

China in the Pacific and Traditional Powers' New Pacific Policies: Concerns, Responses and Trends

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China's rise in the Pacific has been a major driver of the United States, Australia and New Zealand's respective "Pacific Pledge", "Pacific step-up" and "Pacific reset" policies. This paper examines these new policies and the concerns about China that lie behind them, how China has responded and trends in China-Pacific relations. It argues that China will continue its own way of engagement with the Pacific, but that it may respond assertively if it perceives its Belt and Road Initiative is under threat from the traditional powers' new Pacific policies. Focusing on trade, aid and tourism, the research suggests that, although China has made fast inroads into the region since 2006, it still lags behind the United States, New Zealand and especially Australia in important ways, which is unlikely to change in the short term.

China has substantially increased its presence in the Pacific since 2006. Chinese President Xi Jinping attended the APEC Summit in Port Moresby in November 2018 and met with leaders of all eight Pacific Island countries (PICs) that had diplomatic relations with China at the time, pledging to build a comprehensive strategic partnership with these countries.¹ In September 2019, Solomon Islands and Kiribati switched their diplomatic recognition from Taiwan to China, which further expands China's influence in the region.

While literature on China in the Pacific and traditional powers' new Pacific policies is growing,² few scholarly works have interwoven the two topics. This paper aims to enrich these debates by focusing on three aspects: first, it will discuss traditional powers' new Pacific policies and their concerns about China that lie behind them; second, it will analyse China's responses to traditional powers' new Pacific policies and their concerns about China in the region; third, it will compare China and traditional powers' engagement with PICs in the sectors of trade, aid and tourism, and analyse the trends of China-Pacific relations. In this paper, traditional powers refer to the United States (US), Australia and New Zealand. The data used in the research is drawn from the author's interviews with Chinese scholars, existing scholarly works, public government documents and media reports.

1 Xinhua, 'China, Pacific Island Countries Lift Ties to Comprehensive Strategic Partnership', 17 November 2018, <www.xinhuanet.com/english/2018-11/17/c_137612239.htm> [Accessed 20 May 2019].

2 See for example Kate Hannan and Stewart Firth, 'Trading with the Dragon: Chinese Trade, Investment and Development Assistance in the Pacific Islands', *Journal of Contemporary China*, vol. 24, no. 95 (2015), pp. 865–82; Brian Harding, 'The Trump Administration's Free and Open Indo-Pacific Approach', *Southeast Asian Affairs*, vol. 2019 (2019), pp. 61–67.

Traditional Powers' New Pacific Policies and Concerns about China

The Pacific constitutes an integral part of the US Indo-Pacific strategy which first appeared in the US President Donald Trump's remarks at the APEC CEO Summit in Vietnam in November 2017 and highlighted Washington's determination to promote a rules-based free and open region in response to a more assertive China.³ Engagement between the US and PICs has grown markedly. In May 2019, President Trump met with his counterparts from the three freely associated states of the Republic of Marshall Islands (RMI), the Federated States of Micronesia (FSM) and Palau at the White House for the first time and pledged an increased US presence in the region amid China's growing influence. In August, Mike Pompeo visited the FSM, the first visit by a US Secretary of State in history, where he started the negotiations with the above three PICs to renew the compacts of free association in order to "sustain democracy in the face of Chinese efforts to redraw the Pacific".⁴ To implement the Pacific Pledge, which the US sees an element of its broader Indo-Pacific Strategy, in August and September 2019 the US government committed over US\$100 million in new assistance to the Pacific in addition to ongoing annual spending of US\$350 million in the region.⁵ Much of the assistance will be used to deepen cooperation with PICs in such sectors as climate change, infrastructure, governance and security.

Similarly, Australia and New Zealand, the two most important regional powers, are bolstering their presence in the Pacific. The Australian Government is stepping up its engagement with PICs, a move described by Foreign Minister Marise Payne as "an imperative" rather than "an option" for Australian foreign policy, to tackle the region's challenges in the sectors of climate and disaster resilience, economic growth, health, education and social inclusion.⁶ For example, as part of the 'Pacific Step-up', Australia has created an AU\$2 billion loan facility to support Pacific countries in high priority infrastructure development, a sector in which China's involvement is seemingly far more visible than traditional partners including Australia.⁷ In 2018 Australia also committed to opening five new diplomatic missions in the Pacific, giving it on-the-ground representation in every member of the Pacific Islands Forum. Since July 2018, the Pacific Labour Scheme has been implemented to provide economic opportunities for Pacific Islanders to work in rural and regional Australia. In November 2019, Australia's first-ever specialist college on security in PICs—the Australia Pacific Security College—was officially launched at

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- 3 Donald Trump, 'Remarks by President Trump at APEC CEO Summit | Da Nang, Vietnam', White House, 10 November 2017, <www.whitehouse.gov/briefings-statements/remarks-president-trump-apec-ceo-summit-da-nang-vietnam/> [Accessed 18 August 2018].
 - 4 Colin Packham and Jonathan Barrett, 'U.S. Seeks to Renew Pacific Islands Security Pact to Foil China', Reuters, 5 August 2019, <www.reuters.com/article/us-micronesia-usa-pompeo/u-s-seeks-to-renew-pacific-islands-security-pact-to-foil-china-idUSKCN1UV0UV> [Accessed 20 November 2019].
 - 5 US Department of State, 'U.S. Engagement in the Pacific Islands: UN General Assembly Update', Fact sheet, 3 October 2019, <www.state.gov/u-s-engagement-in-the-pacific-islands-un-general-assembly-update/> [Accessed 18 November 2019].
 - 6 Marise Payne, 'State of the Pacific Conference', DFAT, 10 September 2018, <www.foreignminister.gov.au/minister/marise-payne/speech/state-pacific-conference> [Accessed 12 May 2019]; DFAT (Department of Foreign Affairs and Trade), 'Stepping-up Australia's Pacific Engagement with Our Pacific Family', n.d., <<https://dfat.gov.au/geo/pacific/engagement/Pages/stepping-up-australias-pacific-engagement.aspx>> [Accessed 9 August 2019].
 - 7 DFAT, 'Stepping-up Australia's Pacific Engagement'.

the Australian National University. This institution will advance Australia's security cooperation with the Pacific by providing training for mid- and senior-level Pacific officials on climate, environmental, human and traditional security issues.⁸

In 2018, New Zealand outlined its 'Pacific Reset' policy and pledged to deepen relations with the region by providing an additional NZ\$714.2 million aid spending over the next four years, with the majority going to the Pacific, and creating fourteen new diplomatic and development positions offshore to support this aim.⁹ Some of New Zealand's achievements in 2018 on the implementation of this new policy include an increased frequency of leadership diplomacy, improved connectivity between domestic and regional policy and support for the region in addressing security challenges and promoting Pacific leadership on climate change.¹⁰

China's rise in the region would appear to be a major factor driving the new Pacific policies of the US, Australia and New Zealand. As opposed to Barack Obama's engagement policy on China, the US Trump administration views China as a strategic rival and revisionist power that challenges "American power, influence, and interests".¹¹ The 'Pacific Pledge' policy can be interpreted as part of the US efforts to counter China's influence. In November 2019, the US-China Economic and Security Review Commission suggested the reinstatement of US Peace Corps programs in the FSM, Palau and other PICs to promote US values in response to China's rise in the region.¹² Australian politicians have expressed growing concerns about China's influence in the Pacific, a region highlighted as of fundamental importance to Australia in both the foreign policy and defence white papers.¹³ Given that the US and China are Australia's most important strategic ally and largest trading partner respectively, the Australian Government has adopted a more balanced China policy compared with the US, although it supports the US in strengthening a free, open and rules-based Indo-Pacific order.¹⁴ To Winston Peters, New Zealand Deputy Prime Minister and Minister of Foreign Affairs, the Pacific is "attracting an increasing number of external actors and interests. So much is changing in the Pacific, and sometimes it is not for the best".¹⁵ Compared with the US and Australia,

8 DFAT, 'Launch of Australia Pacific Security College', Media release, 14 November 2019, <ministers.dfat.gov.au/minister/alex-hawke-mp/media-release/launch-australia-pacific-security-college> [Accessed 20 November 2019].

9 Winston Peters, 'Pacific Diplomatic Footprint', Beehive.govt.nz website, 4 December 2018, <www.beehive.govt.nz/release/pacific-diplomatic-footprint> [Accessed 3 May 2019]; Winston Peters, 'New Zealand to Boost Development Spending', Beehive.govt.nz website, 8 May 2018, <www.beehive.govt.nz/release/new-zealand-boost-development-spending> [Accessed 9 August 2019].

10 New Zealand Cabinet External Relations and Security Committee, 'The Pacific Reset: The First Year', Minute of Decision ERS-18-MIN-0028 (Wellington: New Zealand Government, 2019).

11 White House, *National Security Strategy of the United States of America* (Washington DC: White House, 2017); Department of Defense, *Summary of the 2018 National Defense Strategy of the United States of America* (Washington DC: US Department of Defense, 2018).

12 US-China Economic and Security Review Commission, *2019 Report to Congress* (Washington DC: US Government Printing Office, 2019), p. 402.

13 Catherine Graue and Stephen Dziedzic, 'Federal Minister Concetta Fierravanti-Wells Accuses China of Funding "Roads That go Nowhere" in Pacific', *ABC News*, 10 January 2018, <www.abc.net.au/news/2018-01-10/australia-hits-out-at-chinese-aid-to-pacific/9316732> [Accessed 15 August 2018]; DFAT, 2017 Foreign Policy White Paper (Canberra: Australian Government, 2017), pp. 101–4; Department of Defence, 2016 Defence White Paper (Canberra: Australian Department of Defence, 2016), pp. 54–56.

14 DFAT, *2017 Foreign Policy White Paper*, pp. 38–40.

15 Lowy Institute, 'Winston Peters on New Zealand in the Pacific', 2 March 2018, <www.lowyinstitute.org/publications/winston-peters-new-zealand-pacific> [Accessed 2 April 2019].

New Zealand does not favour the Indo-Pacific description, which it sees as presenting both opportunities and risks.¹⁶ There are divergences between Australia and New Zealand in the Pacific, and New Zealand's concerns about China (New Zealand's largest trading partner) in the Pacific is less evident than Australia.¹⁷

The concerns of the US, Australia and New Zealand about China are attributable to three major factors. First, China has significantly increased its presence in the Pacific. High-level visits to the region are a useful proxy indicator. The Chinese premier and president paid their first visits to the region in April 2006 and November 2014 respectively, signalling China's growing interest in the Pacific. Xi Jinping also visited Papua New Guinea (PNG) on the margins of 2018 APEC Summit in November. Another 42 ministerial (or above) delegations from China visited the Pacific over the period of 2006–16.¹⁸ The growth of Chinese trade, aid and tourists in the Pacific is also impressive, as discussed below.

Second, the perceived ambiguity of China's motives in the Pacific concerns traditional powers. Compared with Australia, New Zealand and the US, which have historical, geographical and colonial links to PICs, China is a newcomer and external player. According to some commentators, China's fast inroads into the region alarms these powers, which are unsure whether China aims to compete with and ultimately replace them in the long run.¹⁹ China's lack of transparency in the region exacerbates these concerns. Foreign aid is a typical example. Though foreign aid has become a main component of China's diplomacy in the Pacific and the volume has soared in the past decade, the Chinese government does not release official data on its annual aid budget and breakdown of aid spending by country and year. As a result, Chinese aid spending in the Pacific and the materialisation of aid commitments made by Chinese leaders is extremely difficult to verify. The Lowy Institute estimates there is an enormous gap of over US\$5 billion between Chinese aid commitments (US\$6.36 billion) and disbursements (US\$1.28 billion) to PICs between 2011 and 2017.²⁰ This inevitably forces analysts to play the game of “putting together the jigsaw puzzle”,²¹ making space for speculation.

Third, the distinctive means by which China engages with Pacific Island countries is of concern to traditional powers. China's fast-growing infrastructure projects across the Pacific region are largely dominated and driven by the state, although in some cases Chinese state-owned Enterprises (SOEs) have played an important role in initiating

16 Ben King, 'Remarks on the Indo-Pacific—Ben King, Deputy Secretary for Americas and Asia', New Zealand Ministry of Foreign Affairs and Trade, 23 October 2018, <www.mfat.govt.nz/en/media-and-resources/ministry-statements-and-speeches/remarks-on-indo-pacific-ben-king/> [Accessed 10 July 2019].

17 Joanne Wallis and Anna Powles, 'Australia and New Zealand in the Pacific Islands: Ambiguous Allies?', *Centre of Gravity* series no. 43 (Canberra: Strategic and Defence Studies Centre, Australian National University, October 2018).

18 Denghua Zhang, 'China, India and Japan in the Pacific: Latest Developments, Motivations and Impact', *DPA Discussion Paper* 2018/6 (Canberra: Department of Pacific Affairs, ANU, 2018), p. 3.

19 John Henderson and Benjamin Reilly, 'Dragon in Paradise: China's Rising Star in Oceania', *The National Interest*, vol. 72 (2003), pp. 94–104; Tamara Renee Shie, 'Rising Chinese Influence in the South Pacific: Beijing's 'Island Fever'', *Asian Survey*, vol. 47, no. 2 (2007), pp. 307–26.

20 Lowy Institute, 'Pacific Aid Map', <pacificaidmap.lowyinstitute.org> [Accessed 21 November 2019].

21 Sven Grimm, Rachel Rank, Matthew McDonald and Elizabeth Schicklerling, *Transparency of Chinese Aid: An Analysis of the Published Information on Chinese External Financial Flows* (Stellenbosch: University of Stellenbosch, 2011), p. 22.

projects and subsequently approaching Beijing for financial support.²² Chinese SOEs are also default contractors to conduct Chinese aid projects, especially concessional loan projects, which were designed in China's 'going out' strategy in the late 1990s to support Chinese SOEs to explore overseas markets and sharpen their competitive edge, which in turn contributes directly to the state-controlled economy back in China. Not surprisingly, Chinese SOEs such as China Civil Engineering and Construction Corporation and China Harbour Engineering Corporation entered Pacific markets by contracting Chinese aid projects, before moving on to bid for commercial contracts. According to China's official figures, as of 2016, forty-seven of the sixty-seven Chinese companies operating in China's eight diplomatic partner PICs were state-owned,²³ which is telling evidence that SOEs dominate Chinese business operations in the region.

Another major difference between China and traditional powers is associated with China's government-to-government approach and its limited engagement with non-government stakeholders, especially civil society groups in PICs. This approach is seen by some analysts²⁴ to bring both advantages, such as efficiency in project delivery, and disadvantages, such as a lack of strong community consultation. In addition, China's interest in engaging and coordinating with traditional powers is limited. Although China has conducted trilateral aid projects with Australia in PNG and with New Zealand in the Cook Islands respectively, they were launched some years ago and have not led to any further activity in other countries. Chinese attendance at donors' roundtable discussions is rare, and China has refused to sign up to the Cairns Compact on Strengthening Development Coordination in the Pacific, which was adopted at the Pacific Islands Forum meeting in 2009. This is another factor in traditional powers' mistrust of China.

More broadly, the entrenched strategic mistrust between communist China and the democratic traditional powers is the root cause of the latter's growing concerns about China's increased presence in the Pacific, even if the trigger for the recent round of concerns has been China's fast-growing engagement with PICs and the Xi Jinping administration's assertive diplomacy. The case of China–Fiji relations since 2006 suggests there are substantial divergences in national interests between China and traditional powers in the region. The military coup that occurred in Fiji in December 2006 received immediate backlash from traditional powers, especially Australia and New Zealand, which condemned it as a direct threat both to democracy in Fiji and to regional stability and imposed sanctions on the military regime. In 2009, Fiji was also suspended from membership of the Pacific Islands Forum and the Commonwealth. Rather than accommodating traditional powers' hard-line positions, Beijing filled the void by markedly intensifying its official engagement with Fiji, while the latter actively implemented a 'Look North' policy and sought closer relations with China and other non-traditional partners.²⁵ China extended substantial political and financial support to Fiji. At China's invitation, Fijian Prime Minister Bainimarama visited China five times between 2008 and 2015. In February 2009, then Chinese vice president Xi Jinping stopped over in Fiji and

22 Denghua Zhang and Graeme Smith, 'China's Foreign Aid System: Structure, Agencies and Identities', *Third World Quarterly*, vol. 38, no. 10 (2017), pp. 2339–40.

23 Zhang, 'China, India and Japan in the Pacific', p. 8.

24 Such as Tom Bamforth, former Australian Red Cross program coordinator in the Pacific, author's interview, May 2019.

25 Sandra Tarte, 'Fiji's "Look North" Strategy and the Role of China', in T. Wesley-Smith and E. A. Porter (eds), *China in Oceania: Reshaping the Pacific?* (New York: Berghahn Books, 2010), pp. 121–24.

met with the interim government despite prior diplomatic protests from Australia and New Zealand.²⁶ With an aggregate aid of nearly US\$333 million, China was the largest donor in Fiji over the period of 2006–13.²⁷

China's Responses

Public remarks by Chinese officials and research by Chinese scholars offer some insights into Beijing's position on the new Pacific policies of the US, Australia and New Zealand or their concerns about China. As the 'Pacific Pledge' is still new, so far, China has not commented specifically on this policy yet. Chinese foreign affairs spokespersons, however, have responded to the US concerns about China's activities in the Pacific. In November 2018, Hua Chunying refuted US Vice President Mike Pence's criticism of Chinese loans for creating debts in PICs at the APEC CEO Summit in Port Moresby, arguing that China's activities are welcomed by PICs and the Pacific should serve as a region for cooperation rather than for geopolitical competition or confrontation.²⁸ In March 2019, Lu Kang, then foreign affairs spokesperson and incumbent director-general of the Department of American and Oceanian Affairs at China's Ministry of Foreign Affairs, described remarks by US ambassador to Australia Arthur Culvahouse Jr (who had accused China of using "payday loan diplomacy" in the Pacific) as "constantly making troubles out of nothing".²⁹ Chinese scholars of Pacific studies have mainly focused on the US Indo-Pacific Strategy generally rather than singling the Pacific region out.

Similarly, the Chinese government has responded strongly to Australia's concerns about China's activities in the Pacific. In January 2018, then Australian Minister for International Development and the Pacific Concetta Fierravanti-Wells described Chinese aid in the Pacific as being useless, saying that "we just don't want to build a road that doesn't go anywhere".³⁰ This remark was slammed by Chinese foreign affairs spokesperson Lu Kang as being irresponsible and finger-pointing.³¹ Three months later, Australian Prime Minister Malcolm Turnbull expressed grave concerns over the possible establishment of any foreign military base in the Pacific following reports that China was seeking to build a naval base in Vanuatu. While denying the allegation, China's Ministry of Foreign Affairs questioned about Australia's deep involvement in Pacific affairs, saying that "The South

26 Michael Field, 'NZ Shamed China over Fiji Visit—WikiLeaks', Stuff, 28 April 2011, <www.stuff.co.nz/national/politics/4934713/NZ-shamed-China-over-Fiji-visit-WikiLeaks> [Accessed 10 August 2019].

27 Denghua Zhang, 'China's Diplomacy in the Pacific: Interests, Means and Implications', *Security Challenges*, vol. 13, no. 2 (2017), p. 48. It is worth noting that according to the Lowy Institute, China has been overtaken by traditional donors such as Australia and Japan in aid to Fiji after these donors removed sanctions against Fiji following the general election in September 2014. See Lowy Institute, 'Pacific Aid Map'.

28 China Ministry of Foreign Affairs (MFA), 'Foreign Ministry Spokesperson Hua Chunying's Remarks on US Vice President Mike Pence's China-related Comments', 18 November 2018, <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2535_665405/t1614121.shtml> [Accessed 18 November 2019].

29 China MFA, 'Foreign Ministry Spokesperson Lu Kang's Regular Press Conference on March 13, 2019', n.d., <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1645211.shtml> [Accessed 19 November 2019].

30 Graue and Dziedzic, 'Federal Minister Concetta Fierravanti-Wells Accuses China'.

31 China MFA, 'Foreign Ministry Spokesperson Lu Kang's Regular Press Conference on January 10, 2018', n.d., <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1524766.shtml> [Accessed 20 November 2019].

Pacific island countries should not be the sphere of influence of any country”.³² This point was reiterated by China in response to claims in the Australian media that Australian Prime Minister Scott Morrison had committed AU\$250 million to support infrastructure development in Solomon Islands in order to contain China’s influence (even though the Australian Government itself made no such claim).³³

Some Chinese scholars argue that the Chinese government should be alert to Australia’s role in supporting the US and Japan in containing China, and be alert to the strategic intentions of quadrilateral security dialogues between the US, Japan, India and Australia.³⁴ Some other scholars suggest that instead of fuelling tensions in China–Australia relations, China should express understanding and respect for Australia’s desire to play a more important role in Indo-Pacific regional affairs.³⁵ Professor Wang Shiming, a senior scholar in Australia and Pacific studies at East China Normal University, argues that China and Australia have more common interests than divergencies in the Pacific and more cooperation between the two countries would enrich their bilateral relationship and serves the interest of Pacific Island states.³⁶

New Zealand’s ‘Pacific Reset’ policy has received much less attention from China compared to the Pacific policies of the US and Australia. In 2019, a scholar in Pacific research from the China Institute of Contemporary International Relations argued that the ‘Pacific Reset’ was designed to improve PICs’ perceptions of New Zealand and she suggested the New Zealand government think harder on how to cooperate with China in the Pacific region.³⁷

The responses of Chinese officials and scholars in Pacific Studies who provide counsels to the Chinese government, as outlined above, reflect its strategic unease about US, Australian and New Zealand efforts to counter China’s influence in the Pacific. Though this region is not a priority in China’s diplomacy, the Chinese government’s interest in this region has grown in the past decade. It has grouped PICs into China’s extended neighbourhood, or “greater periphery (*da zhoubian*)”.³⁸ In recent years, ‘neighbourhood diplomacy’, a term that refers to China’s diplomatic policies with the aim of creating an amicable, secure and prosperous neighbourhood, has received more attention from the Chinese leadership in support of its efforts to repair relations with South-East Asian

32 China MFA, ‘Foreign Ministry Spokesperson Geng Shuang’s Regular Press Conference on April 11, 2018’, n.d., <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1549999.shtml> [Accessed 15 November 2019].

33 China MFA, ‘Foreign Ministry Spokesperson Geng Shuang’s Regular Press Conference on June 4, 2019’, n.d., <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1669571.shtml> [Accessed 21 November 2019].

34 Xu Shaomin, ‘Australian Views of the “Indo-Pacific”: Implications, Drivers and Prospects’, *Journal of Contemporary Asia-Pacific Studies*, no. 3 (2018), pp. 115–56; Wang Jingchao, ‘The Research on Japan–Australia Maritime Security Cooperation: Historical Evolution, Motivations and Prospect’, *Pacific Journal*, vol. 26, no. 9 (2018), pp. 35–46; Zhang Jie, ‘The Quadrilateral Security Dialogue and Restructuring of Asia-Pacific Regional Order’, *China International Studies*, no. 5 (2018), pp. 59–73.

35 Zhou Fangyin and Wang Wan, ‘Ao da li ya shijue xia de yintai zhanlue ji zhongguo de yingdui [The Indo-Pacific Strategy from Australia’s Perspective and China’s Response]’, *Contemporary International Relations*, no. 1 (2018), p. 52.

36 Wang Shiming, ‘Open Regionalism and China–Australia Cooperation in the South Pacific Islands Region’, *China International Studies*, no. 75 (March/April 2019), pp. 84–108.

37 Tian Jingling, ‘Taipingyang chongzhi: xin xi lan waijiao huodong de Zhuzhou [Pacific Reset: The Centrepiece of New Zealand’s Diplomacy]’, *World Affairs*, no. 4 (2019), pp. 46–47.

38 Zhang, ‘China’s Diplomacy in the Pacific’, p. 45.

countries amid the maritime disputes in the South China Sea.³⁹ Chinese interests in the Pacific include the diplomatic competition with Taiwan, a growing economic stake and voting support at the UN. The extent of China's military interest in the Pacific, though, remains a matter of debate. Ewen Levick, online editor of *Australian Defence Magazine*, argues that China is using strategies in the South Pacific that are similar to those it has used in the South China Sea. These include conducting active operations through scientific research and resource exploration to collect data and increase situational awareness which could have military implications.⁴⁰ The 2019 report produced by the US Congressional Economic and Security Review Commission noted that China's growing engagement with PICs "could threaten the United States' military presence and power projection capacities in the Indo-Pacific".⁴¹ Some Chinese scholars on Pacific studies, however, downplay China's military ambitions in the Pacific, citing the low importance of PICs in China's broad diplomacy and China's inability to challenge US military predominance.⁴²

China may respond assertively if it perceives that its Belt and Road Initiative (BRI) is under threat from traditional powers' new Pacific policies. This is because of the paramount importance the Chinese government attaches to BRI as it is President Xi Jinping's signature program and is expected to endure as his theoretical legacy.⁴³ As a Chinese expert on international relations explained to the author, politically the Xi Jinping administration cannot afford to let BRI fail, and will spare no effort in ensuring BRI implementation overseas.⁴⁴ BRI is envisaged by the Chinese government to connect China with countries in Asia, Africa, Europe, South America and the Pacific. Economically, this program could provide an opportunity for China to offshore its excess industrial capacity and for Chinese SOEs to contract a large number of infrastructure projects in partner countries. Strategically, by promoting regional connectivity and economic integration, the Chinese government aims to strengthen its global and regional influence. In the Pacific, this might imply a rupture from the traditional regional architecture supported by the US, Australia and New Zealand.

In the Pacific, all China's ten diplomatic partner countries have signed up to BRI, but BRI cooperation is still in its infancy. In October 2019, the third conference of the China-Pacific Economic Development and Cooperation Forum was hosted by China in Apia, Samoa. China announced a new series of aid, trade and other support measures to stimulate Pacific states' participation in the BRI.⁴⁵ To further support the BRI, the Chinese

39 Zhang Yunling, 'China and Its Neighbourhood: Transformation, Challenges and Grand Strategy', *International Affairs*, vol. 92, no. 4 (2016), pp. 835–48; Xinhua, 'Spotlight: How China's Neighborhood Diplomacy Brings Shared Prosperity', 25 October 2018, <www.xinhuanet.com/english/2018-10/25/c_137555837.htm> [Accessed 17 December 2019].

40 Ewen Levick, 'Is China Using Its South China Sea Strategy in the South Pacific?' *The Strategist*, Australian Strategic Policy Institute, 18 June 2019, <www.aspistrategist.org.au/is-china-using-its-south-china-sea-strategy-in-the-south-pacific/> [Accessed 15 December 2019].

41 US-China Economic and Security Review Commission, *2019 Report to Congress* (Washington DC: US Government Printing Office, 2019), p. 432.

42 Author's interviews with four Chinese scholars, May–June 2019.

43 See also Peter Ferdinand, 'Westward Ho—The China Dream and "One Belt, One Road": Chinese Foreign Policy under Xi Jinping', *International Affairs*, vol. 92, no. 4 (2016), pp. 941–57.

44 Author's interview, May 2019.

45 Xinhua, 'China, Pacific Island Countries Hold 3rd Economic Development and Cooperation Forum', 21 October 2019, <www.xinhuanet.com/english/2019-10/21/c_138490687.htm> [Accessed 21 November 2019].

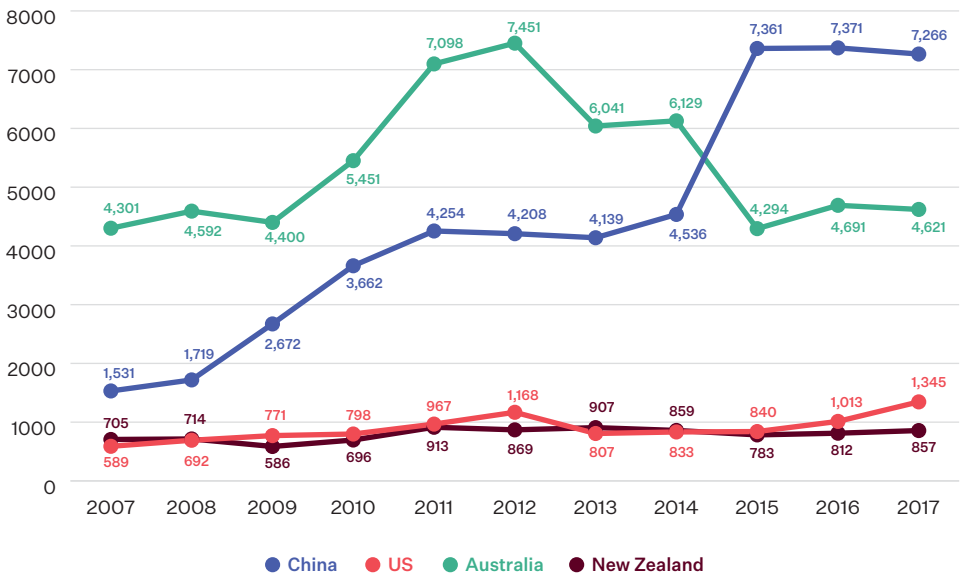
government has even tasked Beijing International Studies University with launching an ambitious teaching program that will cover languages of all China's partner PICs, such as Bislama, Cook Islands Maori, Fijian, Niuean, Samoan, Tok Pisin and Tongan. Despite the anticipated difficulties in finding qualified Chinese teachers and securing jobs for students after graduation, the introduction of this program is telling evidence of China's serious commitment to promote BRI at all costs. As the US, Australia and New Zealand are just starting to implement their Pacific policies,⁴⁶ whether and how these policies would affect China's influence and BRI in the Pacific remains to be seen.

Trends in China–PICs Engagement

Whether traditional powers' concerns about China are exaggerated and what the trends in China-PICs engagement are, warrant research. This section compares the engagement of China, the US, Australia and New Zealand with the Pacific region in the last decade, which could cast some light on these trends. It will focus on trade, aid and tourism, which represent China's fastest growing sectors in the region. It also discusses some of China's new efforts to enhance engagement with PICs in these sectors.

Trade

Figure 1: China/US/Australia/New Zealand-PICs two-way trade in 2007–17, USD million



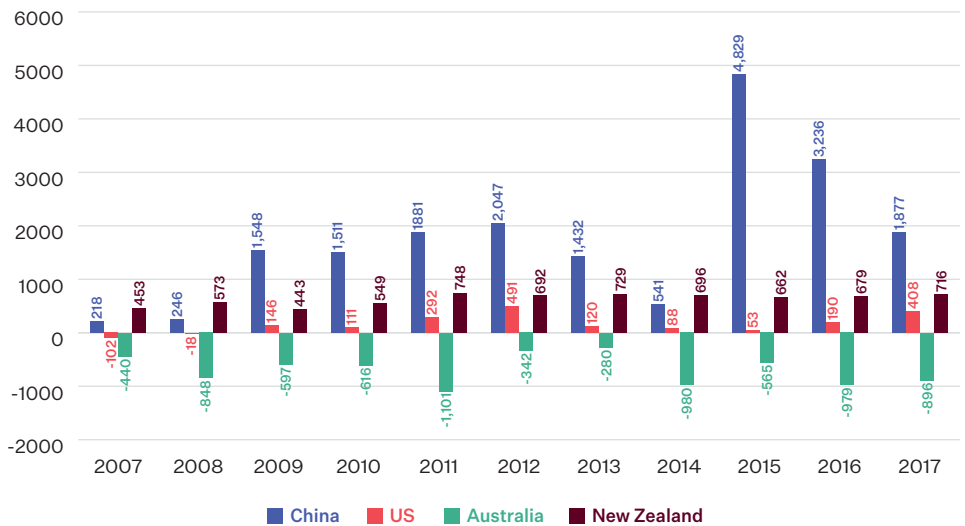
Source: compiled by author based on World Bank data.⁴⁷

⁴⁶ It is fair to say that many of Australia and New Zealand's 'new' approaches are not new per se, but turbo-charged versions of existing policies.

⁴⁷ World Bank, 'Trade Statistics by Country/Region', WITS, n.d., <wits.worldbank.org/countrystats.aspx?lang=en> [Accessed 5 May 2019].

As Figure 1 illustrates, in comparison with the US, Australia and New Zealand, two-way merchandise trade between China and the fourteen sovereign states in the Pacific has increased strongly over the period of 2007-17. In 2017, China-PICs trade totalled US\$7,266 million which is 4.7 times the volume it was in 2007. Since 2015, Australia has been overtaken by China as the region’s largest trading partner. Two-way trade between the US and the Pacific region was less than one-fifth of China-PICs trade in 2017. For New Zealand, its trade with PICs was slightly more than one-tenth of that of China in 2017. (It should be noted here that the statistics for China’s trade with the Pacific are significantly distorted by the notional export of ships to Marshall Islands to take advantage of its international shipping register; see below for a discussion of this.)

Figure 2: China/US/Australia/New Zealand-PICs two-way trade balance in 2007–17, USD million



Source: compiled by author based on World Bank data.

Figure 2 presents the other side of the story. China has been in large trade surplus with the fourteen PICs. These countries export far less to China than they import from China, and the trade imbalance is skyrocketing in China’s favour. In 2007, China had a trade surplus of US\$218 million, which peaked at US\$4,829 million in 2015. Although the imbalance decreased to US\$1,877 million in 2017, it is still nearly nine times the level in 2007. In stark contrast, two-way trade between Australia and the PICs has been in the PICs’ favour. In 2007, PICs enjoyed a trade surplus of US\$440 million and the figure increased by 58% to US\$896 million in 2017. With respect to the US, it moved from trade deficit with the PICs to surplus in recent years, though the amounts were much smaller than China-PICs trade surplus. New Zealand maintained a relatively stable trade surplus with the PICs over the period of 2007–17.

It is not an easy task to remedy the huge trade imbalance between China and PICs, despite China's pledges to facilitate PICs' exports to China, such as granting zero tariff to 97% of products from least developed Pacific states.⁴⁸ PICs face a number of constraints in areas including economic scale, quarantine standards and processing capacity, which have greatly limited the growth of their exports to China (and other countries). It deserves attention that both PIC exports to China and imports from China are uneven. Currently, the lion's share of PIC exports to China is from PNG (mainly minerals and liquefied natural gas) and Solomon Islands (mainly timber). These two PICs exported US\$2,070 million and US\$554.8 million worth of goods to China in 2017, representing 76.8% and 20.5% of total exports of all the 14 PICs combined.⁴⁹ This means exports from all other PICs to China merely accounted for 2.7% of the region's total export to China. In terms of PICs' imports, RMI has imported the majority of Chinese goods to the region. In 2017, RMI imports from China reached nearly US\$3.1 billion, which accounts for two-thirds of China's exports to the fourteen PICs combined.⁵⁰ As RMI is the world's second largest ship registry, the country mainly imports ships and boats from China and then re-exports them to other countries. If trade with RMI is excluded, China-PICs trade is more balanced and much smaller than it would appear at first sight. In a word, the growing trade between China and the Pacific is essentially composed of extractive resources from PNG and Solomon Islands, and a notional export of ships and boats to RMI.

Aid

The establishment of the China-Pacific Islands Economic Development and Cooperation Forum in April 2006 opened the door for the inflow of large-scale Chinese aid, especially concessional loans to the region. Being one of the three types⁵¹ of Chinese aid, concessional loans have an interest rate of 2–3% and a repayment period of 15–20 years including five to seven years of grace. In April 2006 and November 2013, China pledged two large concessional loans to the Pacific worth US\$474 million (RMB 3 billion) over the next three years and US\$1 billion over the next four years respectively.⁵² Chinese aid has increased significantly, making China a major donor in the Pacific. Judged by spent aid, China was the third largest donor in the Pacific in 2016 and the fourth largest in 2017.⁵³ Based on available data from the Lowy Institute, Figure 3 compares Chinese aid with aid from the US, Australia and New Zealand between 2011 and 2017. Chinese aid here covers the eight PICs that have diplomatic relations with China, while aid from the US, Australia and New Zealand covers all fourteen PICs. The time length is too short to predict the trend, but it gives a basic idea of Chinese aid growth in recent years.

48 Xinhua, 'China, Pacific Island Countries Announce Strategic Partnership', 23 November 2014, <www.chinadaily.com.cn/world/2014xiattendg20/2014-11/23/content_18961677.htm> [Accessed 2 May 2018].

49 The figures are compiled by author based on raw materials from the World Bank website <wits.worldbank.org/countrystats.aspx?lang=en>.

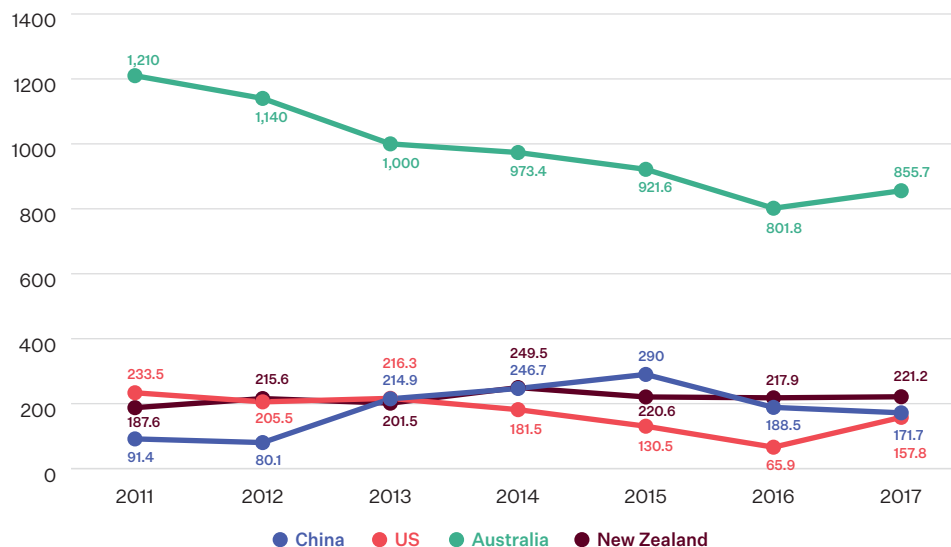
50 Ibid.

51 The other two are grants and interest-free loans.

52 Zhang, 'China, India and Japan in the Pacific', p. 6.

53 Lowy Institute, 'Pacific Aid Map'.

Figure 3: Aid from China/US/Australia/New Zealand to PICs in 2011-17, USD million



Source: compiled by author based on Lowy Institute data.

When measured in USD, as shown in Figure 3, it appears that Australian aid spending in the Pacific declined over the period 2011-16 before it picked up in 2017. That said, in Australian dollar terms, Australian aid to PICs fluctuated only slightly between 2011 and 2017, and Australia increased aid to PICs to a record AU\$1.4 billion in 2019-20.⁵⁴ Chinese aid spending in the region has seen notable fluctuations. The amount peaked at US\$290 million in 2015, but it dropped to US\$171.7 million in 2017. In short, Australia remains comfortably the largest donor in the Pacific and leaves the other major donors well behind. It seems unlikely that the other major donors including China will overtake Australia in the near future. In terms of aid forms, Chinese aid to PICs is dominated by concessional loans, which is in contrast to the aid in grants from traditional donors. However, Australia is changing its approach and, in addition to its large grant aid allocation for the Pacific, has established the aforementioned AU\$2 billion loan facility to support infrastructure in PICs.

Although China is likely to expand its aid spending in the Pacific, this could be compromised by the uncertainty of China's economic prospects. After more than thirty years of rapid economic growth since 1978, averaging 9.8% annually between 1978 and 2013, China's economic growth has fallen below 7% consistently since 2015, and was 6.6% in 2018.⁵⁵ The economic slowdown is expected to continue in the near future,

⁵⁴ DFAT, 'Aid Budget and Statistical Information', n.d., <dfat.gov.au/aid/aid-budgets-statistics/Pages/default.aspx> [Accessed 12 August 2019]; DFAT, *Australian Aid Budget Summary 2018-19* (Canberra: DFAT, 2018), p. 6; DFAT, *Australian Aid Budget Summary 2019-20* (Canberra: DFAT, 2019), p. 6.

⁵⁵ Justin Yifu Lin and Zhang Fan, 'Sustaining Growth of the People's Republic of China', *Asian Development Review*, vol. 32, no. 1 (2015), p. 32; World Bank, 'GDP Growth (Annual %)', <data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN> [Accessed 2 July 2019].

which is exacerbated by the trade war between China and the US. As the US is China's largest export destination, absorbing nearly one-fifth of China's total exports in 2017, the increase of US tariffs on Chinese merchandise will have a substantial adverse impact on China's economic outlook. An economic slowdown would inevitably force China to rein in the growth of its foreign aid budget, though the impact on PICs might be smaller than other regions because the Pacific only receives about 4% of Chinese total aid.⁵⁶

Tourism

The Pacific has started to become a popular destination for Chinese tourists who are looking for new destinations beyond Asia, Europe and the US. As of November 2019, all China's ten partner PICs except Niue⁵⁷ have been granted Approved Destination Status for Chinese tourists: Tonga (2003), Fiji (2004), Cook Islands (2004), Vanuatu (2005), Federated States of Micronesia (2006), PNG (2006) Samoa (2006), Solomon Islands (2019) and Kiribati (2020). It makes it legal for Chinese travel agencies to organise group package tours in these countries and allows the advertising of tourism products in China. This has driven the growth of Chinese tourism in the Pacific and China has become the fastest-growing market in the region. In 1995, the number of Chinese arrivals in the Pacific was only 278 which increased to 3,969 in 2008 and jumped to 127,620 in 2017.⁵⁸ Palau is by far the most popular destination among PICs for Chinese tourists who are attracted to the lagoons and diving spots in the country. In 2008, 684 Chinese tourists visited Palau, but in 2015 the number had increased steeply to 87,058, which represents 57% of all Chinese tourists in the Pacific.⁵⁹ This suggests a similar conclusion to that on trade: while seen in aggregate the numbers look impressive, when dissected they focused on a small number of markets.

That said, China still lags behind the US, and especially Australia and New Zealand, by a large margin in terms of tourist arrivals in the Pacific (see Figure 4). In 2015, the number of Chinese tourists in the Pacific reached a peak of 153,119, which is merely a quarter, 42% and 78% of Australian, New Zealand and US tourists respectively.⁶⁰

It is worth noting that the number of Chinese visitors to Palau declined in recent years thanks to the revived diplomatic competition between China and Taiwan since the pro-independence Democratic Progressive Party took power in Taiwan in May 2016.

56 Zhang, 'China, India and Japan in the Pacific', p. 6.

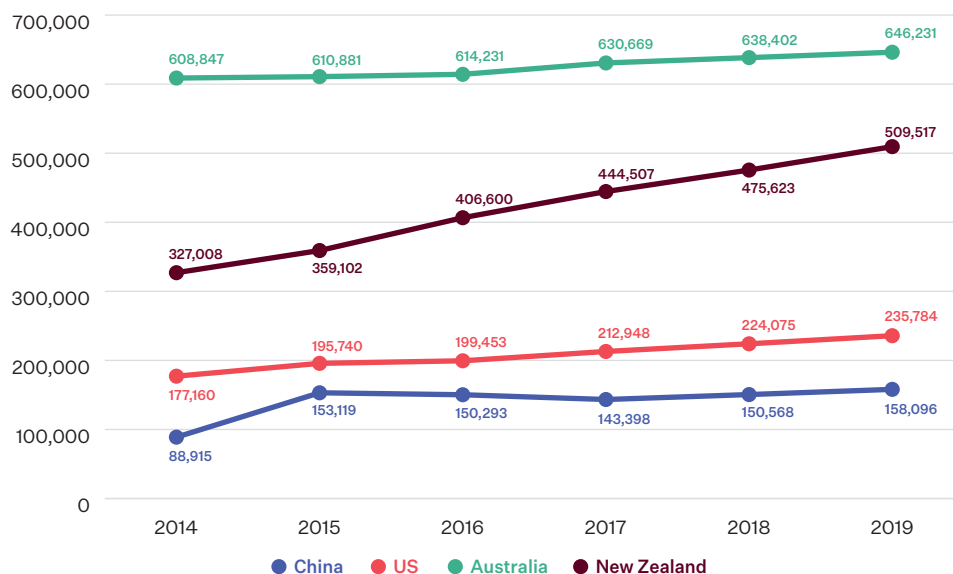
57 China has not granted the status to Niue because it is too small and the interest for Chinese tourists is limited.

58 John Gerard Perrottet and Andres F. Garcia, *Tourism (English)*, Pacific Possible series; background paper no. 4 (Washington DC: World Bank, 2016), p. 36; South Pacific Tourism Organization (SPTO), *Annual Review of Visitor Arrivals in Pacific Island Countries* (Suva: SPTO, 2018), p. 16. Please note due to data availability, these figures cover nine PICs including Palau, Fiji, PNG, FSM, Samoa, Vanuatu, Tonga, RMI and Tuvalu, which attract the majority of Chinese tourists visiting the fourteen independent PICs. French Polynesia is a popular destination for Chinese tourists among the territories in the Pacific. In 2017, 5,430 Chinese tourists visited it.

59 SPTO, *Annual Review of Visitor Arrivals in Pacific Island Countries 2016* (Suva: SPTO, 2017), p. 14; Lauren Beldi, 'China's "Tourist Ban" Leaves Palau Struggling to Fill Hotels and an Airline in Limbo', ABC News, 28 August 2018, <www.abc.net.au/news/2018-08-26/china-tourist-ban-leaves-palau-tourism-in-peril/10160020> [Accessed 10 November 2018].

60 Japan is another major tourist source for PICs. In 2015, 78,704 Japanese tourists visited the Pacific which is about half the number of Chinese tourists.

Figure 4: Chinese/US/Australian/New Zealand tourist arrivals in PICs in 2014–19



Source: compiled by author based on data from SPTO annual reports.⁶¹

Note: Figures for 2018 and 2019 are forecasts.

Tourism has become a tool for China to pressure Palau, which is a supporter of Taiwan. China's *Regulation on Travel Agencies* stipulates in article 25 that "The travel agencies engaging in outbound travel business shall not organize tourists to travel in the countries and regions out of the list of Chinese citizens' outbound travel destinations publicized by the competent travel administration under the State Council".⁶² Promulgated in February 2009, this regulation was not strictly implemented during the period of diplomatic truce (May 2008–May 2016) between China and the Kuomintang administration in Taiwan, and China allowed travel agencies to organise tours to Palau.

Since mid-2016, China has tightened control over its travel agencies. In early 2019, the Chinese government issued a memo reminding Chinese travel agencies that it is illegal to organise tour groups to countries that are not on the list of approved tourist destinations.⁶³ Clearly, all countries including Palau that diplomatically recognise Taiwan are not on the list. As *Business Management Review*, a magazine affiliated to the China Academy of Social Sciences, reported, MaFengWo, a large Chinese social-media travel platform that provides information to help users with their travel plans, was reprimanded by Chinese government agencies in April 2019 for publishing travel information such as travel diaries about countries that do not recognise China, and was ordered to

⁶¹ SPTO, *Annual Review of Visitor Arrivals in Pacific Island Countries 2016*, p. 43; SPTO, *Annual Review of Visitor Arrivals in Pacific Island Countries 2017*, p. 50.

⁶² 'Regulation on Travel Agencies', China's Ministry of Commerce, n.d., <http://www.fdi.gov.cn/1800000121_39_4577_0_7.html> [Accessed 20 May 2018].

⁶³ Beldi, 'China's "Tourist Ban" Leaves Palau'.

“take immediate corrective actions”.⁶⁴ As a result, the number of Chinese tourists to Palau has plummeted since 2016, decreasing by 25% from 87,058 in 2015 to 64,990 in 2016, and shrinking further by 11% to 57,866 in 2017.⁶⁵ The Taiwanese Palau Pacific Airway which used to transfer Chinese tourists between Hong Kong and Palau has suspended its operations.

The fall in the number of Chinese arrivals in Palau can also be related to the restrictive measures on Chinese mass arrivals put in place by the Palau government in April 2015 in response to concerns over the impact on that country’s environment and inadequate accommodation capacity, and Palau’s attempt to develop a high-end tourism sector with fewer but high-spending tourists.⁶⁶ In May 2019, Palau’s President Tommy Remengesau expressed explicitly his concerns about China’s expansionism into the Pacific and his support for a greater US military presence in the region to counter China’s influence.⁶⁷ This statement may trigger more restrictions from the Chinese government on its tourists visiting Palau. The number of Chinese tourists to Palau is expected to continue to decrease in the near future.

The Chinese government is making greater efforts to increase the number of Chinese tourists to those PICs that recognise China. The China-Pacific Tourism Year of 2019 was kicked off in April 2019 in Apia, Samoa, with China pledging to enhance bilateral cultural and people-to-people exchanges. Even so, the lack of direct flights between China and PICs remains a major constraint on the growth of Chinese tourism in the near future. Besides Hong Kong and Macau, visitors mainly need to transit through Australia or New Zealand, creating additional issues of visa and cost. Wang Xuefeng, then Chinese ambassador to Samoa, noted in August 2018 that it is not yet viable to open up direct flights between China and Samoa and a more practical option would be to organise charter flights.⁶⁸

Conclusion

Amid growing interest from both policy and academic circles on traditional powers’ increased engagement with the Pacific and China’s rise in the region, this paper has briefly discussed the US, Australia and New Zealand’s new Pacific policies and their concerns about China. To some extent, these concerns hold water as China has made fast inroads into the region since 2006. However, in terms of trade balance, Australia is a more important partner of PICs than China. Similarly, Chinese aid is at a similar level as that of the US and New Zealand and lags far behind Australia. For PICs, each of the three traditional powers is a more important tourist source than China.

64 ‘MaFengWo bei yuetan, fengbo beihou de neirong bianxian mitu [MaFengWo Was Interviewed, Mystery behind the Accident Becomes Clear]’, *Business Management Review*, 4 April 2019, <www.bmronline.com.cn/index.php?m=content&c=index&a=show&catid=9&id=1247> [Accessed 2 June 2019].

65 SPTO, *Annual Review of Visitor Arrivals in Pacific Island Countries 2017*, p. 16.

66 Beldi, ‘China’s “Tourist Ban” Leaves Palau’; Zhang, ‘China’s Diplomacy in the Pacific’, p. 39.

67 Rhealyn Pojas, ‘China Militarization Is Everyone’s Issue in the Pacific: Remengesau’, *Island Times*, n.d., <islandtimes.us/china-militarization-is-everyones-issue-in-the-pacific-remengesau/> [Accessed 13 August 2019].

68 Xuefeng Wang, ‘A More Beautiful Samoa in the Eyes of Chinese Ambassador’, *Samoa Observer*, 9 August 2018.

In the near or medium future, it is likely that China will continue its own way of engagement with PICs. It will not respond strongly to the growing engagement of the US, Australia and New Zealand with the region. However, a strong backlash from China is expected if China feels its BRI in the Pacific is threatened by these traditional powers, which deserves more research.

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