

How much Chinese?

Fergus Hanson
Fiji Times Online
3 August 2009

China has stepped up its aid program to the Pacific but until recently it was very hard to know just how much aid it was giving and what effect it was having in Pacific countries.

That's because China still regards the details of its aid program as a state secret and refuses to publish details about it.

A report released yesterday has helped overcome the problem of Chinese secrecy.

Individuals working in a range of areas across the region have supplied detailed lists of China's aid projects which has allowed for the most precise look at its overall approach to aid in the Pacific to date.

The quality of the data has allowed Chinese grants and loans to the region to be disaggregated for the first time.

For 2008, China pledged \$53 million in grants and an additional \$US153 million in soft loans. That probably overstates the scale of China's program as only the interest subsidy and debt forgiveness component of these loans can properly be counted as aid and there is evidence that much of China's pledged aid takes a few years to be dispersed.

That means China is giving aid at around the same level as other major regional donors such as New Zealand, Japan and the European Community.

But it still doesn't come close to Australia which gave almost \$US600 million in development assistance to the Pacific in 2007.

Knowing more about China's aid program, a number of shortcomings have become apparent.

First, Chinese aid flows are unpredictable and fluctuate significantly between years, making it hard for recipients to develop long-term development plans. In Micronesia for example, China's new aid promises in 2008 were worth just 28 per cent of the amount pledged the previous year.

Second, China is building large infrastructure projects across the region, without paying any regard to their ongoing maintenance costs.

As a result Samoa now has a \$US13 million swimming pool complex that would be beyond the means of other much larger states to maintain.

It also insists on using Chinese, rather than local contractors and workers to build the projects meaning there are fewer flow on effects to the local economies and Pacific workers miss out on jobs. This approach has led to resentment across the region and may have been part of the motivation behind the recent anti-Chinese violence in PNG.

Third, China is loading small Pacific states with large loans that threaten their fiscal stability.

In Tonga it has just leant \$Y440 million which is equivalent to 22 per cent of Tonga's entire GDP. The Cook Islands -- population 21,000 -- has just taken out a loan for almost \$US10 million.

Finally, there are indications the secrecy with which China treats its aid program is leading to suspicion among Pacific states.

One official speculated that China might be over pricing the cost of the structures it builds to force Pacific states to take out larger loans than necessary.

Whatever the merits of this claim, it is clear China should be far more transparent in the way it approaches its aid program.

There are clearly issues with China's aid program that need to be addressed if China wants to maximise Pacific development outcomes as well as improve its standing in the region. But Pacific states could do their bit to encourage China to reform.

Pacific leaders should seize the opportunity presented by the upcoming Post Forum Dialogue to present a united regional front to the representative from China.

Leaders should pressure China to allow local Pacific workers greater opportunities to work on Chinese infrastructure projects, to increase the grant to loan ratios of its aid, by insisting provision be made for recurring costs before projects are built and by requesting detailed budgets for aid projects funded by China.

All of these requests are reasonable and they would all help China improve its image in the region as well as promote Pacific development outcomes.