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ANALYSIS

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EXECUTIVE SUMMARY

China's aid program to the Pacific has grown rapidly since 2005. Its annual bilateral aid to the region is estimated at between \$US 100 million and \$US 150 million. Halting and reversing diplomatic recognition of Taiwan remains the principal driver of its aid. It has secondary interests in fish stock access and in the few states with other resources (primarily Papua New Guinea). Its security ambitions in the region remain modest and the emerging threat discourse surrounding China's engagement is exaggerated.

China's aid is still of concern because of the way it is managed. The secrecy surrounding its aid breeds suspicion, inhibits donor coordination, and undermines efforts to improve good governance and accountability. The infrastructure projects it funds do not appear to target priority needs, have considerable maintenance costs and are not always suited to local conditions. Its diplomatic competition with Taiwan also undermines difficult and costly Australian development efforts in countries like Solomon Islands.

Despite these concerns, China's interests broadly align with Australia's and it is not likely to seek a dominant role in the region. As the primary external provider of development assistance and regional stability Australia has a significant interest in more actively engaging China on its approach to aid in the Pacific.

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Introduction

'[China] wants to be the major influence in the Pacific, there's no doubt about that; it's aiming to be that in a fairly short time.

It has [been] carefully planned, [there's been] very strategically placed aid. You'll notice Chinese aid is quite different ... China is heading straight for the jugular.¹

China's aid program has been raising eyebrows. Since it grabbed the Western media's attention, there has been a flurry of international meetings to discuss it. Donors, academics and even some aid recipients have sounded the alarm: China's aid comes without the usual strings attached, threatening stability, good governance and accountability. There are also suspicions it is aimed at nefarious ends: locking up critical natural resources and supporting a long-term strategy of global influence.

Details of China's aid activities are considered a state secret. This breeds confusion and fuels suspicion. Detailed study of China's aid activities in Africa² has allowed for more measured analysis of its aid in that part of the world. In the Pacific, however, its aid program has escaped thorough scrutiny.

Building a fuller picture of China's aid program in the Pacific allows for a more considered assessment of its motives for engaging so actively in our immediate region. Is China a partner or a competitor? Is it a force for good or a threat to stability? Is its aid undermining development goals or contributing towards them?

This Lowy Analysis provides the first snapshot of Chinese aid activities in the region. It begins by examining the origins of Chinese aid, explores the strategic drivers of its engagement, and then looks at its approach to delivering aid and the scale of its regional program. It discusses the reactions its aid has sparked and some unresolved frictions. It concludes with recommendations.

This project limits itself to members of the Pacific Islands Forum³ (excluding Australia and New Zealand) and covers bilateral Chinese aid activities over three calendar years: 2005 to 2007. This equates to looking at aid flows to the eight developing Pacific states that recognise China: the Cook Islands, the Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu.

Reliably assessing the scale of China's aid program is difficult because it publishes no annual reports and makes only occasional announcements about it. Estimates of the value of its aid projects have had to be drawn from scouring Chinese and local press, radio and online sources, as well as through discussions with Pacific and Chinese officials. The picture that emerged was often one of conflicting figures and dates and a distinct lack of detail. As a result, final figures should be treated with some caution.

The origins of Chinese aid and its Pacific presence

Despite its developing-country status and having received \$US 1.76 billion in aid in

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2005,⁴ China is not a new donor. The Chinese date their aid program back to 1950,⁵ and by 1979 74 countries were receiving Chinese aid.⁶ One conservative estimate put the size of China's annual foreign aid budget at around \$US 1.4 billion in 2007.⁷ Others believe the figure is much higher. One senior official in China estimated Chinese aid to Africa alone was \$US 4.5 billion in 2006.⁸

In the Pacific, China first established a presence in 1975, opening embassies in Western Samoa and Fiji. One academic study cited in a March 2005 Australian Senate submission estimated Chinese aid to the region could be as high as \$A 300 million (\$US 225.87 million) annually.⁹ Another academic speculated in 2004 that China was 'probably' the second largest aid donor after France.¹⁰ Today it has more diplomats on the ground than any other country¹¹ and embassies in all states that recognise it.¹² It is reported there are more than 3,000 Chinese state-owned and private enterprises (ranging from logging operations to grocery stores) in the Pacific,¹³ with a regional ethnic Chinese population estimated at between 80,000 and 200,000.¹⁴

Drivers

Why is China engaged in the South Pacific at all? The region's strategic significance is limited. It is home to well-defined spheres of influence dominated by Australia, New Zealand, the US and France, that have also been its major donors along with Japan, the EU and Taiwan. Some see China as wanting to secure access to the region's natural resources or believe it wants to establish intelligence facilities and island missile bases to block a US

naval approach from Pearl Harbor.¹⁵ Others believe it is starving Taiwan of diplomatic recognition or trying to win cheap votes in international organisations. So what exactly is motivating China's growing presence in the Pacific?

Resources

In the increasingly well-studied terrain of Chinese aid in Africa, there is a widespread assumption that China's interests in the continent are driven by its need to secure resource and energy supplies. Its preference to direct aid and investment activities towards resource-rich countries such as Angola and the Democratic Republic of the Congo¹⁶ supports this and is a pattern repeated in Latin America.¹⁷ The Pacific offers China some resources, but not enough to fully explain its growing presence.

At a summit held in Fiji for Pacific leaders in 2006, Premier Wen Jiabao said 'to foster friendship and cooperation with the Pacific island countries is not a diplomatic expediency. Rather, it is a strategic decision'. And later in the same speech he went on to say 'China has funding and technical expertise. The island countries are rich in natural resources. Herein lie huge potentials for bilateral cooperation'.¹⁸ So what resources is China interested in?

The natural resource all Pacific nations share in common to varying degrees is fish stocks. At over 3 million square kilometres, China's exclusive economic zone (EEZ) is large, but not in comparison to the 20 million square kilometres that is the combined EEZ of the 14 developing Pacific Islands Forum members (see Figure 1 in Annexure I).¹⁹

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Fish stock access is undoubtedly of some interest to China, which has the world's largest fish production and is the largest fish exporter.²⁰ Access is doubly important given declining Asian fish stocks and increasing demand from China.²¹

China's aid program is, at least in part, focused on this interest. It has funded projects such as the construction of fish processing plants in Vanuatu,²² the Cook Islands²³ and Papua New Guinea (PNG)²⁴ and the building of the headquarters of the Tuna Management Commission in the Federated States of Micronesia.²⁵ On the commercial front, a large Hong Kong-owned fishing fleet is based permanently in Pohnpei,²⁶ while another Chinese fleet operates in Fijian waters.²⁷ This partly accounts for China's presence in the region, but it is hardly a sufficient explanation. Licensing fish stocks is a commercial activity, and China faces competition from other fishing powers, not least Japan and Taiwan, that are also large regional aid donors.

Most Pacific islands have few other natural resources, but there are some exceptions. PNG is well known for its mineral wealth and valuable timber resources. China has shown a keen interest in these. It has invested in PNG's mineral sector, with a \$US 651 million investment in the Ramu nickel/cobalt mine in 2006.²⁸ PNG is the closest any Pacific state comes to a 'China in Africa' model, where large aid projects are linked to multi-million dollar resource investments by state-owned firms. In the case of the Ramu mine, talks have begun on a concessional loan to fund a hydropower project to meet the mine's energy requirements, costing up to \$US 248 million.²⁹

Beyond PNG, countries such as Solomon Islands and Fiji have smaller timber and mineral resources. There has also been limited speculation about China's (and other countries') interest in the Pacific's sea-bed mineral deposits,³⁰ which are a potential long-term consideration.

In summary, China has an interest in those Pacific countries with sizeable fish stocks. Other natural resources are of increasing interest to China, but are only substantial in PNG (to a lesser extent Solomon Islands and Fiji).

Taiwan

'DFAT ... stated that a priority for China's six embassies in the Pacific is competition from Taiwan for diplomatic recognition. The department suggested that both China and Taiwan use economic assistance as a lever in their competition for diplomatic recognition.'³¹

'Their [China and Taiwan] aid programs tend to focus on prestige projects in a "chequebook diplomacy" competition, applying less rigorous standards of transparency, accountability and governance than other donors.'³²

The trait most commonly associated with Chinese aid in the Pacific is its focus on isolating Taiwan. China regards Taiwan as a renegade province and has for several decades waged a largely successful battle to wrest diplomatic recognition from 'the other China'. This battle remains particularly intense in the Pacific.³³ Besides the Holy See, states that recognise Taiwan are clustered in three areas: the smaller states of the Americas (12), Oceania

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(6)³⁴ and Africa (4). This establishes the Pacific as a critical diplomatic battleground for both China and Taiwan.

A recent Senate report observed: ‘competition between the PRC and Taiwan for diplomatic recognition has, on occasion, appeared to take on the characteristics of a bidding war, conducted mainly through bilateral “aid” payments.’³⁵ The destabilising effects of this tussle have been documented in a Lowy Institute Policy Brief written by Graeme Dobell³⁶ and so will not be elaborated upon here.

In the absence of other major interests to explain China’s substantial engagement in the region, it has to be concluded that simply trying to deny Taiwan diplomatic recognition is still one of the principal reasons for its active diplomacy in the Pacific. However, this also needs some elaboration. In the larger developing Pacific countries that stand to reap increasingly substantial benefits from Chinese trade and investment (such as PNG), the risk of a diplomatic switch to Taiwan is less likely (although not inconceivable),³⁷ and so is a less important element of the relationship with China. In the smaller states, that risk will endure for as long as dollar diplomacy continues.

Trade

The Ministry of Commerce is the main coordinating body dealing with China’s overseas aid program which underlines the mercantilist basis for many Chinese aid decisions. The first of the ‘Eight Principles’ of Premier Zhou Enlai (Annexure II) that guide China’s aid policy reinforces this commercial motive. It states that China ‘always regards aid

to other countries as mutual and not as a kind of unilateral alms’.

In Africa, Brautigam has identified an acceleration of ‘win-win’ cooperation, where trade and access to mineral resources have played increasingly central roles³⁸ in China’s engagement with the continent. Africa watchers note that aid is often used ‘as part of a package of tools to support Chinese companies in expanding export markets’.³⁹

In the Pacific, growing trade and investment links are also a common theme to bilateral agreements and statements by senior leaders. Reflective of this trend is China’s funding of a Pacific Trade Office in Beijing to foster two-way trade with the region.⁴⁰ However, whereas China’s trade with Africa is rapidly expanding, with hopes it will reach \$US 100 billion by 2010,⁴¹ the Pacific’s total worldwide trade⁴² is less than \$US 13 billion, with China’s share of this a modest \$US 743 million in 2006 and palling in comparison with Pacific trade with Australia (see Table 1 in Annexure 1).

China-Pacific trade is expanding: in 1999, bilateral trade with the region was just \$US 168 million.⁴³ But given the paltry size of the trade on offer, it is clearly not a major motivating factor behind Chinese engagement. As Wesley-Smith observed, ‘trade with Oceania still only represents less than one-tenth of one percent of the total value of China’s global trade’.⁴⁴

Military

A recent US Congressional Research Service Report states: ‘Since World War II, the United States has sought to prevent any potential adversary from gaining a strategic posture in the South Pacific that could be used to

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challenge the United States'.⁴⁵ Australia shares a similar objective in preserving a stable and friendly region.⁴⁶

For this reason, there has been considerable speculation about China's military ambitions in the Pacific.⁴⁷ Robert Kaplan, writing in the *Atlantic Monthly*, points out the strategic importance to the US of its Pacific bases in any confrontation with China,⁴⁸ while the Congressional report cited above takes note of the view that 'China has devised a comprehensive strategy to take advantage of waning U.S. interest in the region since the end of the Cold War, especially in Melanesia'.⁴⁹ In this light, the 'look north'⁵⁰ foreign policies of some Pacific states suggest a degree of reciprocation. So what grand strategy might China have in mind?

One thought is that China might try to establish missile bases on Pacific islands to block the approach of the US navy.⁵¹ And in 1997, China established a satellite tracking base in Kiribati, which analysts suspected was used to observe a US missile testing range in the Marshall Islands.⁵²

There remain several problems with this argument. The first is that setting up missile bases on fixed islands is an unlikely way to win an asymmetrical military confrontation with the world's military superpower, as they would make easy targets. Second, knowing any Chinese missile base would be a target in any US-China conflict, Pacific leaders would face a difficult sell to their local population as to why they should put themselves in the direct line of fire, no matter what the financial incentive on offer. Finally, as China learnt the hard way in Kiribati, the same tiny scale that makes Pacific

states vulnerable to inducements to switch loyalties from one China to the other⁵³ plays both ways. In 2003, Kiribati changed back to recognising Taiwan, and China was forced to close and dismantle its base. (More plausible than the missile base theory is that China sees the potential for intelligence facilities in the region to monitor US forces.)

Some of China's aid is directed towards regional defence and paramilitary forces (in Fiji, PNG, Tonga and Vanuatu). However, research for this project suggests that Chinese assistance to regional forces is modest.⁵⁴ Seeing overly hawkish ambitions in China's military engagement also seems far-fetched (more below).

Muscle flexing

As has been observed in other regions, China appears to be engaging in the Pacific, at least to some extent, to assert itself as an emerging power.⁵⁵ In Latin America, where the Monroe doctrine traditionally reigns, China is expanding its military cooperation and economic reach with the aim, in the words of one senior US official, of 'showcas[ing] its emergence as a major power'.⁵⁶ In Africa, the Americans and Europeans are being forced to reassess the challenge posed by a rising China and are scrambling to re-assert their influence. To a certain extent, the motivation seems the same in the Pacific.

Votes

Some speculate that another explanation for China's engagement in the Pacific is diplomatic,⁵⁷ but not solely related to Taiwan. The developing Pacific Islands Forum members represent a potential voting bloc of 14.⁵⁸ Of course, there are many competing powers in the

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Pacific – the US, Australia, New Zealand, Japan, France, Taiwan and China – all expecting their beneficiaries to support them. This makes for uncertain times, especially over issues where the powers' interests conflict. Well-known examples are the tussle between Australia/New Zealand and Japan over whaling, and China's opposition to Japanese efforts to obtain a permanent seat on the UN Security Council. As with other powers in the region, China is certain to be using its aid activities to try to lever support for its positions in international fora. However, as Australia is all too aware in the context of whaling, the number of competing donors and some unscrupulous behaviour by competitor countries means it will be hard for China to sew up this bloc of votes.

Good international citizenship

While all aid programs inevitably have some national interest objectives behind them, humanitarian goals are generally also important. China's aid program is no different. One of the objectives of Eximbank loans is to 'promote economic development and improve living standard[s] in developing countries,'⁵⁹ while the 'Eight Principles' (Annexure II) also hint at development objectives, with goals of fostering self-reliance and boosting recipient government revenues.

China's approach to aid

China delivers its aid in the Pacific via concessional loans, grant aid and technical assistance. It also provides some debt relief, although there is limited reporting on this. Concessional loans from China's Eximbank are given for larger infrastructure projects (greater

than \$US 2.4 million).⁶⁰ Grant aid appears usually to be dispersed in kind.

The vast majority of China's aid during the period reviewed (2005–07) was directed at infrastructure projects such as sports facilities, government offices, roads and fish processing plants.⁶¹ These are almost always built by Chinese contractors using labour brought in from China, mirroring a pattern repeated in other regions.⁶²

The way China announces its aid projects reveals a flair for showmanship, which itself points to objectives which go beyond narrow development goals. High-level visitors, including the Premier and Foreign Minister, make a point of visiting Pacific countries, with an aid announcement and agreement of some description an almost inevitable outcome. Pacific leaders are also regularly invited for grand state visits that are usually accompanied by aid announcements. The high level of respect shown to Pacific statespeople is well received in the region (and is an example of where Australia stands to learn from Chinese diplomacy). The most striking example of this canny diplomacy was the first China-Pacific Island Countries Economic Development and Cooperation Forum held in Fiji in April 2006 attended by the eight developing Pacific Islands Forum members that recognise China.⁶³

In a region used to being treated by donors as irresponsible, corrupt and only quasi-sovereign, the summit's high-level tone was set with the arrival of Chinese Premier Wen Jiabao. Then came a flood of cargo, the most eye-catching of which was a pledge of 3 billion Renminbi (\$US 376 million) in preferential loans over three years. Wen also announced:

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- a fund to encourage Chinese companies to invest in Pacific island countries;
- zero-tariff treatment to the majority of exports to China from the least developed countries in the region;
- cancellation of the least developed countries' debts maturing at the end of 2005 and the extension by 10 years of other countries' debts maturing at the end of 2005;
- free anti-malaria medicines for affected countries over the next three years;
- continuation of the program of visiting medical teams and annual training courses for health officials, hospital managers and medical researchers;
- bird flu cooperation;
- provision of training to 2,000 government officials and technical staff over the next three years to assist in capacity building;
- granting of Approved Destination Status (ADS) for Papua New Guinea, Samoa and the Federated States of Micronesia;
- assistance in building an earthquake or tsunami early warning and monitoring network.⁶⁴

The Fiji summit, attended by those Pacific Islands Forum members that recognise China, sent a clear message to the six states that still recognise Taiwan. As Fiji's Prime Minister put it, 'China defines a new and compelling reality politically and economically'.⁶⁵

The style of the summit was similar to the November 2006 Forum on China-Africa Cooperation held later the same year, which saw 41 African heads of state and government travel to Beijing.⁶⁶

The two summits reveal Beijing's preferred style for 'wowing' aid recipients (an approach also favoured by Taiwan.)

Mechanics

Major policy decisions concerning China's aid program, including the size of China's annual aid budget, are made by the State Council, which is the highest executive organ of state administration. The aid budget is then drawn up by the Ministry of Finance in consultation with the Ministry of Commerce.⁶⁷

As noted previously, the Ministry of Commerce is the lead agency for China's bilateral aid programs (the Ministry of Finance handles multilateral aid⁶⁸ and the Ministry of Social Welfare handles one-off 'humanitarian aid').⁶⁹ It has two aid departments: the Department of International Cooperation, which manages foreign aid given to China; and the Department of Aid to Foreign Countries, which manages outgoing aid from China.⁷⁰

The Department of Aid to Foreign Countries is responsible for:⁷¹

- drafting laws and regulations with regard to foreign aid;
- preparing aid plans and country strategies, and coordinating implementation with other line ministries;
- negotiating agreements with recipient governments;
- accrediting enterprises seeking to undertake aid projects and monitoring the implementation of aid projects;
- conducting feasibility studies;
- budgeting and data collection.

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Departments of Commerce at the provincial level may also be involved in China's aid program. This appears to stem from the pressure Chinese firms are putting on their provincial governments to help them win lucrative aid contracts.⁷² This has fostered twinning relationships between Chinese provinces and their overseas counterparts or cities. One example is Zhejiang Province, which is the sister province/state of Pohnpei State, Federated States of Micronesia. The vice-major of Ningbo (Zhejiang Province) visited Pohnpei in 2007, where the Ningbo Construction Group is building the State Administration Building (a Chinese government aid project).⁷³

The Ministry of Foreign Affairs (MOFA) advises on how China's aid should be distributed across regions and countries and vets individual project proposals (although some MOFA officials apparently complain that they are not more involved in China's aid program.)⁷⁴ Chinese ambassadors in recipient countries are involved in the aid process: meeting occasionally to suggest aid levels, often proposing aid projects from the field⁷⁵ and apparently being closely involved in the provision of military aid. The Economic and Commercial Counsellor's Offices attached to China's embassies and staffed by Ministry of Commerce officials also play an important role in identifying aid projects and monitoring their implementation.⁷⁶

A number of other ministries can be involved, with aid funds drawn from their budgets.⁷⁷ The Ministry of Health manages medical teams, the Ministry of Agriculture selects teams to implement fisheries and agriculture projects and scholarships are managed by the Ministry of Education.⁷⁸ The ministries of National

Defence, Science and Technology, Construction, and Railways can also be involved. The China Youth League can be involved through the Youth Volunteers scheme.

China Eximbank has carriage of concessional loans and sets out its loan procedures on its website.⁷⁹ In terms of accessing concessional loans, such as the \$US 376 million pool announced at the Fiji summit in 2006, states have to submit an application to Eximbank, which conducts a feasibility assessment and then provides a recommendation to the Ministry of Commerce. If approved, a framework agreement is signed by the two governments specifying the purpose, amount, maturity period and interest rate of the loan. A separate loan agreement is then signed between a minister of the recipient government and a senior representative from Eximbank. The borrowing government may never actually see the loan money, with Eximbank making payments directly to the Chinese exporter or contractor as the project progresses (see Figure 2).

In principle, Eximbank loans have to be at least 20 million Renminbi (\$US 2.4 million), which would suggest most of China's smaller projects in the Pacific are grants. Loans are denominated in Renminbi (although in the Pacific there are reports of at least one loan in US dollars). In principle, no less than 50 per cent of the procurements should come from China and the contractor or exporter selected for the project should be Chinese. While loan terms need to be negotiated, in the Pacific there is a clear pattern among the loan terms that have been disclosed. China's soft loans in the region are at an interest rate of two per cent repayable over 15–20 years with a five-year

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grace period and the potential for loans to be forgiven on a case-by-case basis.

Scale: China's Pacific aid program 2005–2007

In correspondence with the author, the Chinese government said: 'The scale of China's development programs in the region is relatively smaller than other donors like Australia and New Zealand and does not vary much between individual countries'.⁸⁰ Australia's Official Development Assistance to the 14 Pacific Islands Forum members, the subject of this paper (plus Tokelau), was \$US 559 million (\$A 711.4 million) in 2006–07.⁸¹ New Zealand's aid budget to the Pacific region for 2006–07 was \$US 138.5 million (\$NZ 201.81 million).⁸²

Measuring Chinese aid is difficult. The paucity of information has made imposing a consistent methodological approach across all countries impossible. In general, pledged figures have been used (in some instances, though, official/government figures have been preferred). Estimates should be treated with some caution and not be confused with dispersed aid.

The total value of China's pledged aid projects (see Annexure III) to the eight⁸³ Pacific Islands Forum countries that recognise it, over the period 2005–2007, suggests a large and rapidly growing program: \$US 33 million in 2005, \$US 78 million in 2006 and \$US 293 million in 2007.⁸⁴ Prima facie, this is significantly more than New Zealand's aid budget but much less than Australia's. And although the result of extensive research, these estimates probably fail to capture the full extent of China's Pacific aid program and debt forgiveness. They also exclude China's aid to regional bodies.

However, while probably failing to record every single Chinese aid project, these figures - which are based largely on pledges not dispersed aid - still likely overstate the scale of China's aid program. This is because a lack of available information meant it was often difficult to determine whether aid projects were loans or grants. As a result, figures used here combine grants and loans when only the interest subsidy (and debt forgiveness) of loans can properly be counted as aid. Several large, pledged loans were almost certain to be dispersed over several years and if information were available, these would be better reported over multiple years. (For example, the soft loan to Fiji that was agreed at the end of 2007 and the \$US 58 million loan to Tonga from the same year.) Taking these factors into account a more plausible annual estimate would be somewhere in the region of \$US 100 to \$US 150 million.

A comparison with other donors suggests China is pledging aid to the region at a similar level to other significant donors like New Zealand, Japan and the European Community (see Figure 3).⁸⁵

Figure 4 shows the steady increase in Chinese aid over the three-year period 2005–07. The only real apparent exceptions are PNG and Vanuatu. In the case of Vanuatu, the best available figures were only available for a three-year combined period so were averaged for the purposes of this chart. The chart also highlights that China continued sharply to increase pledged aid to Fiji after the 2006 coup (even if some of these projects were under discussion before the military takeover and the largest component of 2007 pledged aid (a \$US

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150 million loan) is likely to be dispersed over several years.)⁸⁶

In response to the early releases of some of this paper's findings, the Director of Political Affairs at the Chinese Embassy in Fiji told *Fijilive*: 'There are no new aid programmes to Fiji neither am I aware of any talks for increased funding'. However, in the interview he did not specify the scale of China's current aid program or say whether the \$US 150 million loan was included in existing aid.⁸⁷

Figure 5 shows the direction of Chinese aid in the region. It combines aid figures over the three-year period in an effort to account for discrepancies between years.

The bulk of Chinese aid is pledged to Fiji, with Tonga and Samoa also receiving substantial pledges. But looking at the direction of Chinese aid on a per capita basis (Figure 6) changes the picture.

The Cook Islands and Niue should be seen somewhat as exceptions. They have very small populations, and the Cook Islands is hosting a regional sporting event for which China is building costly facilities, skewing the figures. Nevertheless, China is clearly using relatively large aid flows to back up diplomatic ties: in this regard, Niue established diplomatic relations with China in 2007 while the Cook Islands did so in 1997. The big recipients on a per capita basis are Tonga, and to a lesser extent Samoa, the Federated States of Micronesia and Fiji. Interestingly, PNG, which appears to be China's main resource interest in the region, receives the smallest allocation of Chinese aid on a per capita basis.

In the cases of Tonga and Fiji, fears that both will switch to recognising Taiwan are substantial drivers of aid. With the December 2006 coup in Fiji, there would have been considerable risk that the cash-strapped and isolated regime would turn to Taiwan if China failed to deliver. In the case of Tonga, the King was previously seen as close to Taiwan,⁸⁸ ensuring an ongoing risk of a switch back to recognising Taiwan. The figures are also boosted by a large loan to help with rebuilding the capital after the recent riots.

Crocombe has speculated that Samoa receives disproportionate attention from China because it was the first Pacific country to recognise China, has consistently backed China against Taiwan and has the highest proportion of people of Chinese origin of any independent nation in the region.⁸⁹ China's aid to the Federated States of Micronesia is probably explained by the fact it is the only Pacific Islands Forum country in Micronesia to recognise China, a region heavily dominated by the United States (and Taiwan), making it an important foothold state.

PNG is somewhat unusual: the use of PNG government budget figures on Chinese grants (which exclude loans) in this report likely understates the level of aid pledges to PNG relative to other countries. Its large population (over six million people) also reduces the amount of aid it is pledged on a per capita basis. However, significant Chinese investment (on top of aid) boosts the importance of China to PNG.

Nevertheless, Figures 4 to 6 show that China is not solely directing its aid according to its interest in Pacific states' resources.

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Reactions to China's Aid

This section looks at some of the reactions to China's Pacific aid program from the Pacific states themselves, donors, and in particular the US and Australia.

Chinese aid has produced mixed reactions in the Pacific. China's no-strings-attached aid and its apparent collaborative approach to the selection of aid projects are often a welcome relief to Pacific politicians tired of the perceived obsession of Western governments with governance, accountability and general meddling. China comes to the region without the colonial baggage of many Western donors and is an alternative source of funding that can offer Pacific leaders a way of subverting Western pressure. Many Pacific islands' 'look north' foreign policies reflect a view that China is an alternative funding source for Pacific leaders. Pacific leaders also most likely use China as a deliberate reminder to traditional donors, such as Australia, that they have other options.

The recent coup in Fiji offers a pertinent example. While Western donors attempted to isolate the regime in a bid to foster a return to democracy, China continued dramatically to increase its aid program offering Fiji a massive \$F 242 million (\$US 150.3 million) concessional loan in 2007.⁹⁰ This would suggest both a successful effort by Fiji to use China to circumvent Western efforts to encourage it back on the path to democracy and a deliberate attempt by China to take advantage of a Western withdrawal to enhance its standing. It also likely reflects a fear that a Fiji starved of funds might be tempted to look to Taiwan. It is a good example of China, as an emerging

power, not acting responsibly. While Australia should work to persuade China that this type of approach is not in keeping with the role of a responsible international actor (or China's longer-term interests), this is likely to be a distant objective.

As China's ability to expand its aid budget increases and the number of countries recognising Taiwan diminishes, dollar diplomacy is becoming a more destabilising phenomenon. For Pacific states, it can be an opportunity to play the two Chinas off against each other with a view to increasing their aid. But the outcome is not always in the interests of recipient or donor. The destabilising Honiara riots in April 2006, which caused extensive damage, particularly to local Chinese businesses, were widely seen as a reaction to perceptions that dollar diplomacy was influencing local politics.

The manner in which China delivers its aid has generated other negative responses. China's habit of using its own firms and workers to construct infrastructure projects has often bred resentment, negative social developments and calls for a greater share of work to be completed by local contractors. China's lack of transparency about its aid has led to suspicion by islanders that it will seek to extract some form of future concession, or that it is trying to lock their governments into huge debt repayments. For example, discussing a loan China was about to provide the Cook Islands, Foreign Minister Wilkie Rasmussen was quoted as saying:

'[The loan terms are] extremely attractive and at the moment there are no strings attached, although we still have to consider

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what they want other than support for the One-China Policy. Marine resources are the most likely but there has been no pressure on the Cook Islands about access and while we believe the issues will become fishing we will handle them as we see them'.⁹¹

Broader Chinese engagement in the Pacific could potentially affect perceptions of China's aid program. This is because aid and investment are often so closely linked, and investment is often led by state-owned Chinese companies. The Ramu mine in PNG is an example where China's reputation could be damaged. The mine is unpopular in some quarters and there is a perception that imported Chinese workers are taking jobs from local workers who, when they are employed, complain of exploitation. There is also concern that it is displacing other investment, that the various concessions and tax breaks afforded to the Chinese state-owned company mean PNG is getting no tangible benefit in return, and the mine's environmental impact has the potential to be significant.⁹² In Zambia, where China is involved in another controversial mining operation, the question of Chinese involvement in the country took centre stage in the 2006 presidential elections.⁹³ This shows the potential fallout that ill-conceived engagement can have on broader relations.

Other donors have also reacted to China's aid to the region. Following the China summit in April 2006, both Taiwan and Japan held their own summits with Pacific island states. The first Taiwan-Pacific Allies summit was held in Palau in September 2006 and was attended by then-President Chen Shui-bian.⁹⁴ After reportedly cutting aid to the Pacific by 72 per cent between 2000 and 2004, Japan held a

summit in May 2006 announcing \$US 410 million in regional aid, while pushing ahead its bid for a UN Security Council seat.⁹⁵ France held its Second France-Oceania Summit in June 2006 in Paris (the first was held in 2003). At the 2007 meeting of the Pacific Islands Forum, the EU also decided it needed to step up the profile and visibility of its aid program and pledged \$US 394 million over the 2008–13 period.⁹⁶ China's aid in the Pacific may – like its efforts in Africa – be serving to remind traditional donors not to overlook the region.

The US approach to the region also seems to have shifted in response to China's engagement.⁹⁷ Until recently, there was a perception that at the same time as China was stepping up its regional engagement, the US was disengaging.⁹⁸ In 1996, the US ended bilateral development aid programs with the closure of USAID's regional office. US Peace Corps missions decreased by 50 per cent between 1995 and 2003,⁹⁹ and it removed diplomatic posts.¹⁰⁰ More recently, Washington has sought to reverse this perception¹⁰¹ and 'may have signalled a move toward greater or renewed involvement when it declared 2007 the "Year of the Pacific"' and hosted the triennial Pacific Islands Conference of Leaders in Washington, which was attended by Secretary of State Condoleezza Rice.¹⁰² The US is 'regularizing' high-level contacts¹⁰³ with Pacific leaders and has boosted its presence in Fiji.¹⁰⁴

Australia's response to China's increasing engagement has been measured. While officials hold concerns about the way China delivers its aid and the fall-out from dollar diplomacy, there is a perception that China's interests in the region broadly align with Australia's, and this tends to serve as the frame within which

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policy is developed. Officials felt that like Australia, China has an interest in ensuring regional stability.

China is not seeking to engage in the region militarily and is unlikely to seek a dominant role. Taking a lead role in the Pacific would require major investments that offer little in return. So for China, it remains preferable for Australia to remain the primary external provider of development assistance and regional stability.

For Australian officials, the main concern with China's engagement is the effect of the struggle with Taiwan for diplomatic recognition — which includes numerous claims of outright cash payments to Pacific politicians.¹⁰⁵ This directly undermines expensive and difficult Australian security and development efforts in places such as Solomon Islands.

China's aid program is also of concern because some of its major aid projects (stadiums, swimming pools and unnecessary office complexes) do not appear to meet priority infrastructure and development needs and have high maintenance costs. Providing large loans also increases debt burdens. In response to these concerns, Australia has commenced direct dialogues with both China and Taiwan about their aid programs.¹⁰⁶ China is also invited to in-country donor coordination meetings and working groups, which research for this project suggests they attend with differing frequency in a number of countries.

This important developing dialogue faces serious obstacles, not least because both China and Taiwan see recognition as a critical national interest. Nevertheless, there is

emerging evidence suggesting some progress. In PNG, for example, China joined the seven other main donors in signing the 'Kavieng Declaration on Aid Effectiveness' in February 2008. This aims to localise the 'Paris Declaration on Aid Effectiveness' (2005) and commits donors to using 'results-oriented performance assessment frameworks' and to provide 'timely, transparent and comprehensive information on aid flows and programme intentions'.¹⁰⁷ China has made other encouraging gestures too. In correspondence with the author, the Chinese government stated 'China welcomes the Pacific Plan designed to achieve economic growth, sustainable development, good governance and security in the region, and has decided to donate 2 million US dollars between 2006 and 2010 to finance its implementation'.

China's defence-related assistance to the region has not generated any substantial reaction. Chinese military aid is closely watched and the manner in which China conducts its military cooperation programs reflects its currently modest security ambitions in the region. Research for this project would suggest that Chinese assistance to regional forces is limited.¹⁰⁸ It tends to be confined to more benign assistance such as upgrading a military hospital in PNG or the supply of non-lethal equipment like uniforms and cars for the Vanuatu Mobile Force.

China's defence aspirations in the South Pacific are likely to remain limited. Any significant military move by China in the region would risk antagonising the US. That would force China into a pointless escalation it would be sure to lose and from which it would eventually have to back down. The fact that China has

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done nothing to disturb this balance reflects a clear understanding that building strong military links or establishing a military presence in the region would be counterproductive and remains off-limits.

Friction in the aid program

China's global aid program has created some still unresolved frictions with the international community. These centre around the fact that China delivers its aid outside accepted development guidelines and it is yet to improve the transparency of its aid program.

Is it Aid?

Some Western aid officials maintain that China should deliver its aid in accordance with the Development Assistance Committee (DAC) guidelines. China's assistance, they claim, cannot properly be called aid; and while OECD donors are forgiving debt, China is loading up impoverished countries with fresh loans, effectively free-riding. The response of the Chinese government in correspondence with the author was that China is not an OECD member and is not obliged to comply with DAC guidelines.

The DAC of the OECD has formulated guidelines to determine what types of assistance qualify as aid or Official Development Assistance (ODA). According to these standards, grants and loans only qualify as ODA if they are undertaken 'with promotion of economic development and welfare as the main objective' and for loans, contain a grant element of at least 25 per cent.¹⁰⁹ In terms of the former criterion, one of Eximbank's stated objectives for its loans — to 'promote economic

development and improve living standard[s] in developing countries'¹¹⁰ — is a close approximation. In terms of the latter criterion, Chinese loans identified in this study appear to contain a significant grant element and could be considered DAC compliant.

While the concessionality of Chinese loans means they may well be consistent with DAC standards, in other respects China's aid appears to fall short of that of DAC donors. A DAC recommendation of 1978 'specifies a norm of at least 86% for the grant element of ODA,' with the present DAC average over 97 per cent. On tied aid, the DAC Chair stated: 'In recognition of the well-known problems which tied aid can involve including additional costs, administrative burdens and the risk of biasing aid towards inappropriate technology, the DAC agreed in 2001 to untie financial aid and investment-related technical cooperation to least developed countries'.¹¹¹

In the absence of official Chinese publications setting out the details of its aid program, it is impossible to know whether it comes close to DAC norms in terms of the grant element of its aid program. On the question of tied aid, however, Chinese development assistance would appear to fall well short of these broader standards and is setting back the cause of untying development assistance. Putting this in perspective though, the DAC Chair has pointedly noted that 'it took DAC members 40 years to agree to untie collectively what is only a proportion of their bilateral aid'.¹¹²

Instead of the DAC guidelines China uses the 'Eight Principles'. These set out China's preference for aid that fosters self-reliance, yields quick results, uses interest-free or low-

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interest loans, requires Chinese aid workers to keep a local standard of living and specifies aid should 'never' have any conditions attached (Annexure II).

However, China has not always delivered its aid in accordance with even these less rigorous principles. Infrastructure projects do not always appear to foster self-reliance. They often have significant ongoing maintenance costs and are not always well designed. (Aptly, the \$US 12.9 million aquatic centre China recently built in Samoa includes a large sculpture of a white elephant.) In the Cook Islands, where Beijing built a new police headquarters, instead of using a central air-conditioning system, China insisted on using split-unit air conditioners which will cost \$NZ 40,000 (\$US 26,000) a year more to run.¹¹³ This raises the important question of the impact and effectiveness of China's aid in improving the livelihoods of Pacific islanders. As for 'never' attaching conditions, compliance with the One China policy and use of Chinese contractors, materials and labour are clearly mandatory.

Some of this criticism of China's aid program is undoubtedly justified, and efforts to bring China closer to DAC standards are worth pursuing. However, many Chinese aid projects do have worthwhile development objectives. Over the period reviewed for this project, Chinese aid funded projects like school buildings, medical teams, fish processing plants, agriculture projects, hydroelectricity plants and water tanks. Focusing only on DAC standards also overlooks the fact that China, as a relatively poor country (in per capita terms), is going to continue tying its aid so as to ensure most of its aid money goes to Chinese workers and companies. The best approach for Western

donors could be to continue promoting DAC compliance as an important aspect of being a responsible donor, while over the near term encouraging China to redirect more of its aid program towards projects of greater development merit.

Transparency

Related to the question of whether Chinese development assistance can properly be called aid is the issue of transparency. The secrecy surrounding China's aid program naturally generates speculation. Western governments, unsure of what projects China is funding and how it is delivering its aid, fear (not without reason) it is undermining their painstaking work on aid reform, good governance and accountability.¹¹⁴ They also fear it works against development efforts because of a lack of coordination with other donors.

A lack of transparency in China's aid program has also fed suspicion by Pacific island leaders and their citizens that China has ulterior motives. In some cases that has increased resentment towards local Chinese diasporas.

There are several explanations for why China chooses to keep the details of its aid program secret, none of which justify the negative consequences. To begin with, China argues that if it published aid statistics, it would fall victim to demands for more from those receiving less.¹¹⁵ This is an implausible explanation as other donors already publish statistics.

An alternative explanation is that China's aid program might stir domestic resentment. As Figure 7 shows,¹¹⁶ China is giving substantial aid to a region while (in per capita gross national income terms) it is only in the lower-

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middle income range itself. In a country where almost 500 million of its citizens live on less than \$US 2 a day,¹¹⁷ disclosing too many details of its million-dollar aid projects, could be politically awkward. China already makes ad hoc public announcements about its aid pledges that are often well reported in the Chinese-language media, such as during the Fiji summit, but the details remain vague. (This could also be explained by a lack of reader interest.)

Another explanation for why China is cagey about the detail of its aid program is that the Chinese themselves may be unaware of its scale. The complex overlapping web of ministries involved in its aid program and the possibility that aid is not separated from broader investment and export promotion packages could well impede accurate record-keeping.¹¹⁸ Resourcing could be another issue with the main aid coordinating body, the Ministry of Commerce, reportedly understaffed in the face of an expanding work load.¹¹⁹

Of course, China is also unused to democratic levels of transparency and appears to regard transparency as somehow attaching strings to its aid. In an instinctively secretive bureaucracy, there is a natural tendency to guard details no matter how unlikely they are to jeopardise national security. With Chinese aid currently sometimes acting against its own interests, China will be the first to gain from improving the transparency of its aid program and stands to gain significant public relations value from having its aid recognised as DAC compliant.

Recommendations

Calls are often made for China to adhere to DAC principles in delivering its aid program.¹²⁰ This remains an important goal, and Australia should encourage as many donors as possible to join it in reinforcing this message. However, this will remain a long-term objective. In the interim, the government should also pursue a number of other paths.

Improve transparency gradually: We should pursue a staged plan towards transparency along the lines of those which China has already committed to in the Kavieng Declaration. A two-tiered approach should be adopted.

Australia should seek a leaders-level declaration committing Australia and China to work together in the Pacific as partners (in consultation with Pacific governments). Detailed in this declaration would be a joint statement on coordination. (A multilateral forum such as the Post Forum Dialogue that included regional countries would be a preferable venue for pursuing this goal but would likely run into complications over questions relating to Taiwan and perhaps be too difficult for China to entertain at this stage.)

With this high-level endorsement in place, Australia should then work with other major donors at country level to encourage Chinese moves towards greater transparency. As a first step, other major donors could be encouraged to establish their own dialogues with China. At a later stage, the existing Australia-China aid dialogue could be extended to include major donors consistent with the Rudd government's

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preference for multilateralism. (China appears to associate Western calls for ‘transparency’ with conditionality, which is anathema to China. Thus, care would be needed to ensure that calls for transparency do not imply conditions be put on China’s aid.)

Donors, working at the country level, should begin by requesting that China provide a regular update on the projects it is funding. This could be provided in hard-copy format initially, if China were uncomfortable with web-based publication. This limited opening could be followed up with a request for details on the type of aid it is providing and information on the size and development purpose of each individual project. By way of reference, AusAID currently provides this type of information on the web (China provides only limited details of some of its aid projects on local embassy and Chinese government websites).

These reforms could first be tried in PNG, where China has already committed to this type of transparency in the Kavieng Declaration. The Federated States of Micronesia would be another good starting-point using another approach. The Micronesian government already produces a comprehensive list of all donor projects, including China’s, although it is not available online.¹²¹ Australia could work with the Micronesian government, China and other donors to get this report published on the web.

These modest reforms would enhance China’s standing as a donor and a responsible international actor. They would aid in coordination, enhance recipient government accountability and reduce suspicion. Phased in

gradually across the Pacific, this would allow China to test limited transparency while moving gradually closer to international aid norms.

Boost recipient transparency: Australia should work with other donors to encourage Pacific governments to publish details of the aid they receive from all donors, including China. As mentioned above, the Federated States of Micronesia already produce a detailed document on donor assistance which is a useful first step in boosting donor transparency across the board.

Enhance aid effectiveness: While China’s aid is focused on large infrastructure projects it also funds many small projects that have significant development value. Australia should work with other donors to encourage China to put more emphasis on the effective grassroots areas in which it is already involved. This would allow China to keep tying its aid so that most of the money is spent supporting Chinese contractors and firms, without lumping Pacific states with costly infrastructure they cannot maintain and loans they cannot afford. It would again improve China’s standing as a donor.

Partner with China: At a grassroots level, AusAID should seek to partner with China in a few suitable pilot aid projects. This would allow AusAID to build rapport and trust with Chinese aid officials with a view to closer engagement and would expose Chinese officials to the workings of a Western aid agency and processes for selecting, implementing and assessing aid projects. It could also be used to introduce China to disclosing transparently the details of its aid projects. This idea already seems to have the general support of the

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Australian government,¹²² but it needs to be put into practice.

Recognising that China can provide useful, low-cost, essential infrastructure, AusAID (and NZAID in the Cook Islands and Niue) should be tasked with offering to partner with China in identifying infrastructure projects of significant development value, such as essential health and education infrastructure as well as infrastructure that enhances access to markets. The focus should be on improving prioritisation of infrastructure projects (including consideration of what governments can sustainably maintain) and appropriate design and construction. All donors should encourage China to participate in coordinated approaches to infrastructure in the Pacific.

A role for NGOs: Non-governmental organisations working on the ground could play an important role. Using their on-the-ground knowledge of the projects China is funding and by collating this information across aid sectors, NGOs have the potential to provide a clearer picture of Chinese aid activities. Publishing this information online would help other donors coordinate their aid and encourage China to disclose this information itself.

Mitigate the effects of dollar diplomacy: Commentators and governments regularly decry China and Taiwan's dollar diplomacy in the Pacific. Recent political changes in Taiwan mean Taiwanese moves towards independence are, for now, unlikely. Seizing the opportunity this change presents, Australia should work with other donors, including the US, to encourage China to ease up its destabilising dollar diplomacy in the region that spreads

corruption (while making similar appeals to Taiwan).

Praise where it is due: In some areas, Australia and other donors stand to learn from China. One obvious example is the high level of respect China affords Pacific leaders, which resonates partly because it contrasts with the perceived approach of others. Acknowledging China as a legitimate donor from which we can also learn is at least part of the solution to encouraging it towards a more responsible approach to development in the Pacific.

Conclusion

There has been much hype surrounding China's aid program in the Pacific and some wild speculation about its ends. On the whole, concerns about Chinese aid in the Pacific are exaggerated. China has limited interests in the Pacific and is unlikely to disrupt the present power structure substantially any time soon.

Chinese engagement in the region is still primarily aimed at halting and reversing diplomatic recognition of Taiwan. China has interests in fish stocks access and in those states with substantial resources (primarily PNG), but these are secondary. Other interests — trade, votes, strategic basing, and competition with the United States — are less important. This distinguishes China's Pacific aid program from its aid programs in Africa and Latin America, where Chinese aid seems to be driven far more by the search for raw materials and business opportunities for Chinese firms (although isolating Taiwan can still be an important factor.)

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China's pledged aid program has grown dramatically over the last three years from \$US 33 million in 2005 to \$US 293 million in 2007. While these findings likely miss a number of Chinese aid projects, they also overstate the scale of China's aid. These figures are a compilation of grants and loans (of which only the interest subsidy is aid). Many of the projects are likely to be realised over a number of years, and there was evidence that many pledged projects take significant time to be dispersed. In addition, a substantial component of China's aid is tied, distorting the value of the aid it is giving. While China is now a significant donor in the region, the scale of its aid should not be exaggerated. Taking these factors into account an annual figure is more likely to be somewhere in the region of \$US 100 to \$US 150 million.

China no doubt sees itself as a rising power and will continue with its regional aid program. But displacing Australia and New Zealand in the Pacific would come at a huge cost to China and bring no tangible additional benefit. For this reason, China's Pacific aid program may improve in quality but it is unlikely to continue the exponential growth seen in recent years. Instead, one risk is that China will cut its aid program as a reaction to poor results or in response to a domestic economic downturn.

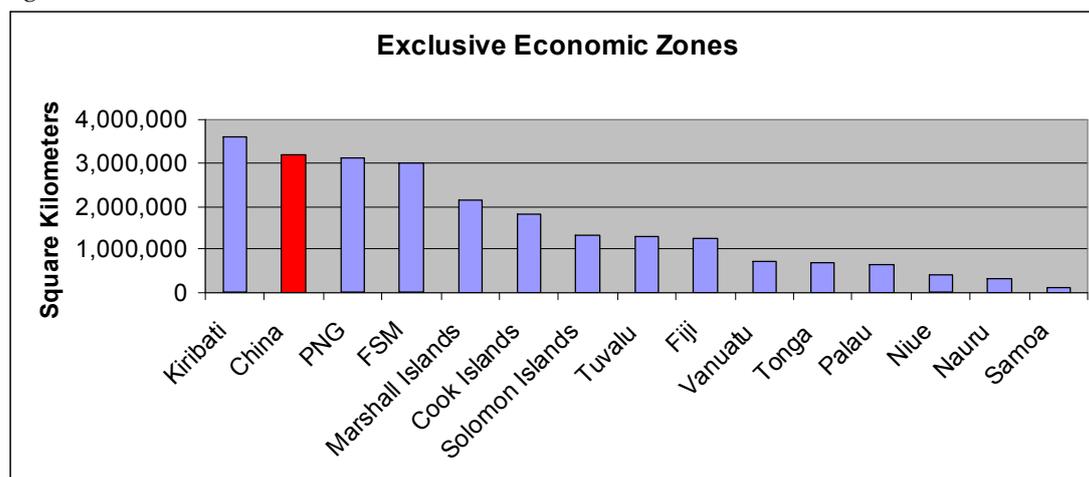
China's engagement in the Pacific is not without its problems. Its dollar diplomacy is destabilising and the secrecy surrounding its aid program breeds resentment from local islanders, stirs concern from established donors and feeds anti-Chinese sentiment. Knowing more about China's aid program in the Pacific, however, a few basic premises can be drawn that should form the basis of a more

considered, comprehensive Australian response to China's engagement with the region: 1) China is now a major donor in the Pacific and looks set to remain engaged; 2) it has an interest in the region's stability; and 3) it is unlikely to threaten Australia's leading role in Melanesia.

With these fundamentals in mind, it becomes clear that China needs to be engaged as a partner not a threat. Australia and other donors have a significant interest in working with China to improve the quality of its aid and reduce its destabilising side-effects. As it seeks its place on the world stage as a responsible international power, China too has much to gain from improving its donor standing and engaging with other donors in a spirit of partnership.

ANNEXURE I

Figure 1



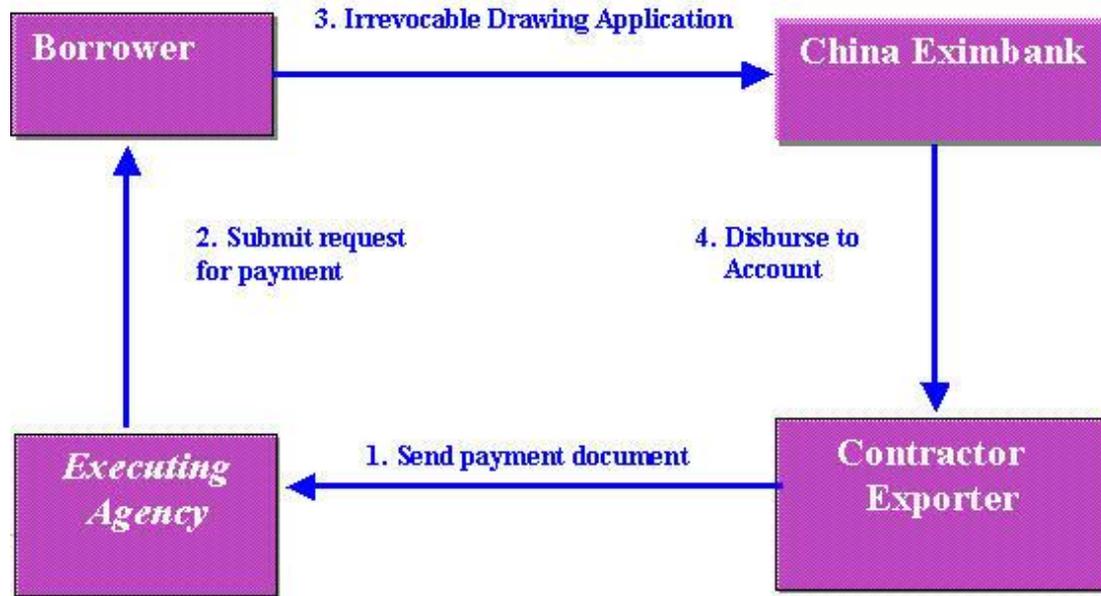
Source: Pacific Islands Applied Geoscience Commission; Pacific Islands News Association; Vijay Sakhuja

Table 1
Total Trade 2006 (Imports + Exports) (\$US millions)

	World	Australia	Japan	China	NZ	US	EU
FIJI	2529.09	500.66	100.91	75.91	302.09	192.68	200.56
KIRIBATI	68.51	21.65	5	1.18	3.54	2.8	4.19
NAURU	39.4	24.58	0.52	0	0.09	3.9	2.27
PALAU	NA	0.98	47.41	0.7	0.41	NA	NA
PNG	8628.51	3123.39	614.27	495.1	116.72	128.27	25.49
SAMOA	455.31	85.81	28.86	14.26	71.28	24.69	9.36
SOL. IS.	492.51	68.26	41.2	119.02	14.67	8.91	23.81
TONGA	160.54	10.9	8.01	4.13	40.23	20.08	17.3
TUVALU	59.56	3.87	14.45	10.96	1.89	0	6.71
VANUATU	513.4	58.31	81.31	21.92	24.37	12.1	18.49
TOTALS	12946.83	3898.41	941.94	743.18	575.29	393.43	308.18

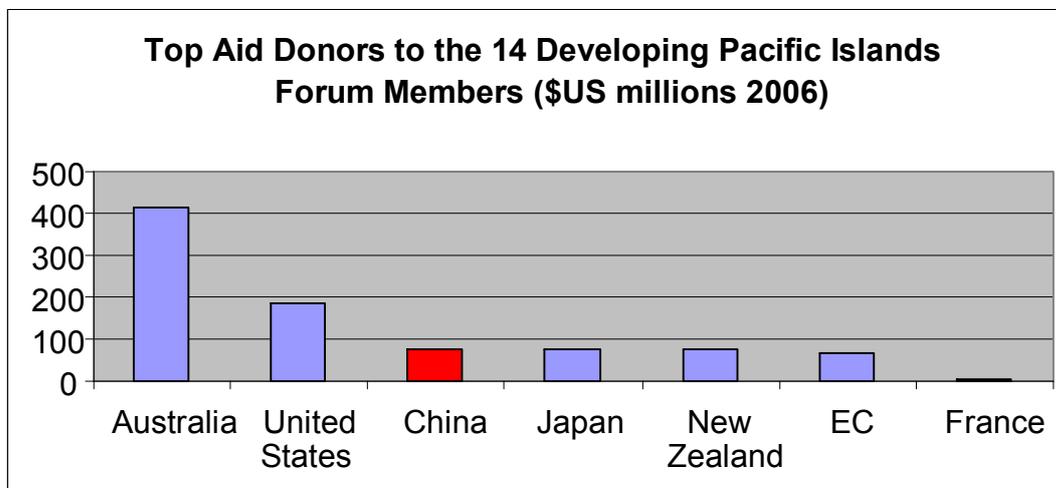
Source: IMF Direction of Trade Statistics

Figure 2



Source: Eximbank

Figure 3



Source: OECD

Figure 4

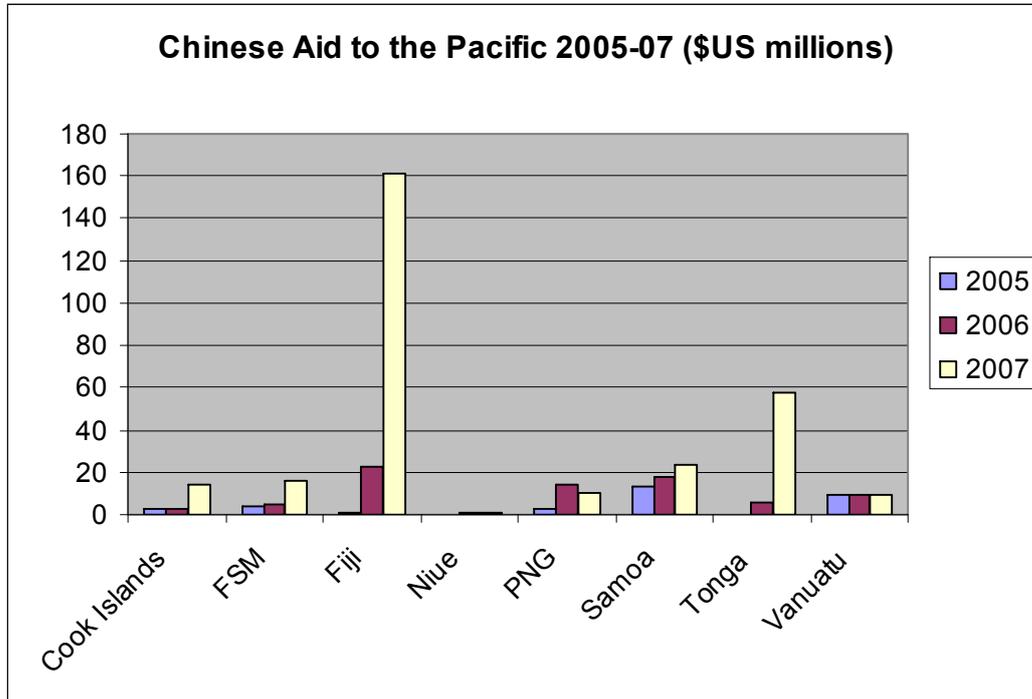


Figure 5

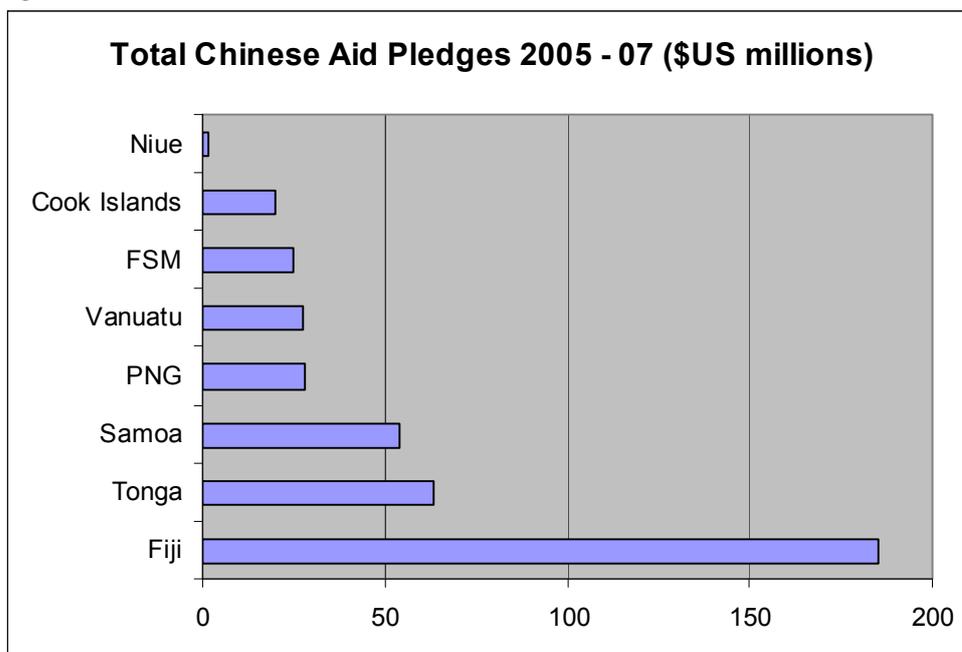


Figure 6

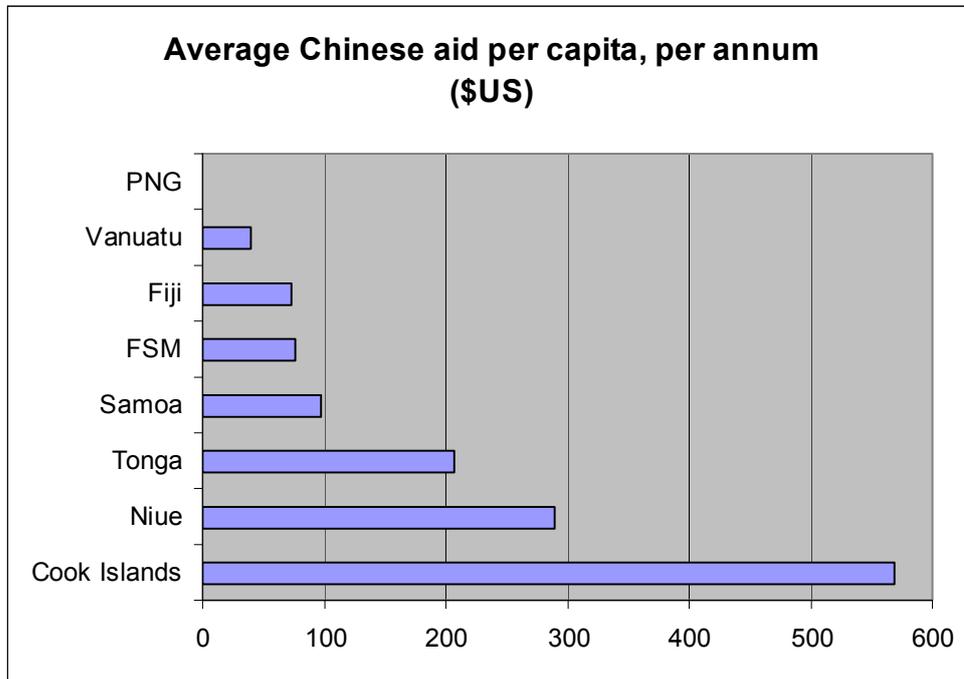
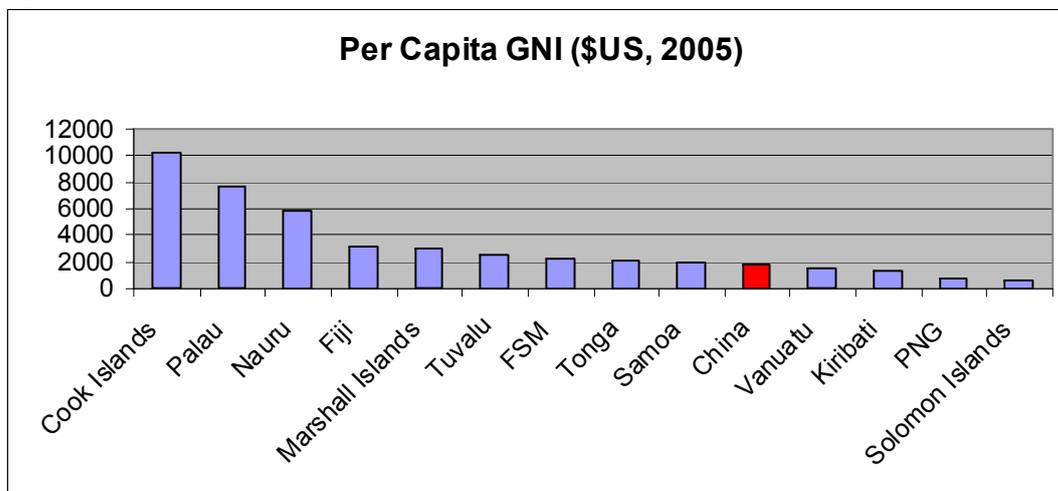


Figure 7



Source: Asian Development Bank

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ANNEXURE II

Eight Principles of the Chinese Government for Economic and Technical Assistance to Other Countries

First, the Chinese Government consistently abides by the principles of equality and benefit in providing aid to other countries. It always regards aid to other countries as mutual and not as a kind of unilateral alms.

Second, in providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries and never attaches any conditions or asks for any privileges.

Third, the Chinese Government provides economic assistance by giving interest-free or low interest loans and, where necessary, extends the deadline for repayment to lighten the burden of the recipient countries as much as possible.

Fourth, the purpose of the Chinese Government's foreign aid is not to make the recipient countries dependent on China but to help them start on the path of self-reliance and eventual independence in economic development.

Fifth, the projects which the Chinese Government helps the recipient countries build are those which will as far as possible require less investment while yielding quicker results, so that the recipient governments may increase their revenues and accumulate capital.

Sixth, the Chinese Government provides the best quality equipment and material of its own manufacture at prices negotiated on the basis of international market prices. If the equipment and material provided are not up to the agreed specifications and quality, the Chinese Government will replace them.

Seventh, in giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master the technology involved.

Eighth, the experts dispatched by the Chinese Government to help in construction in the recipient countries will have the same standard of living as the experts of the recipient countries. The Chinese experts are not allowed to make any special demand or enjoy any special amenities.

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ANNEXURE III: CHINESE AID IN THE PACIFIC 2005–2007¹²³

Cook Islands¹²⁴

2005

- \$US 2.8 million for new police headquarters (2005/06 budget: discussed in 2004: opened in 2007).

2006

- \$US 3.2 million for a 5.5km road upgrade (Nikao-Takuvaine).
- [The Cook Islands Budget Policy Statement 2007-08 reports Chinese aid flows at \$US2.9 million (\$NZ 4 million) for 2006-07].¹²⁵

2007

- \$US 7.3 million to build a 500-tonne inter-island ship.
- \$US 6.8 million soft loan for a sports complex for the 2009 South Pacific Games, other infrastructure and equipment. Loan terms: two per cent interest over 20 years (negotiations were being finalised at the end of 2007).
- Commitment to fund five scholarships.
- Funding for a tour of China by two media workers.

FSM

2005

- \$US 3.7 million¹²⁶ economic and technical assistance grant.
- \$US 0.25 million grant to purchase cars for protocol use.
- Working on construction of the Tuna Management Commission Headquarters.

2006

- \$US 0.075 million grant for a Chinese study team to begin the initial assessment for the construction of the Pohnpei State Administration Building.
- \$US 2.5 million grant for undisclosed projects.
- \$US 2 million loan MOU signed (presumed to be concessional).
- \$US 0.32 million for 17 scholarships to study in China.

2007¹²⁷

- \$US 2.3 million for repair and renovation of Chuuk State airport.
- \$US 4.4 million for construction of a cargo and transport ship.
- \$US 0.076 million for planning and preparation for the Kosrae high school project.
- \$US 4.4 million for construction of Kosrae high school.
- \$US 3.8 million for construction of a central government office.

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- \$US 0.05 million for furnishing the residential homes for the President, Vice-President, Speaker and Chief Justice.
- \$US 0.31 million for construction for 171 solar-powered street lights.
- \$US 0.24 million for 12 scholarships to study in China. Scholarships are for 4–7 years and include remedial Chinese language studies of 1–2 years, tuition fees, fees for basic study materials, accommodation, a living allowance, a settlement subsidy, outpatient medical fees, comprehensive medical insurance and a one-off inter-city travel allowance.
- \$US 0.03 million for placement of a Chinese language instructor at the College of Micronesia.
- \$US 0.16 million for 40 government officials and technicians to attend seminars in China.
- \$US 0.05 million for cultural exchange programs, including the China Film Show and book donations.
- \$US 2,500 to fund a delegation from the Kosrae Women’s Association to visit the Pohnpei pilot farm project.
- A new computer for a local newspaper.
- Funding for a tour of China by media workers.

Fiji

2005

- \$US 1 million aid-in-kind grant for sports stadium maintenance.

2006

- \$US 1.2 million aid-in-kind grant to upgrade the Navuso Agriculture School (still under negotiation).
- \$US 1.7 million grant for the China-Pacific Island Countries Forum (coordination work performed by the Chinese Embassy).
- \$US 20 million concessionary loan for an e-government project. Loan terms: 2 per cent interest over 20 years with a five-year grace period.
- An agreement signed for assistance with quarantine services.
- \$US 0.18 million aid-in-kind grant from the Chinese Embassy in Fiji to rural communities, including grants of \$US 10,976 for the Nanoko Village electric grid system, \$US 28,859 for Nailaga Village Vale upgrading and \$US 11,948 for the Tikina Noikoro youth beekeeping project.
- Aid-in-kind grant for 100 Fijian civil servants to travel to China for training courses or seminars.
- [The government of Fiji reported actual Chinese grants (cash and aid-in-kind) as \$US 0.8 million for 2006].¹²⁸

2007

Pledged aid to Fiji is distorted because of a large loan agreed at the end of 2007 which is likely to be dispersed over several years. Another major project that formally commenced in 2007 has been excluded as it was likely to have been pledged as early as 2004.¹²⁹

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- \$US 150.3 million concessional loan MOU signed: \$US 105.6 million for new roads and upgrading existing ones, \$US 34.5 million for squatter resettlement and \$US 9.7 million for water supply improvement and improvement to maritime transportation. Negotiations on implementation yet to commence. Terms: 2 per cent interest over 20 years with a five-year grace period, with the possibility that loans could be turned into grants on a case-by-case basis.
- \$US 5 million cash grant for road upgrading and infrastructure projects, including \$US 2 million for upgrading the Nukurua-Vatukarasa road and \$US 223,734 for three school-related projects to be built by the RFMF Engineers regiment.
- Aid-in-kind grant to train seven Fijian and Tongan aviation officials and technicians at the Civil Aviation University of China.
- \$US 3.4 million grant-in-aid for a multi-purpose cargo vessel to be built in China.
- \$US 2.6 million aid-in-kind grant under the Agreement on Economic and Technical Cooperation (projects to be agreed).
- Funding for a tour of China by media workers.
- [The government of Fiji reported revised estimates for Chinese grants (cash and aid-in-kind) as \$US 0.3 million for 2007].

Niue

2005

- No figures available.¹³⁰

2006

- \$US 0.39 million for goods, services and training.
- Two consultants attached to the Department of Agriculture, Forestry and Fisheries for four months.
- \$US 0.26 million for preparations for the Pacific Islands Forum in Niue.
- Funding for the Taoga Niue building.

2007

- \$US 0.75 million grant for wharf construction, airport maintenance, road and electricity upgrades.

PNG

For PNG, government budget figures for Chinese grants have been used instead of pledged figures in calculating China's aid to PNG.¹³¹ Pledged aid projects are detailed below as a guide to the projects China is funding, and are followed by budget figures.

2005

- \$US 10.3 million for three building projects (2005–07): student dormitories and teachers' houses at Vudal University, a computer building at Lae UNITECH and the renovation of Government House.
- \$US 0.4 million for Taurama Military Hospital donated by the People's Liberation Army.

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- \$US 3.2 million grant for the Papa-Lealea road.
- \$US 0.18 million for wind-driven generators for the Duke of York Islands, East New Britain.
- \$US 4.5 million in economic and technical assistance for wheat cultivation, dry-rice, mushroom growing equipment, medical equipment and anti-AIDS medicines.
- Nine Chinese doctors placed in Port Moresby General Hospital (since 2002).
- Funding for the Kandep wheat technical cooperation project in Enga Province (since 1995).
- [Total Chinese aid grants in 2005 were reported with UN grants in the PNG budget and together were \$US 6.1 million].¹³²

2006

- \$US 65.4 million concessional loan to develop and implement the National Agriculture Development Plan. To be drawn down in 2007 and repaid over a 15–20 year period.
- \$US 1.35 million grant for development projects.
- \$US 0.1 million to purchase anti-malarial drugs.
- \$US 3.6 million funding for a cold storage and fish processing facility in Morobe Province.
- \$US 0.06 for the Wewak sports stadium feasibility study.
- PNG sought a concessional loan to fund the 240MW Ramu 2 hydro power plant to supply the Ramu Nickel Project and other centres (costing up to \$US 248.6 million). The PNG Independent Public Business Corporation is still in discussions with China on the scale of this project and financing options.
- [The PNG budget estimated Chinese aid grants in 2006 were \$US 14.1 million].

2007

- \$US 0.5 million for renovation of the Taurama Barracks.
- \$US 0.4 million for projects to be determined.
- \$US 2.5 million for development projects.
- \$US 0.15 million for an international conference centre.
- 24 scholarships.
- 80 government personnel trained.
- Funding for a tour of China by media workers.
- [The PNG budget projected Chinese aid grants in 2007 would be \$US 10.7 million].

Samoa

2005

- \$US 12.9 million for an aquatic centre for the 2007 South Pacific Games.
- Approximately five scholarships.
- Small health exchange program (medical teams) (ongoing).
- Small direct aid/grassroots program (ongoing).

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2006

- \$US 11.5 million in debt extinguished.
- \$US 6 million for a sports stadium upgrade for the 2007 South Pacific Games.
- Two satellite dishes.
- Technical assistance for the Samoan Broadcasting Corporation to broadcast the South Pacific Games.
- Approximately five scholarships.

2007¹³³

- \$US 21 million concessional loan to design and build an office complex for members of Parliament, as well as a judicial and court administration building. (One source claimed aid for these projects was as high as \$US 95.5 million).
- Approval to finance an office complex for the Ministry of Works, the Electric Power Corporation, the Water Authority and the ministries of Agriculture, Natural Resources and Environment, Commerce and Industries.
- Approval to finance a conference centre.
- \$US 0.5 million grant to build a new primary school in A'ele village west of Apia.
- \$US 2 million grant for construction and fit out of a new archives building.
- Funding to renovate the Tooa Salamasina Hall and upgrade one of the Lefaga primary schools.
- \$US 0.1 million gift for the funeral of the Head of State.
- Approximately five scholarships.
- Funding for a tour of China by media workers.

Tonga

2005

- 15 scholarships to attend university in China.

2006¹³⁴

- \$US 3 million grant for a new conference centre.
- \$US 2.5 million grant from the Fiji summit (this appears to have been re-announced in 2007 for road maintenance and community projects.).
- 15 scholarships to attend university in China.
- Soft loan to refurbish the Dateline Hotel.
- Agreement to construct the second phase of the Tongan high school project.
- Agreement to upgrade the Fua'amotu international airport and relocate the Vava'u airport.

2007

- \$US 57.8 million concessionary loan for reconstruction of Nuku'alofa and Vuna wharf. Terms: 20 years at 2 per cent with payment in Renminbi.
- Gift of 20 police motorcycles, 21 cars and a van for the Pacific Islands Forum meeting.

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- 15 scholarships to attend university in China.
- Funding for a tour of China by media workers.

Vanuatu

2005–07¹³⁵

- \$US 2.7 million grant for a palm oil project.
- \$US 4.3 million grant for a fish processing plant.
- \$US 1.2 million grant for goods and equipment.
- \$US 0.85 million grant for medical cooperation.
- \$US 0.28 million grant for agricultural cooperation.
- \$US 0.14 million grant for a Chinese table tennis coach.
- \$US 0.7 million donation of equipment for Pekoa airport, including an X-ray security inspection system, baggage conveyer and fire equipment.
- \$US 0.29 million agreement signed with the People’s Liberation Army for uniforms and equipment for the Vanuatu Mobile Force, including a 28-seater bus for police officers and three double-cabin Hilux for police patrols. China also committed to provide two boats for coastal surveillance operations and military and defence training.
- 17 officials sent to China for training classes.
- \$US 14.6 million soft loan to purchase three Chinese Y-12 aircraft.
- \$US 2.7 million grant for the Melanesian Spearhead Group secretariat building and the Vila Chinese medical team flat project.
- Funding for a tour of China by media workers.

PIF member	2005	2006	2007
Cook Islands	2.8	3.2	14.1
FSM	3.95	4.895	15.8185
Fiji	1	23.08	161.3
Niue	0	0.65	0.75
PNG	3.05	14.1	10.7
Samoa	12.9	17.5	23.6
Tonga	0	5.5	57.8
Vanuatu	9.25	9.25	9.25
Totals	32.95	78.175	293.3185

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NOTES

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⁴ *Human development report 2007/2008: Fighting climate change: human solidarity in a divided world*. United Nations Development Programme 2007: <http://hdrstats.undp.org/indicators/170.html>.

⁵ Brautigam, *China's foreign aid in Africa: what do we know?*, p 3.

⁶ Deborah Brautigam, *Chinese aid and African development: exporting green revolution*. Basingstoke, Macmillan, 1998, p 40.

⁷ Brautigam, *China's foreign aid in Africa: what do we know?*, p 21.

⁸ Davies, Edinger, Tay and Naidu, *How China delivers development assistance to Africa*, p 6.

⁹ Department of Foreign Affairs and Trade, *Submission to the Inquiry by the Senate Foreign Affairs, Defence and Trade References Committee into Australia's relations with China*. Canberra, Parliament of Australia, 24 March 2005, p 19.

¹⁰ Jim Rolfe, Oceania today: the region, regional powers and regional cooperation, in *Engaging*

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¹⁷ Stephen Johnson, *Balancing China's growing influence in Latin America*. Backgrounder No. 1888. Washington DC, The Heritage Foundation, 2005, p 3.

¹⁸ Wen Jiabao. Win-win cooperation for common development: keynote speech at the opening of the First Ministerial Conference of the China-Pacific Island Countries Economic Development and Cooperation Forum, April 5, 2006.

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¹⁹ Pacific Islands Applied Geoscience Commission. www.sopac.org; Pacific Islands News Association. <http://www.pinanius.com/geography.shtml>; Vijay Sakhujia, Maritime power of People's Republic of China: the economic dimension. *Strategic Analysis* 26 (11) 2001.

²⁰ Meryl J. Williams, *Enmeshed: Australia and Southeast Asia's fisheries*. Lowy Institute Paper 20. Sydney, Lowy Institute for International Policy, 2007, pp 40, 62.

²¹ *Ibid.*, p 29.

²² Vanuatu groups unhappy with Chinese tuna cannery project. *BBC Monitoring Asia Pacific*, 19 September 2007.

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²⁸ China, Papua New Guinea sign \$650 mln mining deal at forum *Dow Jones Commodities Service*, 5 April 2006.

²⁹ Dominic Krau, Power for Ramu mine. *PNG Post Courier*, 28 September 2006 and personal correspondence.

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³¹ Senate Foreign Affairs, *China's emergence: implications for Australia*, p 167.

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³³ Graeme Dobell, *China and Taiwan in the South Pacific: diplomatic chess versus Pacific political rugby*. Lowy Institute Policy Brief. Sydney, Lowy Institute for International Policy, 2007. See also Anthony Van Fossen, The struggle for recognition: diplomatic competition between China and Taiwan in Oceania. *Journal of Chinese Political Science* 12 (2) 2007.

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⁵⁹ China EXIM Bank. *Chinese Government concessional loan*. 2008:

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⁶⁵ Kalinga Seneviratne, South Pacific: China seen as alternative to Big-Brother Aussies. *Global Information Network*, 17 April 2006.

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⁶⁷ Davies, Edinger, Tay and Naidu, *How China delivers development assistance to Africa*, p 13 and Carol Lancaster, *The Chinese aid system*. Center for Global Development Essay. Washington DC, Center for Global Development, 2007, p 3.

⁶⁸ Lancaster, *The Chinese aid system*, p 3.

⁶⁹ Davies, Edinger, Tay and Naidu, *How China delivers development assistance to Africa*, p 2. This project focuses on bilateral aid so does not look at multilateral or humanitarian aid.

⁷⁰ *Ibid.*, p 13.

⁷¹ *Ibid.*, pp 13-14 and personal correspondence.

⁷² *Ibid.*, pp 8-9.

⁷³ Embassy of the People's Republic of China in the Federated States of Micronesia. Mr. WU Hemin Vice Mayor of Ningbo from Zhejiang Province visited the Pohnpei State of the FSM 2007: <http://fm.china-embassy.org/eng/xwtd/t387820.htm>.

⁷⁴ Lancaster, *The Chinese aid system*, p 4.

⁷⁵ *Ibid.*

⁷⁶ Davies, Edinger, Tay and Naidu, *How China delivers development assistance to Africa*, p 14.

⁷⁷ Lancaster, *The Chinese aid system*, p 2.

⁷⁸ Brautigam, *China's foreign aid in Africa: what do we know?*, p 7.

⁷⁹ China EXIM Bank. Chinese Government concessional loan. See also Davies, Edinger, Tay and Naidu, *How China delivers development assistance*

to Africa, p 18. The following paragraphs draw from both sources.

⁸⁰ Personal correspondence with the Chinese government with assistance from the Chinese Embassy, Canberra.

⁸¹ *Australia's overseas aid program 2007-08: Statement by The Honourable Alexander Downer MP, Minister for Foreign Affairs, 8 May 2007*. Commonwealth of Australia 2007:

<http://www.budget.gov.au/2007-08/ministerial/download/ausaid.pdf>. This excludes 'Regional and other Pacific' ODA.

⁸² Email correspondence with NZAID.

⁸³ China does not give aid to the other developing Pacific Islands Forum members because they recognise Taiwan.

⁸⁴ Part of the difference between 2005 and 2007 figures may be the result of increased reporting on Chinese aid projects as a result of growing interest.

⁸⁵ Organisation for Economic Co-operation and Development. *CRS online*. OECD: <http://stats.oecd.org/WBOS/>.

⁸⁶ The interim government in Fiji has refuted the 2007 pledged aid figures in this report, but refused to disclose alternative figures. Rebecca Elbourne, Aussie aid to Fiji stay same. *Fiji Times*, 15 May 2008.

⁸⁷ See *China denies increasing Fiji aid*. Fijilive 27 May 2008:

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discussed by the two parties'. The South Asian Post article cited in the *Fijilive* piece is a re-report of the opinion piece cited above. The difference between aid figures mentioned in that opinion piece and final figures used here is explained in footnote 129.

⁸⁸ Crocombe, *Asia in the Pacific Islands: replacing the West*, pp 263-264.

⁸⁹ *Ibid.*, p 228.

⁹⁰ \$242m loan for upgrade. *Fiji Times*, 24 November 2007. As noted previously, a Chinese Embassy spokesperson has denied China has plans to increase aid to Fiji, but has not said whether or not this specific loan is part of existing aid.

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⁹² See for example, Hank Nelson, *The Chinese in Papua New Guinea*. State Society and Governance in Melanesia Discussion Paper 2007/3. Canberra, Research School of Pacific and Asian Studies, The Australian National University, 2007, pp 6-7.

⁹³ Joseph J. Schatz, Zambian hopeful takes a swing at China. *Washington Post*, 25 September 2006.

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⁹⁶ *EU holds high level talks with Pacific island nations*. AFP 18 October 2007:

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⁹⁷ Lum and Vaughn, *The Southwest Pacific: U.S. interests and China's growing influence*, p 4 and Julie Pendray, China pours aid to islands. *The Washington Times*, 19 October 2007.

⁹⁸ Shie. China woos the South Pacific.

⁹⁹ Lum and Vaughn, *The Southwest Pacific: U.S. interests and China's growing influence*, pp 11-12.

¹⁰⁰ Bertil Lintner. America's China worries - Part III. YaleGlobal Online 13 February 2007: <http://yaleglobal.yale.edu/display.article?id=8751>.

¹⁰¹ Glyn Davies. *U.S. policy toward South Pacific island nations, including Australia and New Zealand: Statement Before the Subcommittee on Asia, the Pacific, and the Global Environment House Committee on Foreign Affairs, Washington, DC, March 15, 2007*. U.S. Department of State 2007:

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¹⁰⁴ Christopher Hill. *The "Year of the Pacific" is just the beginning*. U.S. Embassy Suva, Office of Public Affairs 2007:

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¹⁰⁶ The US is also pressuring both China and Taiwan. Davies. *U.S. policy toward South Pacific island nations, including Australia and New Zealand: Statement Before the Subcommittee on Asia, the Pacific, and the Global Environment House Committee on Foreign Affairs, Washington, DC, March 15, 2007*.

¹⁰⁷ *Kavieng Declaration on aid effectiveness: a joint commitment of principles and actions between the Government of Papua New Guinea and development partners*, 15th February 2008:

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<http://www.aidharmonization.org/download/257013/KaviengDeclarationonAidEffectiveness.pdf>.

¹⁰⁸ Annexure III. See also Department of Foreign Affairs and Trade, *Submission to the Inquiry by the Senate Foreign Affairs, Defence and Trade References Committee into Australia's relations with China*, p 19 and Wesley-Smith, *China in Oceania: new forces in Pacific politics*, pp 15-16.

¹⁰⁹ Development Co-operation Directorate. *Glossary*. OECD 2008:

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¹¹³ John Hayes, Chinese influence raising concerns for Rarotongans. *Hawke's Bay Today*, 6 April 2006.

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¹¹⁶ United Nations Economic and Social Commission for Asia and the Pacific. *ESCAP statistical yearbook for Asia and the Pacific*. 2007:

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¹¹⁹ Lancaster, *The Chinese aid system*, p 5.

¹²⁰ See for example, Senate Foreign Affairs, *China's emergence: implications for Australia*, p 182.

¹²¹ FSM National Government Federated States of Micronesia, *Non-compact and non-domestic revenue funded programs report, fiscal year 2007*. Pohnpei, FSM National Government, 2007.

¹²² Kevin Rudd. *Australia, the United States and the Asia Pacific Region: speech delivered at the Brookings Institution*, 31 March 2008:

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¹²³ Sources are available for each aid project and figure. Figures not available in US dollars have been converted and rounded up using a year average exchange rate for the relevant year.

¹²⁴ There was some uncertainty about China's aid pledges to the Cook Islands. The Half Year Economic and Fiscal Update 2007/08 reports \$NZ11.9 million (\$US 8.7 million) in grant pledges from China (Government of the Cook Islands, *The Cook Islands: half year economic and fiscal update for financial year 2007/2008*. Rarotonga, Office of the Minister of Finance, 2007), which correlates with government press releases in 2007 and several small grant pledges made by China over the 2006-07 period totalling approximately \$NZ11.9 million. This has not been included as it could be double counting other aid projects/pledges over 2006-07. Funds for the Nikao-Takuvaine road upgrade may have been re-allocated.

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¹²⁶ It is possible that another project announced in 2005 was drawn from this pool of funds, so has been excluded. It was \$US 1.7 million for

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construction of four residences (for the President, Vice President, Chief Justice and Speaker).

¹²⁷ Figures for 2007 are significantly higher than other years, owing to a government report (Federated States of Micronesia, *Non-compact and non-domestic revenue funded programs report, fiscal year 2007*,) obtained for this project which provides extensive details on all donor aid projects for 2007. The same report was not available for 2005 and 2006, but suggests China's aid in FSM for these years could be significantly higher than media reports suggest.

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¹²⁹ It is the \$US 5.8 million aid-in-kind grant for the Somosomo hydroelectric power project (design contract signed in 2007: expected to commence in 2008, discussed as early as 2004). Including this project would bring 2007 pledged aid to \$US 167.1. The Navuso Linking bridge project commenced in 2007 but was pledged as early as 2004.

¹³⁰ China built and funded a \$US 0.5 million TV broadcasting tower in 2004/05. The transmitting equipment has since corroded as the wrong materials were used.

¹³¹ While these exclude concessional loans (so understate aid levels) they have been used because they exclude a large loan in 2006, for which only one source was available, and were, on the whole, preferable to other public sources. For 2005, which reports UN and Chinese aid together, Chinese aid was assumed to be half the amount (i.e. \$US 3.05 million).

¹³² Papua New Guinea Department of Treasury, *2007 Budget, Volume 1*. Waigani, Department of Treasury, 2007, p 29.

¹³³ There were also reports Samoa received a \$US 2.6 million grant for government development projects. This was excluded on the grounds it could be double counting aid.

¹³⁴ It is assumed, smaller aid projects in 2006 and 2007 were drawn from a \$US 10 million multi-year aid package announced at the end of 2004. Tonga may also have secured a \$US 5.9 million grant to balance its budget in 2006.

¹³⁵ Aid statistics were provided over a three year period amounting to \$US27.47 million. Others have estimated that China's annual aid to Vanuatu in 2005 was \$US32 million (Van Fossen, *The struggle for recognition: diplomatic competition between China and Taiwan in Oceania*. p 138.).

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