

China's Growing Presence in the South Pacific*

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Abstract

Over the last two decades China has been steadily building its influence in the South Pacific. The pace and scale of this engagement has created significant anxiety in the Pacific as well as Western capitals about China's potential ambitions in the Pacific. In this address Jonathan Pryke details China's presence in the region, identifies what potential risks this newfound influence poses, and discusses how Western nations are pushing back.

It is great to be back in DC. As a Pacific analyst, we don't have the luxury of leaving our hemisphere too often, so forgive me if there's any jet-lag stumbles in my talk, but it is a delight to be back here in Washington nonetheless.

Now, when we talk about the Pacific, it is good to start by defining what is the South Pacific. So, the South Pacific—I wouldn't expect too many people in the room to spend too much time thinking about the South Pacific region, but when you do, you often think of it as a pretty homogenous place filled with smiling indigenous communities, pristine beaches and endless palm trees. While there is all that, the reality is that the Pacific is an exceptionally diverse part of the world. Its fourteen sovereign nations of a cumulative population of 13 million people span across 15% of the world's surface.

This is a very diverse part of the world. These countries span from the 11,000-person atoll nation of Tuvalu, to the 10-million-person population of Papua New Guinea (PNG), that has a landmass the size of California. So there's not actually much that is homogenous in the Pacific Islands region, but one thing that is homogenous across all Pacific countries, except—with the exception perhaps of Fiji, is that of vulnerability.

For these smaller countries, vulnerability comes from small size and remoteness from traditional markets. This vulnerability is further exacerbated by rampant population growth on already overcrowded islands and the multiplier effect of a warming climate that will affect the region through rising sea levels and increasing frequencies of natural disasters such as droughts and cyclones. In the larger countries like Papua New Guinea, vulnerability is driven by natural resource dependence that is reinforcing endemic patronage systems and corruption. One way or another these are all vulnerable countries, an important point to reinforce when we talk about increasing geopolitical activity in the region.

I am going to focus largely on China because that is what the theme of this conference is about. This century, the Chinese footprint in the Pacific has certainly been profoundly growing. While there have been pockets of ethnic Chinese in the Pacific for more than a century—I was

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just two weeks ago in northern Papua New Guinea in a place called Wewak where I met Papua New Guinea Chinese family that were now on their 5th generation of being in Papua New Guinea—but in the past 15 years these numbers have exploded.

Chinese state-owned enterprises have led the change here, in pursuit largely of economic opportunity, and fueled by Chinese lending. These state-owned enterprises have put down deep roots and are engaged in commercial activity across the board in almost every Pacific Island country. Chinese labor has arrived through these projects and also through fishing vessels, and has discovered paradoxically because of their size and remoteness that most Pacific Island countries are actually really high cost economies despite their relatively poor states of development. In the Pacific, the Chinese have found economic opportunity.

If you're a Fujian laborer—that is if you're a laborer from Fujian province, coming over on a state-owned enterprise project, or on a fishing vessel, if you set up a trade store in the Pacific where there is very little to no competition, you can make a heck of a lot more money than you could in Fujian province competing with a million other people setting up trade stores. So there is a big economic pull to the region that we do not see with the West, where the private sector largely sees the Pacific as devoid of economic opportunity because of its relative size and risk.

So, anyway, this Chinese labor has arrived, and remained in the region, setting up trade stores across the region, so we have this spread of Chinese engagement from the top end of town through high-end infrastructure investment, but then all the way down into the provinces, down to small towns.

To illustrate, this year my colleague at the Lowy Institute was observing the Solomon Islands election this year in a place called Makira, which is an island of about 6,000–7,000 people. Even on that little island in the Solomon Islands, there was a Chinese trade store. So, I do not want to undersell how profound the footprint of China is in the Pacific Islands region, but I also do not want to be an alarmist. I think it gives China far too much credit to say that since 2006 there has been some grand Machiavellian politburo and central committee endorsed Pacific strategy. It has been far messier than that and largely been driven by economic opportunity, and the human desires of greed from these state-owned enterprises and other actors. For most Pacific countries it seems that China has almost by mistake built its trade, aid and investment ties to emerge as a significant geopolitical power in the Pacific—which in many ways should not come as a surprise as it mirrors China's global ascent.

So, China has really stumbled into this influence it finds itself having in the Pacific Islands region. But when you talk to strategic analysts about the motive or when this motive started, or when this strategy began, they will tell you this does not really matter. Strategic analysts identify the risk through the lens of capability and the lens of intent, you add those two together. Capability is the thing that takes time to build, and China has built capability really by accident in the Pacific. Intent can change overnight.

And so in Western capitals, particularly in Canberra but also in DC, there is now absolute certainty that there is strategic intent from China's new-found leverage in the Pacific Islands region. A starting assertion here is that no one, not in the public domain at least, can tell you what China's ambitions are in the Pacific. There is no White Paper strategy for the Pacific devised by Beijing. China asserts that it has no ambitions in the region and operates as a benign power. The West is not so convinced.

But what are the risks of China's engagement in the Pacific, both to the West and the Pacific Island countries themselves? I break down the risks of Chinese engagement in the Pacific into two categories.

The first risk is what I see as being low probability, but of high-impact risk, is that China will use its leverage, be it debt, diplomacy, trade, to establish some form of permanent military facility somewhere in the Pacific. I say high impact because this would profoundly change the way

Australia would look at our own national security.

A permanent facility could enable China to more effectively disrupt our east coast trade routes. As of today, we only have 21 days of fuel reserves in Australia, and that is not a picture that looks like it is going to dramatically change anytime soon. It would also create a wedge between Australia and our strategic anchor in the United States. Such a facility would be quite expensive for China to establish and operate—both economically and reputationally. But it may be deemed worth it if it would generate a profound shift in Australian defense settings—forcing us to rapidly scale up our military and move away from an interoperability model with the United States and other allies.

The probability of this occurring in the region is low, however, largely because of the agency of the Pacific Island countries themselves. These are sovereign nations that wield their sovereignty liberally, and defend it passionately.

The Pacific do not want further militarization in the region. They didn't have a good go of it in the Second World War, or nuclear testing, and so there is a lot of pushback to this idea that they would just surrender some piece of sovereignty in exchange for some form of debt forgiveness or other political compromise. So, it is a low probability risk, also because the West, led by Australia have taken notice and have been more vigilant on this issue, and I'll come back to that in a moment.

The second risk, and as one that I see as being of much higher probability but lower impact, is the way in which China is engaging in the Pacific, mostly through these state-owned enterprises, and is undermining already weak and vulnerable institutions in the Pacific. Through elite capture and high-level corruption, largely again being driven by individual greed, these countries are becoming even more vulnerable. We run the risk of complete state failure in a Pacific country if trends continue.

So, the Lowy Institute has produced a paper on this if you want to know the whole history of the Bougainville march towards independence that you can find on our website. There is a 30-year history that has led us to this impending vote for independence. There is a bit of nuance in the vote. So, it's based on longstanding conflict between Bougainville—the people of Bougainville and the people of Papua New Guinea about the royalty rights behind one of the largest gold mines in the world that resides in Bougainville, and how these revenues were shared.

Now, some nuance around the referendum itself. There will be a referendum for independence, and I can 99.9 percent guarantee it is going to be overwhelmingly for independence.

But this leads us into a process of negotiation with the PNG government about what the process towards independence will look like and then the final step is to be ratified by the PNG Parliament. Now, PNG Parliament is very anxious that this will lead to a domino effect, or a further unravelling of the tenuous state that is PNG. There are other islands that may feel like they are more viable as a state apart from PNG than as a part of PNG.

So you might see this unravelling of the PNG state, which has 830 distinct cultural groups. It is not a homogenous society. This is just the start of a new process. I do not think we are going to see a new UN voting nation emerge in December. But we have heard that China is very interested that there have been offers put on the table on the ground.

But we do not know if those offers are genuine. There are a lot of carpetbaggers in the Pacific who read the tea leaves of Beijing and go out and try to act upon Beijing's behalf. But who are they actually representing? There are a lot of business interlocutors who say they represent someone. We do not actually know who they do represent. So, it is one more front to be anxious about, but I think there is a lot more to play out in this Bougainville independence process before we get to that point of China making proper inroads there.

I do not say this, sitting in my ivory tower in Sidney. This is the concern I hear from the more

enlightened colleagues and members of parliament I engage with throughout the Pacific on my frequent travels into the region.

This would be a problem for Australia. We want the Pacific region to be prosperous, and we would be the first to step in to help pick up the pieces if a state were to collapse in the region. But it would not profoundly change Australia's macroeconomic security settings, so higher probability, but lower impact.

I was at last year's APEC leaders' summit in Port Moresby observing the whole thing, and Xi really left a lasting impression on the region with his charm offensive. China, to be blunt, they are not great diplomats. They shoot themselves in the foot all the time. Xi did not do that. He was so generous with his time. I could not believe at the PNG parliament when his Secret Service actually let the parliament mob him and he shook hands with everyone and he just was completely, you know, there was no time pressure. He talked to every single parliamentarian. It was really quite amazing.

At the APEC leaders' dinner, that night, he sat there, yakking away with the Prime Minister of Papua New Guinea after every other world leader had left. And this is not lost in the Pacific. They recognize that the most valuable commodity of the leader of the People's Republic of China (PRC) is time. And then it was also in such sharp contrast to Pence, who, because of Secret Service demands, they even said that, right up until before arrival, he was not even going to stay overnight in this third-world country because of security concerns. And then he ended up staying overnight. And, so, you know they just completely undermined any goodwill they could have built from that.

And he walked around in a bubble, and the only time you could get a local person near him was for a prearranged photo-op. It was quite sharp contrast, and this is something that China has been doing well for quite a while. This respect for equivalence, no matter what the imbalance of the size of the countries really does pay in spades, particularly when you have in contrast, Australia, where we give more than half of aid to the Pacific region in any given year but we have never had a bilateral guest or government visit from the Australian Prime Minister to these countries like Vanuatu or Fiji. Australian Prime Ministers just typically have not seen it worth their time. I can guarantee you that all Pacific leaders that recognize China make the near annual pilgrimage to Beijing and get the fully feted red-carpet treatment. We used to send middling level diplomats to meet with Pacific leaders in airports—hardly a sign of respect.

But if this is a comparative advantage that China has built over ten years, the good news is, it is an easy one to counter. We can just start doing this as well, and Australia has shown that you can catch up really quickly. The US has also stepped in here, I think, the Trump administration has done a great job with the North Pacific, with the compact states. If you cannot go there, bring them to you. All the leaders are very happy to come to DC to have facetime with President Trump. I think that played really well with the North Pacific.

Fortunately no one here is standing idle. Western nations are scrambling to reengage. We have had announcements of step-ups, resets, uplifts, pivots and pledges. This engagement has been spearheaded by Australia, where our new Prime Minister Scott Morrison has made the step-up his flagship policy initiative. It is great for me personally and professionally—being a Pacific analyst at the Lowy Institute has never looked better. So, thank you, China.

The step-up from Australia is by no means tokenistic. We are doing more of everything—aid, diplomacy, high-level political engagement. The most profound shift is within the structure of our bureaucracy, giving more profile to the Pacific at our departments of foreign affairs, defense, intelligence, everywhere, but also in the attention that is being given to the region by our most senior politicians. In 2019, we've had more than 50 ministerial-level visits in either direction to date, and in his first year in office, Prime Minister Morrison has visited the Pacific more times than any of his predecessors in the history of Australia have in their entire tenure as Prime

Minister.

So, by no means tokenistic. Where does this take us? I think this renewed vigilance is helping reduce the risks, but it needs to be consistent to be effective. Australia's history and the US's history in the Pacific go a long way further back than China's, and so, there is a lot of memories of neglect. The institutional memory in the Pacific goes back a lot further than in Australia, and so consistency moving forward is what is going to be the key.

China is going to have to work harder—and in different ways—if it wants to continue to build influence. But with some recent diplomatic defections in Kiribati and Solomon Islands they have got a bit more scope to play with in the Pacific. They are not backing down, and they are not being flat-footed in their engagement. So, geopolitics looks to have come home to roost in the Pacific, and is here to stay. China is not going anywhere.

We do have the specific aid map too that the Lowy Institute has produced that tracks all aid flows into the Pacific Islands region. The latest numbers we have for 2017 show that Australia gave 45% of all aid to the region, in 2017, New Zealand gave 9%, China gave 8%, the US gave about 8% as well.

Total aid to the Pacific region is dominated by 6 donors—80% of it comes from Australia, New Zealand, China, the United States, Japan and the Asian Development Bank. So, China has not taken over. But the point I try to make in my presentations these days is the China aid picture—China aid has done its job. It has got certain enterprises into the region.

These certain enterprises have put down deep economic roots. They are now competing in commercial activity across the board. They are winning in more government contracts and in other, just pure, commercial investment than they are relying on Exim Bank or China Development Bank. Exim Bank did its job, it got these businesses in the door and they can now survive without the Chinese loans. So we really shouldn't be talking about aid anymore, we should be talking about what they're doing in the commercial space.