There is a problem with the People’s Republic of China’s (PRC) aid in the Pacific. It is fragmented, poorly monitored, project-based and contractor-driven, responsive largely to the needs of political elites in the Pacific. The PRC’s newly established State International Development Cooperation Agency is tasked with addressing ‘serious problems’ in its foreign aid program, and conducting more rigorous planning and monitoring. We should not miss the opportunity that this new agency provides for improving PRC aid in the Pacific.

Over the last few months, aid granted by the PRC in the South Pacific has become a focus of political and media debate in Australia. Points raised include:

- PRC aid is wasteful. In the words of the Minister for International Development and the Pacific, Senator Concetta Fierravanti-Wells, it has been spent on ‘useless buildings [and] roads to nowhere… threatening economic stability without delivering benefits.’

- PRC aid in the form of concessional loans is saddling Pacific Island nations with unsustainable levels of external debt.

- PRC aid is fueling political corruption in the region, as PRC actors use their ‘deeper pockets’ to ‘duchess’ Pacific politicians.¹

- Australia has lost influence in the Pacific to the PRC.²

The PRC’s aid program in the Pacific is significant. The Lowy Institute estimates that China is the third largest donor in the Pacific, with 218 projects. While this makes up just over four per cent of PRC development assistance, in some countries—notably Fiji—these projects are the main source of aid, though primarily in the form of concessional loans rather than grants.³ Pacific leaders welcome PRC aid, as it meets pressing political and development needs. For example, Papua New Guinea, the largest nation in the Pacific, met none of the United Nations 2015 Millennium Development Goals, and faces huge challenges in health, education and infrastructure.

Pacific governments have also rebutted criticisms of PRC aid. The Government of Vanuatu listed a series of buildings, from Parliament House to the Melanesian Spearhead Group’s Headquarters, noting ‘these are not white elephants. These are buildings of national significance to this country.’⁴ For two large projects funded by China Exim Bank loans, the Luganville Wharf and roads on Tanna and Malekule, ‘No donor was willing [to] help provide assistance on these projects although the economic benefits [are] huge.’

This is a key feature of PRC aid: while Australian and PRC contractors do compete for business in the Pacific, their aid programs have limited overlap and are complementary. The Belt and Road Initiative (BRI) reinforces the focus of PRC aid on infrastructure and enhancing regional transport and communication links. Many Pacific leaders praise PRC aid for not tying up their bureaucrats in meetings and paperwork, and for the speed of its delivery. There are, however, risks associated with PRC aid in the Pacific.

What are the risks?
For several Pacific states—particularly Vanuatu, Samoa and Tonga—the PRC’s concessional loan program contributes to their high levels of external debt. In Vanuatu, Exim Bank loans are nearly half of their external debt that will rise to one-third of GDP by 2022. In Tonga, it currently stands at 43 per cent of GDP and...
embassy, who are also tasked with promoting trade and investment; aid runs a distant third to these priorities.

The announcement on 13 March that the PRC will establish a new agency for international development cooperation could address some of these concerns. It is likely to be shaped by Japanese and US techniques of using aid as a tool for ‘great power diplomacy’ but also by the sector-based approach of the UK’s DFID and AusAID. It also sends a strong political message that all embassies and economic counsellor offices must prioritise aid, to ‘better serve the country’s global strategy and to build the BRI.’

Much will depend on the budget and staffing of the new aid agency, and whether in-country agencies are allocated staff to monitor and evaluate projects. It will take more than a new agency to build expertise in development cooperation, but it is a welcome start. At present, the effectiveness of PRC aid is a function of two factors:

- The reputational concerns of Chinese companies based in the Pacific, where poor quality projects can harm their chances of securing future projects from the PRC state, the host government or multilateral agencies.
- The technical capacity and political influence of Pacific institutions involved in aid delivery, particularly departments of Finance, Treasury and Works. The presence of properly trained and resourced civil engineers to monitor building standards is crucial to the sustainability of PRC (and other) aid in the Pacific.

A third risk is that negative perceptions of PRC aid feed existing tensions with Pacific Chinese communities that have led, for example, to racially-tinged riots and evacuations in Solomon Islands, Tonga and Papua New Guinea. Large populations of PRC migrants, who have been moving to the Pacific in search of business opportunities since the 1990s, dominate the retail sectors in most Pacific nations. Although they have no link to Beijing’s aid program and have a largely antagonistic relationship with the PRC state, they are the face of the PRC in the Pacific. Perceptions

Source: Chinese Aid in the Pacific interactive map, Lowy Institute for International Policy, 2016.
of favourable treatment for new PRC migrants—the waiving of English language requirements and laws proscribing them from work in the retail sector—feed local concerns of political corruption.

Common local criticisms of PRC aid—insufficient use of local workforces and materials, corruption of Pacific officials, shoddy workmanship—layer onto preconceptions of ‘Chinese’ behaviour, making Chinese communities easy targets during periods of social unrest. With overseas citizen protection becoming a priority for the PRC state, there is concern that future military-led evacuations of these vulnerable populations may lead to ‘accidental friction’ between PRC and Australian forces.

Finally, there is a risk that PRC aid will be more politicised, serving as a diplomatic and geo-economic tool because of the Pacific’s inclusion in the BRI and the pro-independence Democratic Progressive Party’s hold on power in Taiwan. Six of Taiwan’s 20 formal diplomatic allies are in the Pacific and aid will play a role in furthering the PRC’s strategic ambitions. In the words of the PRC’s ambassador to Vanuatu, where there are debts, there will be ‘no free lunch.’

Signs of the PRC’s willingness to leverage aid for political advantage in the Pacific are already visible. Finally, there is a risk that PRC aid will be more politicised, serving as a diplomatic and geo-economic tool because of the Pacific’s inclusion in the BRI and the pro-independence Democratic Progressive Party’s hold on power in Taiwan. Six of Taiwan’s 20 formal diplomatic allies are in the Pacific and aid will play a role in furthering the PRC’s strategic ambitions. In the words of the PRC’s ambassador to Vanuatu, where there are debts, there will be ‘no free lunch.’

The issues outlined above are intertwined with geopolitical currents involving other major powers in the region, and complex and evolving local issues around landownership and national identity. A couple of factors should be considered in searching for ways for the Australian government to engage with PRC aid in the Pacific:

- The fragmented, contractor-driven nature of PRC aid presents opportunities for the Pacific. Pressure to improve performance and secure more work in the Pacific—including from Australia’s aid program—means PRC contractors are interested in working with Australian state and corporate actors to upgrade their skills and become respected players in the aid sector. Companies such as COVEC PNG and Guangdong Foreign Construction Co. have already adapted to meet Pacific expectations, hiring local workers and using local materials and building standards.

- Secondly, PRC state actors are more open to cooperation and coordination than in the past. Under the BRI, the PRC’s long-derided Ministry of Foreign Affairs has greater leverage over PRC aid. Recent appointments to the PRC’s key Pacific embassies, such as Ambassador Xue Bing in PNG, point to a higher calibre of representation, with the experience and communication skills to work with other donors. The days of the PRC’s diplomats dozing and playing with their phones during aid coordination meetings look to be over. Australia should welcome a more serious approach to the region from the PRC.

Concerns about Australia’s loss of influence in the Pacific are misguided when they focus solely on aid. Australia is the largest donor in the Pacific by a wide margin, with historical ties that the PRC does not have. The Pacific is a low priority for the PRC government, making cooperation and coordination with PRC actors easier than in other regions. We cannot control the PRC’s international actions, but should remember that influence is not a zero-sum game. What we can control is our own attractiveness to Pacific nations. Pacific concerns such as labour mobility and climate change need to be taken more seriously.
China Matters welcomes your ideas and involvement. Please contact us at ideas@chinamatters.org.au

China Matters seeks engagement from interested parties to secure the implementation of the policy recommendations specified in this brief. Our goal is to influence government and relevant business, educational and non-governmental sectors on this and other critical policy issues.

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