disinterest and stagnation. The EU’s neutrality could be valuable in positioning it as a trusted partner for cooperation in the region.

The EU could consider cooperating with China for development in the region. This could be by means of a parallel approach, as used in the Cook Islands, where New Zealand provided the ‘soft’ elements and China supplied the hardware. The EU could also investigate integrated cooperation such as used in Cambodia, Malawi and Burundi, where UNDP is working with China on needs assessment, project design, implementation, monitoring, and evaluation. Either way, the key principles for success are to firstly understand and respect China’s approach to development (as per the last point in recommendations for Australia, above); establish local government demand for cooperation; and start with smaller, trust-building exercises that can lead into larger and more practical cooperation. Collaborative research undertaken by China, Australia and UNDP mapping development needs and opportunities for cooperation in the Pacific may be of interest to the EU (due for release August 2014).

- EU-Pacific trade is a relatively minor aspect of the relationship. However, the development benefits it can bring to the Pacific if well-managed are substantial – for example, currently only around 10% of the full value of fish stocks taken go to Pacific country governments due to weak legislation, management and law enforcement. The suggestion in the first point above, regarding global public goods, applies to this issue also.
Pacific regional security and stability is also an area of concern for the EU. Security risks include climate change (and associated stresses on supplies of natural resources) and under-development – suggestions for these are noted above. The EU acknowledges that addressing the lack of regionalism is challenging, as regional identity is neither broadly nor deeply held. China is a strong supporter of the PIF, and working with China in that forum may be a useful means to support closer regional integration. Again, China is likely to be more open to cooperation if there is clear demand from PICs.