

## **New dragon in town: Chinese aid in the Pacific**

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ISN Insights  
26 October 2010

China's increasingly active role in providing aid in the Pacific is a reminder of the scope of its global ambitions, but why is China so interested in the region, and how does it fit into the wider picture of its development assistance worldwide?

By Fergus Hanson for

When in December 2007 China established diplomatic relations with the tiny Pacific island of Niue, population 1,514, it was a symbolic reminder of the scope of China's global ambitions. Given that the Pacific is usually off most of the world's radar, it was not surprising that China's engagement and rapid increase in aid to the region raised a few eyebrows and produced a few books in response. The big question confronting many analysts is why China is suddenly so interested, and how this fits into the wider picture of Chinese development assistance worldwide.

Although China's aid program has recently received a lot of attention, it is worth remembering that despite its developing country status, China is not a 'new' aid donor. The Chinese date their aid program back to 1950, and by 1979, 74 countries were receiving Chinese aid. In the Pacific, China first established a presence in 1975, opening embassies in Western Samoa and Fiji, and there has long been a significant Chinese diaspora in the region.

### **Stepping up giving**

Nevertheless, China has only very recently stepped up its aid giving – from pledges worth \$33 million in 2005 to \$206 million in 2008. Given that Pacific countries generally have small populations and few natural resources for China to tap into, theories abound as to China's motivations to give aid so generously.

The wildest theories have stated that China is aiming to set up missile bases in the region in order to attack US warships and block a possible US approach from Pearl Harbor. There are a number of obvious problems with this theory, in particular that building missile bases on fixed islands is an unlikely way to win an asymmetrical military confrontation with the world's military superpower. Such bases would also make for easy targets.

The main factor driving China's engagement in the Pacific is far more pedestrian: its long-running diplomatic struggle with Taiwan. China regards Taiwan as a renegade province and has worked for several decades to isolate it diplomatically. Taiwan is currently only recognized by 23 countries, clustered in three main regions – one of which is the Pacific where six states recognize it diplomatically.

### **Toying with Taiwan?**

Since the election of President Ma Ying-jeou in Taiwan in May 2008, the dynamics of this competition have changed. An informal truce dominates the relationship, with neither side actively maneuvering to change the diplomatic balance. This remarkable *détente* has emerged as a means of keeping the wider thawing in China-Taiwan relations on track, particularly the expansion of economic ties.

Ma's election has translated into some interesting policy shifts on both sides of the straits. Taiwan released an aid white paper in 2009 that set out a much more responsible approach to aid giving, essentially rejecting the old checkbook diplomacy for which both China and Taiwan had become infamous. For its part, Beijing has taken the astonishing step of stopping countries loyal to Taiwan from switching to recognize China in an effort to keep the improving bilateral relationship on track. In El Salvador, President Mauricio Funes came to power

promising to switch from recognizing Taiwan to China, but pressure from Beijing seemed to have prevented the switch from occurring. A similar change of heart seems to have occurred in Nicaragua.

Does the truce mean the contest with Taiwan is no longer central to China's strategy in the three regions where Taiwan retains diplomatic allies? And can we expect Chinese aid to these regions to plummet as a consequence? Not quite. Despite the truce, China has so far continued to promise relatively consistent amounts of aid to the Pacific. This suggests that China is assuming something of a holding pattern: Waiting to see whether the truce with Taiwan holds and if it doesn't, making sure it is ready to jump back into the diplomatic tussle for allies. Even if the truce were to become firmly entrenched, there are reasons to believe China would continue its aid program in the region, albeit perhaps in a diminished form. China's view of its place in the world, and its capacity to do something about it, have changed: while the Pacific might be marginal overall, as a country with aspirations to be a global power, it needs to be an active player everywhere.

### **Seeking a strategy**

It is also true that in a few Pacific countries – like Papua New Guinea (PNG) – there are substantial resources of interest to China (many regional states also have large fishing zones). However, surprisingly, given the claims that China plays the “long game”, it has not been particularly strategic about where it directs its aid in the Pacific, and it was only last year that China started pledging substantial amounts of money to PNG.

While China's aid program in the Pacific offers insights into its aid policies generally, it also differs from its approach elsewhere in important regards. In the smaller states of the Pacific, the Caribbean and Africa, China has largely been motivated by the desire to deny Taiwan diplomatic allies. In places where this diplomatic contest has already been won, the focus is on trade and resource opportunities: Africa and Latin America are front and center in this regard.

In these regions large aid projects are often linked to multi-billion dollar resource investments by state-owned firms, which some see as growing to astonishing (and implausibly) high levels. Trade has also dramatically expanded: in Africa it reportedly passed \$100 billion this year.

### **Disrupting the old order**

Whatever the region in question, China's growing presence as an aid donor has disrupted the old order. As its rapid growth in trade with Africa attests, it has succeeded in growing the global trade pie, which in itself promises to be a major contribution to African development. It also has advantages other traditional donors cannot match – like the ability to send low-cost Chinese laborers to build large infrastructure projects at prices western donors cannot achieve.

China's increased interest in aid-giving should be welcomed as should an attempt to explore alternative approaches to development. However, the jury is still out on whether its current approach is the best one. While China's efforts to drive world trade have been striking, in the Pacific (and elsewhere) it attaches significant strings to its aid (although publicly it professes to give without any conditions). Use of Chinese contractors, materials and laborers, for example, is generally mandatory, limiting opportunities for local workers and benefits to the local economy. The quality and choice of projects has also been questioned, as has China's preference for 'soft loans' rather than grants that some countries will struggle to repay.

While the rapid increase in China's aid giving and its often unorthodox approach has ruffled feathers and disrupted the aid establishment, China as a major donor is here to stay, and having a new state to share the burden with should be welcomed. While China's aid to the Pacific will continue to be driven by the politics of cross-strait relations, there is little reason to be fearful about China's ambitions in the region, and it is encouraging that the diplomatic détente has lessened the impact of dollar diplomacy for the time being.

In Africa and Latin America, where China's focus is on trade and resources, its aid-for-resources approach will likely continue to turn heads. There are certainly several improvements China could make to its aid giving, but over time, many of these improvements will likely be driven by recipients themselves, who are keen to avoid any potential Chinese repetition of western aid pitfalls.

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