The South Pacific islands are now an integral part of the wider Indo Pacific construct. The region is now also firmly a part of China’s maritime thinking, and expansion as a part of its “island chain” strategy.

Starting in 2006, China started ramping up its engagement in the South Pacific region, following similar trends elsewhere is the world. Between 2011 and 2017, Beijing provided about 8% of all foreign aid to the region and more than 80% of it was provided through concessional loans (NPR 2019). In 2014, Xi Jinping announced the decision to elevate China’s “friendly cooperative’ relationship with the Pacific Island States to a “strategic” partnership. By the time of the APEC Summit in November 2018, Pacific States already owed $1.3 billion in concessional debt and China had suddenly emerged as the second largest donor after Australia in the region (Zhang 2017). Between 2011 and 2018 China committed US$ 6 billion worth of loans to the region – around 21 % of the regional GDP. A majority of that amount, US$ 4.1 billion, was earmarked for Papua New Guinea. Only $1.3 billion has been disbursed but China is still the single largest creditor for Tonga, Samoa and Vanuatu (The Guardian 2018a). The Cook Islands, Fiji, and Papua New Guinea are the other creditor nations. Many Chinese loans carry a 2% annual interest rate. However, the countries are vulnerable unless these loans are made sustainable as natural disasters like earthquakes, cyclones and tsunami can affect the repayment ability of these countries.

Introduction: Growing Chinese Presence in the South Pacific

According to recent estimates the South Pacific’s infrastructure needs an infusion of $20 billion over the next decade. Due to many years of underinvestment, economic mismanagement, and natural disasters, the economies of the island nations remain fragile. Infrastructure investment in the Pacific islands is thus critical, especially funding that supports local growth and meets local needs (TTG Asia 2019). 75% of China’s direct aid loans are distributed via two state owned financial institutions, the Export Import Bank of China and the China Development Bank.

By November 2018 itself, China had made its intentions clear in the region, when ahead of the Asia Pacific Summit in Port Moresby, in November 2018, China announced that Tonga, Vanuatu, Cook Islands and Niue as well as Fiji had agreed to sign on to the Belt and Road initiative. The signature of Cook Islands and Niue on the BRI bandwagon caught New Zealand by surprise, since these islands are defacto working under New Zealand laws.
What was even more startling was the news that China will be building a deep-water port on Penrhyn island in the Cooks and a 64 km expressway around Niue while also upgrading wharves and ports. China had also paid Rarotonga, the seat of the Cook Islands government, several million dollars in fishing license fees for blue and yellow tuna for domestic Chinese consumption (Silk Road Briefing 2019). New Zealand had budgeted US$ 14.6 million in 2018-19 to support Niue, but saw that Niue’s prize assets were being sold elsewhere. China is now building a hotel in Fiji which will be exclusively for Chinese tourists and will not allow locals. China has signed off lucrative fishing licenses in Micronesia that will see Micronesian catch exported to China. There are fears that waters around the Pacific could be drained of Pelagic fish in a matter of years if proper checks and balances are not introduced.

Recent events show that Chinese influence has grown by leaps and bounds. In September 2019, in a celebrated coup for Beijing, Solomon Islands and Kiribati each switched their diplomatic allegiance from Taiwan to the Peoples Republic of China. Since August 2019, Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga, Vanuatu Kiribati and Solomon Islands owe allegiance to China. Of Taiwan’s remaining 15 international partners, just four are now Pacific Island States. Xi Jin Ping’s vision to provide links to a bigger marketplace is proving hard to resist for leaders of these remote, fledgling economies.

While Xi Jin Ping has stated that China does not seek a “sphere of influence”, Taiwan has accused Beijing of trying to “suppress and reduce Taiwan’s international presence” and take away its sovereignty (Business Insider 2019). China and USA are eagerly awaiting the results of the elections in Marshall Islands on 18 November. The current Marshallene government is an ally of Taiwan, while the opposition is eager to work with China. The winner will enter into negotiations to renew the compact with US, set to expire in 2024.

The region is an important part of China’s Belt and Road initiative. US and Western analysts have pointed out that China wants to establish a military presence in the region, benefit from the region’s voting power at the United Nations by securing support from grateful, indebted governments at international fora, where numbers count; gain access to natural resources such as timber, gold, nickel, liquified natural gas, and fish and undermine regional diplomatic support for Taiwan, which Beijing considers its own territory (South China Morning Post 2018). For China, extending its influence in the Pacific would lessen the sense of maritime containment, it might also want to support ethnic Chinese people who live in those countries. Statistics of the number of Chinese living in the South Pacific are scarce, but in 2006, the South Pacific Islands were already home to an estimated 80,000 Chinese. Some were descended from Chinese traders who settled in the region in the 1800s, while others migrated more recently to work on Chinese construction projects. In the 2000s, anti-Chinese sentiment resulted in riots in the Solomon Islands, PNG and Tonga where a fatal unrest prompted China to send a charter plane to expatriate around 200 Chinese nationals.

In September 2019, in a celebrated coup for Beijing, Solomon Islands and Kiribati each switched their diplomatic allegiance from Taiwan to the Peoples Republic of China.

The issues behind the riots have differed from one Pacific Island State to another. In PNG, which suffers from high unemployment, for instance, the hostility was towards Chinese business owners. China has tried to improve local relations, changing tactics from bringing over its own construction workers to hiring more local staff. China has also increased its aid to Pacific tourism and boosted the number of high – level visits by Chinese diplomats. It has simultaneously increased its humanitarian assistance and relief to the region.

In the South Pacific, the US shares influence with Australia and New Zealand, with

What are the Motivations for China to Invest in the Region?
Australia and New Zealand providing more financial aid and military resources to the region than Washington. But China has ‘significantly bolstered’ its economic, diplomatic and security engagement in the Pacific Island States over the last five years. Some analysts in the US are worried that China is trying to erode US influence in the region to weaken the US military presence and create an opening for Chinese military access (Belt and Road News 2019). In the current period of need, it is not certain if all Pacific Island States will not succumb to the lure of financial gratification in return for their territory being used for foreign military vessels.

Alarm bells had started ringing, when, in July 2016 the Chinese offered to shift the small jetty with a few naval boats in Suva to another location free of cost but the Fijians turned to India, fearing a prolonged Chinese military presence. There have been recent reports of China trying to acquire a base in Vanuatu (although denied by both sides), and also engaging the governments of Fiji, and Papua New Guinea through joint projects related to port dredging and road construction. In December 2016, the PLAN fleet including the aircraft carrier “Liaoning” crossed the first island chain, and China has justified this action by stating that the PLAN might need to evacuate Chinese populations and businesses, due to fierce competition with local traders. A Chinese military base would be seen as a problem in the United States, which has had a presence in the South Pacific since World War II. The US still has military outposts on islands in this region, such as Guam and the Marshall Islands. The islands running from Guam to Taiwan and the Philippines, and from Japan to Guam and Palau form lines known as the first and second island chain (Bloomberg 2019). Academics and military theorists see them as a way for the US to contain China from gaining a strategic position in this region. A Chinese military base or facility in the South Pacific could prevent US military access to the region – and affect key partners, New Zealand and Australia. Such a development could expand China’s monitoring and surveillance capabilities, helping Beijing mitigate US military presence in the region. Chinese bases in the South Pacific would also raise security concerns for Australia. Three of Australia’s main five maritime trade routes pass through the Pacific. Even if China didn’t threaten these routes, its presence could expose them to the possibility of future issues which in turn could have implications for a country like Australia. The region straddles sea lanes of communication, with several ports and airports. Japan gets 70% of its coal and 60% of its iron ore imports respectively from Australia. The diplomatic reconfiguration in the region has therefore opened up a new front in the battle for influence between China and the US and its allies as part of a global chess game between China and the US. Analysts also speak of island countries falling like dominos to Chinese influence and call this emerging dynamic the “Pacific Great Game” (Financial Times 2019a).

How Has This Change Come About?

Australia and New Zealand remain the dominant financiers of Pacific aid, delivering some 54% of the more than $2 billion in assistance given to Pacific Island States between 2011 and 2017. Japan, China and the US round out the list of top five donors, with the US giving a little more than 7% over the same period. In 2017 Japan was the third largest donor, spending over $187 million in 182 projects. In this situation, how has a change come about in the attitude of the Pacific Island States towards China? In the Pacific’s fragile islands, nothing worries them more than climate change.

Climate Change: A Big Factor?

Pacific Island states that consider themselves on the front lines of climate change had hoped the US would stay committed to the global deal to cut emissions and help populations confront the rising seas around them. Now some leaders are turning to China for help, and climate change has been a clear factor. They hope this new relationship will boost economic development as well as give their nation more resources to manage and mitigate the impact of global warming. (NPR 2019)
Pacific islanders have long asked industrialized nations to stop burning fossil fuels and to do more to “help the Pacific adapt” and specifically Australia has come under criticism from islands in the Pacific for opening new territory in Queensland to coal mining and for employing “accounting tricks to create the illusion” of satisfying Australia’s emission targets. In August 2019, Australia promised $500 million over 5 years to the Pacific Island States, earmarked for projects related to climate change and natural disaster resilience. Later that week, however, the Pacific Island Forum was tainted by heated arguments and even tears over the watered down language in the concluding communique on global warming. Kiribati said that Australia seemed chiefly concerned with safeguarding its coal industry, and Tuvalu chided Australia for forgetting “the spirit of the Pacific Way”. In fact, both leaders suggested that Australia be suspended or sanctioned from future gatherings (Australian Strategic Policy Institute 2019).

US President Trump has also not pleased the island nations due to his stance on climate change. Provisions of the Paris climate agreement prevent a US withdrawal until November 2020, but at a recent natural gas industry conference in Pittsburg, Trump confirmed his intention to abandon his predecessor’s emissions reduction pledge.

China recognizes the value of environmental rhetoric. In coverage of a recent economic development Summit in Samoa, the state-run Xinhua news agency touted China as “one of the first countries” to sign the Paris Agreement and highlighted its pledge “to halt the rise in carbon dioxide emissions by around 2030. This, despite the fact that China is the world’s largest greenhouse gas emitter and coal consumer, and a country whose carbon dioxide output grew by 4% during the first half of the year. China has also released thousands of tons of ozone depleting chlorofluorocarbons in northeast china in violation of the Montreal protocol, and has ongoing plans to construct more than 300 coal fired power plants.

Chinese Plans for Long Term Presence in the Region

China’s involvement in the Pacific is now becoming noticeable. This includes visits by Chinese navy, soft loans and grants, exchanges of high-level visits and delegations, Chinese scholarships to student from these countries, and – in countries like Tonga, ethnic Chinese control of about 80% of the retail sector. In many of these small states, there is suspicion of the recent surge of Chinese immigration, and its role in the region, which includes control over the natural resources like minerals, fish and marine produce, pushing up prices of essential commodities due to scarcity.

PNG and Fiji, the main destinations of Chinese investment in the Pacific, have attracted US$3.88 billion and US $150 million of Chinese investment respectively, and PNG is home to more than 2 dozen Chinese state enterprises. The metallurgical corporation of China has invested US$1.4 million in the Ramu Nickel mine in Madang Province. This is China’s second largest investment in the region. China’s bilateral trade with the 8 Pacific States that have close ties with Beijing has risen to $4.32 billion in 2018 – up 25% from 2017. China has also become the largest trading partner of new ally Solomon Islands, the second largest trading partner of Papua New Guinea and Fiji, and the third largest trading partner of Samoa. China’s direct investment in the region has also jumped, reaching US$ 4.53 billion in 2018, a more than fourfold increase from the $ 900 million in 2013. In return for switching allegiance from Taiwan, Solomon Islands will receive a US$ 74 million grant to build a new stadium for the 2023 Pacific games in the capital Honiara- something its former ally Taipei had committed to fund. China Sam Group has reportedly signed an agreement to lease the island of Tulagi in the Solomon’s, the site of a former naval base. The agreement mentioned the development of a refinery on the island, but Taiwanese foreign minister James Wu has said it will be used as a military base. PNG exports LNG to China since 2014. China has also stepped up security cooperation – e.g. in 2017, 77 internet “scammers’ were deported from Fiji to China. Between 2006 and 2015, Chinese
Ministry of Foreign Affairs recorded 235 ministerial visits from 8 Pacific Island states and the leaders have always been received honorably (Belt and Road News 2019).

Chinese loans are increasingly seen as debt traps by its rivals in the region. Reportedly, China offered $500 million to Solomon Islands in loans for much needed infrastructure projects before Solomon Islands switched allegiance from Taiwan. This decision flouts a warning by the country’s central bank that the Solomons cannot absorb additional borrowing if Beijing opened its tap. The report echoes an IMF study that warned governments in Samoa, Tonga and Vanuatu about indebtedness to China (Financial Times 2019b).

Security establishments are increasingly concerned about China’s engagement in the region. In 2018, an undersea cable was to be installed from Solomon Islands to Australia. That project was first awarded to Chinese firm Huawei technologies but Australia stepped in to help fund and build the telecommunications link instead (The Guardian 2018b).

State-Owned Enterprises and Chinese Immigration and Labour

China is winning government contracts and dominating the infrastructure space in the region, and the way Chinese state-owned enterprises interact with island nations should be more of a concern than the possibility of China setting up a military base. Chinese state-owned enterprises were pushing hardest for the Solomon Islands to sever diplomatic ties with Taiwan. These companies have operations around the world, and, to a large extent, it is in their interest to see that diplomatic relations are established with the country they operate in. And so, their bottom line is about making profit, just like companies anywhere else in the world.

Meanwhile, there has also been an influx of Chinese immigrants to build the Chinese funded projects because Chinese firms prefer to use Chinese labour – causing tensions over jobs and Chinese business practices across the Pacific region (Inkstone News 2018).

Language Diplomacy and Connectivity

By August 2019, all the Pacific Island States that recognize Beijing, including Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu had signed up to BRI. Kiribati and Solomon Islands have now switched allegiance to China. Beijing Foreign Studies University (BFSU) has been entrusted with the teaching of Pacific languages in China. Approved by the Chinese ministry of Education in May 2017, BFSU started to advertise a new four-year bachelor course on seven pacific languages, including Bislama, Cook Islands Maori, Fijian, Niuean, Samoan, Tok Pisin and Tongan. It will be part of the English language programme. The main driver of this ambitious programme appears to be to support China’s diplomacy and – the BRI. To attract talent to teach these foreign languages, the university is offering lucrative pay and benefits (such as accommodation and research funding), by China’s standards. This clearly reflects the view that China will use the BRI to frame China – PIC cooperation in the future (DevPolicy Blog 2019).

Chinese loans are increasingly seen as debt traps by its rivals in the region. Reportedly, China offered $500 million to Solomon Islands in loans for much needed infrastructure projects before Solomon Islands switched allegiance from Taiwan.

China has assisted Tonga and Samoa with Modern Ark 60 airliners and Y12 aircraft, given to the South Pacific Island countries to boost regional connectivity. China has now become the fastest emerging tourism market for the Pacific islands. In 2018, out of the 2.1 million visitors, 5.8 percent were Chinese.

Backlash: Allying of US, Australia and New Zealand

There has been a backlash against Chinese aggressiveness and push in the South Pacific from the traditional dominant players.
Australia, New Zealand, and USA are ANZUs treaty allies. A historic objective of the US Australia alliance has been to prevent the rise of a strategic military competitor in the South Pacific. USA Australia and New Zealand have increased engagement in the region. In recent months Secretary of state Mike Pompeo visited Micronesia, and Palau. The US has promised not just one, but two infusions of new aid to the region, totaling $101.5 million, geared towards climate change, resilience, and sustainable development, among other issues (NPR 2019). In mid-November 2019 US and its allies pledged to develop a deep sea port in the Solomon Islands.

Just before the Apec Summit in November 2018, Australia offered $1.4 billion in cheap infrastructure loans and grants and an additional $1 billion to support business in the Pacific. New Zealand announced an additional $500 million and agreed to purchase 4 Boeing P8A Poseidon aircraft to increase its capabilities to conduct maritime patrols and provide disaster relief assistance. Japan has pledged $460 million assistance to the region. Taiwan has spent $225 million on aid projects since 2011. Taiwan’s investment is focused on horticulture and health (BBC 2018a).

As a reaction to the loss of allegiance from Solomon Islands and Kiribati, US and Taiwanese government officials hosted a regional forum on October 7, 2019. Speaking at a parliamentary session in October, Taiwanese foreign minister Joseph Wu said that the Chinese had plans to increase their military presence in the Pacific nations. Elaborating, he said that China is interested reopening the radar station in Kiribati, and building a naval base in the western province of Salmon islands, warning that the station could be used to monitor US satellites and missile activities (Rand Corporation 2019).

In another reaction, in 2018, US Australia and Papua New Guinea announced they would partner to redevelop a naval base on PNGs Manus island, best known for a controversial and now shuttered migrant detention center. During World War II, the island was home to a Japanese base that was captured and taken over by the allies.

President Trump hosted the leaders of Palau, the Marshall Islands, and Micronesia for the first time in history. The joint statement from the meeting pledged cooperation on combating illegal fishing, deepening economic development, and supporting the pacific environment, key issue areas for all South Pacific countries. Since 2014, India has increased the annual grant in aid from US$125,000 to US$200,00 for each of the 14 FIPIC countries for undertaking development cooperation projects of their choice. (BBC 2018b)

The Better utilization of Investments leading to Development (BUILD) Act more than doubles the US governments commitment to oversees development financing to $60 billion and replaces the Oversees Private Investment Corporation with the International Development Finance Corporation, which is better equipped to develop cooperate funding with US allies. Similarly, the Asia Reassurance Initiative Act (ARIA) goes some way to addressing the noted absence of US attention to the broader Indo Pacific region. The stage is set for a keen competition in the region (CSIS 2018).

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<table>
<thead>
<tr>
<th>Issue No/ Month</th>
<th>Title</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>No:93 Mar 2020</td>
<td>Europe’s New Role in the Indo-Pacific</td>
<td>Christian Wagner</td>
</tr>
<tr>
<td>No:92 Mar 2020</td>
<td>The US Free and Open Indo-Pacific Initiative: Maintaining Free Trade Connectivity Across Asia</td>
<td>David Arase</td>
</tr>
<tr>
<td>No:91 Mar 2020</td>
<td>Xi Jinping and Chinese Power</td>
<td>Richard McGregor</td>
</tr>
<tr>
<td>No:90 Mar 2020</td>
<td>Informal Meetings in Foreign Policy</td>
<td>Anu</td>
</tr>
<tr>
<td>No:89 Mar 2020</td>
<td>China and the Global Governance of the Refugee Crisis</td>
<td>Anjali Gupta</td>
</tr>
<tr>
<td>No:88 Feb 2020</td>
<td>Xi Jinping’s ‘New Era’ – Continuities and Change</td>
<td>Anurag Vishwanath</td>
</tr>
<tr>
<td>No:87 Feb 2020</td>
<td>When Bhutan got Caught Up in the Tug-of-War Between Colonial Britain and China</td>
<td>Nirmola Sharma</td>
</tr>
<tr>
<td>No:86 Feb 2020</td>
<td>Brahmaputra and its Imageries: Strategising Sustainable Development</td>
<td>Medha Bisht</td>
</tr>
<tr>
<td>No:85 Jan 2020</td>
<td>‘Leftover Women’ of China: Choice or Destiny?</td>
<td>Usha Chandran</td>
</tr>
<tr>
<td>No:84 Jan 2020</td>
<td>China &amp; Asia’s Changing Geopolitics</td>
<td>Shivshankar Menon</td>
</tr>
<tr>
<td>No:83 Jan 2020</td>
<td>River Regionalism: Locating Transboundary Rivers in Regional Cooperation Context in South Asia</td>
<td>Mirza Zulfiqur Rahman</td>
</tr>
<tr>
<td>No:82 Nov 2019</td>
<td>Historical Overview of Chinese FDI Regulations</td>
<td>Rajesh Ghosh</td>
</tr>
<tr>
<td>No:81 Oct 2019</td>
<td>Technology and Governance: Comparing China’s Social Credit and India’s Aadhaar</td>
<td>Ekta Singh</td>
</tr>
<tr>
<td>No:80 Aug 2019</td>
<td>Emerging Tech Entities and Innovation: Case of Chinese Tech Companies</td>
<td>Rachit Kumar Murarka</td>
</tr>
<tr>
<td>No:79 Aug 2019</td>
<td>Nuclear Arms Limitation With China?</td>
<td>Samanvya Hooda</td>
</tr>
<tr>
<td>No:78 Apr 2019</td>
<td>The Curious Case of the BRI Shapeshifting in Africa</td>
<td>Veda Vaidyanathan</td>
</tr>
</tbody>
</table>
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