



Session I Discussion Paper

How should Australia respond to the PRC's growing presence in the South Pacific?

Sam Mugford

Since the mid-2000s, the People's Republic of China (PRC) has steadily increased its influence in the South Pacific. It is now the third largest source of foreign aid behind Australia and New Zealand to the Pacific region, having provided AU\$1.6 billion between 2011 and 2017. Much of this aid has been earmarked for infrastructure and communications projects in line with the Belt and Road Initiative (BRI), President Xi Jinping's cornerstone foreign policy announced in 2013. According to data released by the Lowy Institute, the PRC has committed approximately US\$4.5 billion in aid and other funds to transport projects across the region between 2011 and 2017. Of this, US\$3.5 billion was committed in 2017.

However, approximately 70 per cent of aid has been provided in the form of concessional loans, raising fears in Australia that many of these countries are falling into debt traps and will become beholden to PRC interests. Smaller regional economies such as Vanuatu, Tonga and Samoa may have difficulty repaying already high levels of debt. Tonga's national debt currently stands at 44 per cent of GDP, and diplomatic efforts to have PRC debt converted to grants have been unsuccessful. Repayment of a single loan due to begin in 2013-14 was set to account for 17 per cent of total government revenue.

Determining how Australia should respond to the PRC requires an examination of its regional interests. Most regional aid has been provided in the context of the BRI, which seeks to improve global infrastructure networks in order to increase trade and investment links. Increased aid also represents a natural evolution of the PRC's foreign policy. Like other great powers, such as the United States of America, the PRC will seek to utilise aid as a tool for 'great power diplomacy' to both increase its prestige globally and the popularity of the Communist Party of China domestically.

Beijing is also adept at using foreign aid as a tool of soft power, particularly when it comes to convincing Pacific Island countries to switch diplomatic recognition of Taiwan to the PRC. Of the 17 countries which have formal diplomatic ties with Taiwan, six of them are in the Pacific. Immediately following his attendance at the 2017 Belt and Road Forum, the Fijian Prime Minister Frank Bainimarama announced the closure of Fiji's trade and investment office in Taiwan. At the behest of the PRC, Vanuatu was also the first Pacific nation to support the PRC's position in the ongoing South China Sea territorial disputes. Although there has been a notable focus on infrastructure, the PRC has also delivered high profile humanitarian aid to win over local hearts and minds. The People's Liberation Army Navy hospital ship, Peace Ark, recently visited Papua New Guinea, Vanuatu and Fiji carrying 100 medical professionals and providing free healthcare to more than 8,700 people.

Ultimately, Australia may choose to either compete or collaborate with the PRC in the Pacific. Current attempts by the Australian government have focused on counterbalancing PRC influence, especially

following the release of the 2017 Foreign Policy White Paper. The government's decision to block PRC tech company Huawei's construction of an undersea cable from Australia to the Solomon Islands and the proposal of a bilateral defence treaty with Vanuatu (following reports of discussions with the PRC regarding a potential military base there) show this policy position in action.

But policy makers should also consider Australia's already strong position as the region's foreign aid 'superpower'. Between 2011 and 2017, Australia provided six times more aid than the PRC in the Pacific. PRC aid projects, although providing vital infrastructure and services, have been known to overly rely on PRC labour and materials, lead to corruption amongst officials and be of poor quality. Australian aid, as a function of its targeted, sector-based approach encouraging strong due diligence, is indelibly linked into these communities with most aid funding governance reforms, healthcare and education. Australia also has strong historical and professional ties in the Pacific that the PRC simply does have.

It is therefore arguable that the Pacific is a suitable arena for increased aid collaboration between Pacific Island countries, Australia, the PRC and potentially New Zealand. This could include co-funding or cooperation with PRC contractors and government agencies across infrastructure, healthcare and education. However, this will require a more sustained diplomatic approach from Australian governments. Foreign aid budgets have been consecutively cut over the past five years leaving a potential vacuum for the PRC to fill. In any event, this offers a unique opportunity for Australia to help shape PRC aid policy to ensure even greater development opportunities for all Pacific nations.

Questions

- What are the implications of growing PRC influence in the Pacific for the regional rules-based order?
- Does concessional PRC aid to the Pacific, especially that which backs large-scale infrastructure projects, demonstrate chequebook diplomacy?
- How should Australia respond to the potential that PRC-funding infrastructure could be militarised?
- How best could Australia both maintain our relationship with both Pacific nations and the PRC?



China Matters is grateful to our partners for their financial support