

China's help may harm Fiji

Fergus Hanson, Jenny Hayward-Jones

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As Chinese leaders like to see it, China gives aid without any political strings attached. But when you suddenly start bankrolling a pariah military dictatorship, does that argument really hold any water?

In the year following the 2006 coup in Fiji, Chinese aid pledges increased seven-fold. That is, from about \$US23 million in 2006 to a staggering \$US161 million in 2007. A lot of that aid was not dispersed immediately, but what news escapes from Fiji these days suggests China has kept up its commitment to roll out the promised funds. The Fiji Electricity Authority and the Chinese Development Bank signed a \$US70 million loan agreement to commence the construction of the Nadarivatu Hydropower project. Chinese loans are also helping to fund other infrastructure projects in Fiji.

The relative weight of China's aid program in Fiji is worth noting. Whereas Australia is still the largest aid donor in the Pacific region as a whole, its 2008-09 aid program for Fiji is a rather meagre \$26.9 million. As the interim regime in Fiji has been isolated by Western nations in an effort to help the people win back their democracy, China has stepped in to fill the donor void.

Although funds from China have yet to make a measurable beneficial impact on Fiji's economy, the symbolism of Chinese aid is important. While the international community has been shunning Fiji's interim government, Chinese Vice-President Xi Jinping met Fiji's President Josefa Iloilo and interim Prime Minister Frank Bainimarama when he visited Nadi on a transit stop on February 9.

Bainimarama's regime has been pursuing a look-north policy since his relations with Australia and New Zealand fell apart after his December 2006 coup. Unlike Australia, New Zealand, the EU and the US, China refuses to comment on the domestic political affairs of other nations. In its dealings with Fiji's interim government, Beijing has not mentioned the importance of democracy nor linked its aid to elections. Bainimarama has portrayed China as Fiji's saviour to his supporters and to Fijians concerned about their next pay cheque.

Fiji's economy deteriorated rapidly in the first quarter of 2009. A perfect storm of devastating floods in January, the negative impact of the global financial crisis on demand for tourism and exports, and ongoing loss of business confidence following the coup had already hit Fiji before the April 10 abrogation of the constitution made matters much worse. The Reserve Bank of Fiji had already forecast a contraction of the economy; exports and investment were already lower than expected. Official foreign reserves have plummeted to just 2.7 months of import cover.

Fiji's relative size and strategic importance in the Pacific mean that the wider Pacific Islands region will suffer from its economic decline. Preventing the collapse of Fiji's economy is critical not only for Fiji but for the stability of the region. Fiji clearly needs financial assistance, and quickly. But it is important that assistance is provided in a manner that helps the people who need it and does not simply prop up Bainimarama and his coterie.

China has chosen to step up its aid to Fiji and take on the mantle of major donor. Its track record elsewhere suggests China has neither the will nor capacity to assume responsibility for fixing things if the country implodes. Australian and NZ officials have realised this and recently we have seen the question of China's role in Fiji raised with senior Chinese officials.

If China wants to be taken seriously as a responsible international actor, it needs to behave in a mature way in Fiji. Fiji's interim government will almost certainly request more financial assistance from China to help it respond to its liquidity crisis. China is likely to be willing to help.

Beijing knows the Fiji economy is in trouble and, as an investor in the island nation, will be keen to do what it can to help Fiji avert a financial catastrophe. The financial assistance Fiji requires, however, is beyond the capacity of any single donor, even China.

Rather than offer more bilateral assistance, China should be encouraged by Australia and others to direct new assistance to Fiji through international financial institutions. This would be consistent with the commitments made by the G20 leaders in London to increase the resources available through the international financial institutions so those institutions can help developing countries cope with the global financial crisis. It would send an important signal to Fiji's interim government that its only option is to deal with the international financial institutions and adopt the disciplines they recommend to stabilise the economy. And it would fit squarely with G20 leaders' efforts to integrate China into co-ordinated responses.

Looking at China's engagement with other regimes (Sudan's and Burma's, for example), the prospect of it changing its approach might seem far-fetched, but Fiji is a little different. Relatively, China doesn't have that much to gain from Fiji. China also wants rewards from Australia (such as approval for resources investments), which offers some room for compromise. For China's policy in Fiji, these changes would have few costs and some important benefits.

China doesn't have to be the bad guy in Fiji. If it chooses to deliver its aid through responsible international systems, it has the chance to have a real development impact in Fiji, enhancing its reputation in the region while demonstrating a maturity befitting a great power.

Jenny Hayward-Jones is program director of The Myer Foundation Melanesia Program and Fergus Hanson is a research fellow at the Lowy Institute.