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**China in the Pacific:  
The New Banker in Town**

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## Table of Contents

	<b>Page</b>
<b>What is the Problem</b> .....	1
<b>What Should be Done?</b> .....	1
<b>Introduction</b> .....	1
<b>China’s Aid Program: 2009</b> .....	1
<b>China in the Pacific: Why?</b> .....	4
<b>Chinese Aid Trends 2005-2009 and Emerging Concerns</b> .....	5
<b>China’s Follow-Through</b> .....	8
<b>Recommendations</b> .....	8
<b>Annexure I: Chinese Aid Pledges to the Pacific in 2009</b> .....	11
<b>Annexure II: Estimated Cumulative Chinese Soft Loans by Country</b> .....	13
<b>Annexure III: Survey on Delivery of Chinese Aid Pledges</b> .....	14
<b>Annexure IV: Total Pacific trade 2009 (imports + exports) (\$US millions)</b> .....	26
<b>About the Author</b> .....	27
<b>Notes</b> .....	28



# **China in the Pacific: The New Banker in Town**

## **What is the problem?**

China is now one of the Pacific's major donors. An analysis of its aid program in the region from 2005 to 2009 suggests it is reducing the grant component of its aid and increasing the soft loan proportion. China has pledged over \$US 600 million to the Pacific since 2005 and debt burdening will become increasingly pressing as Chinese loans accumulate and the five-year grace periods expire. There appears to have been limited progress improving transparency.

## **What should be done?**

At this stage, China appears confident in its aid program and sensitive to analysis of it. In this atmosphere, the success of other countries' efforts to encourage improvements in China's approach is likely to be limited. Nonetheless, some modest efforts are worth pursuing over the long term.

AusAID and other major donors should continue to try to engage China in joint projects. They should begin a discussion with China and Pacific governments on debt burdening.

Pacific governments should report aid flows from all sources, including China. They should continue to urge China to improve the use of local laborers, contractors and, where possible, materials in its aid projects, and push it to coordinate its aid activities consistent with the Cairns Compact.

## **Introduction**

This is the fourth in a series of publications examining China's aid activities in the Pacific, which now spans from 2005 to 2009.<sup>1</sup> The reports cover the developing Pacific Islands Forum members that recognize China diplomatically (China does not provide official development assistance to countries that recognize Taiwan). These countries include: the Cook Islands, the Federated States of Micronesia (FSM), Fiji, Niue, Papua New Guinea (PNG), Samoa, Tonga and Vanuatu.

This paper examines Chinese aid activities in the region for calendar year 2009 and draws on data gathered since 2005. It reassesses the drivers of China's engagement in the Pacific in light of the continued diplomatic truce with Taiwan, examines trends in China's aid giving and associated concerns, as well as survey results of China's follow-through on aid delivery since 2005. It concludes with a set of recommendations.

## **China's Aid Program: 2009**

In 2009, China remained one of the Pacific's top aid donors. It also made its first major aid pledge to PNG since this series began recording aid figures in 2005,

suggesting a shift towards a more interests-based approach. Aid giving to Fiji, by contrast, seems to have been moderated. The diplomatic truce with Taiwan is holding, but China is increasing the loan to grant ratio of its aid, which may be used as leverage in future, if the truce unravels, and risks creating a debt burden problem in South Pacific countries. Progress on transparency has been limited.

China continues to regard the details of its aid program as a state secret. However, there are indications it is beginning to take modest steps towards improving transparency, consistent with the trend of increasing openness from rival Taiwan, whose aid white paper rejected dollar diplomacy.<sup>2</sup>

Estimating the total value of China's global aid budget is an inexact science. While China does report an aggregate external assistance figure in the *China Statistical Yearbook*, it does not report figures in the same way as other major donors (not being a member of the OECD) and some of the activities China counts as aid, such as military aid and aid supporting joint ventures between Chinese and foreign firms, would not normally be considered aid according to OECD guidelines.<sup>3</sup> The fragmentation of its aid budget across the Chinese bureaucracy also makes tabulating a total figure difficult. However, there are indications China is gradually increasing transparency. As Deborah Brautigam put it in her recent book on China's aid program in Africa:

'Premier Wen Jiabao's 2008 announcement on aid was a sign of greater transparency. We can expect this to increase. In 2007, Wang Shichun, the director of the Department of Foreign Aid, said that China would become more transparent about its aid process, cooperate more, "and draw on international aid expertise to improve its own work." The Chinese commissioned a team of Beijing scholars to study the OECD-DAC's system of aid statistics. This has enabled the Ministry of Commerce to calculate China's aid totals using the same DAC methodology employed by the traditional donors, in preparation for greater transparency in the future. It is quite likely that China will follow in the footsteps of other non-OECD donors, such as Taiwan and South Korea, and publish these figures.'<sup>4</sup>

China has also somewhat expanded engagement in the Pacific. As reported previously in this series, in February 2009, AusAID hosted a training workshop for 17 mid-level officials from the Chinese Ministry of Commerce to discuss Australian best-practice systems and approaches, and it was subsequently agreed to make this an annual event.

Anecdotal reports also suggest China's Department of Aid to Foreign Countries has recently been more forthcoming in discussing the details of its aid program in private.

Despite these movements towards improved transparency, China still refuses to report publicly detailed figures about its aid program. To overcome this information gap, as with the previous report in this series, for the 2009 period, government employees in the region provided official figures on China's aid giving. In the absence of Chinese government figures, these provide the most detailed breakdown of China's aid program available. As occurred in 2008, figures were broken down by grants and loans. This year only the Vanuatu Government was unwilling to provide any figures for 2009, but did provide figures for 2010. Fiji provided only partial data.

In 2009, China’s pledged grant aid to the Pacific was \$US 26.67 million with additional soft loans of \$US 183.15 million, making for a total of \$US 209.82 million. A full list of pledged Chinese aid projects in the Pacific for 2009, by country, is set out in **Annexure I**.

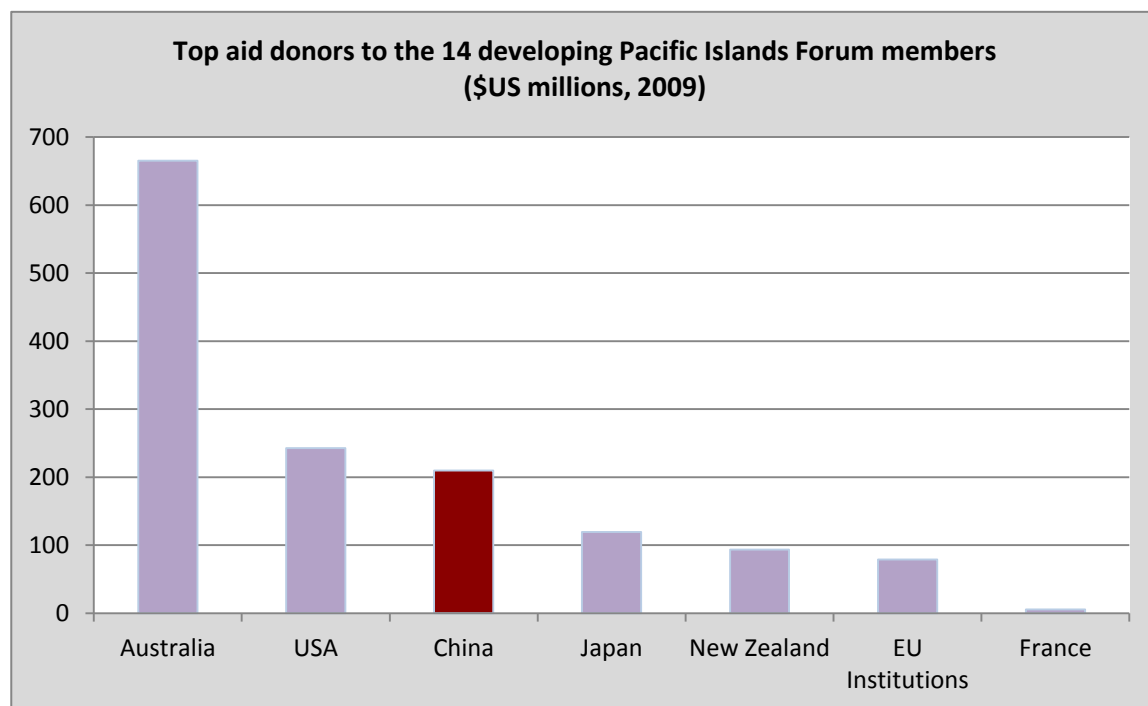
The 2009 figure is similar to the total reported in 2008 (\$US 206.33 million),<sup>5</sup> although the 2009 figure does not include aid pledged to Vanuatu and only some projects pledged to Fiji (although for the latter, discussions with officials suggested new pledges were probably not significant in 2009).

As in previous years, this report (in most cases) does not put a value on in-kind aid projects such as scholarships and skills training for local officials. It also only deals with pledged, not dispersed aid (although this year a survey of stakeholders was completed to ascertain China’s follow-through on aid pledges since 2005).

A simple comparison with other major aid donors (Chart I) suggests China is the region’s third-largest donor, after Australia and the United States. This comparison may overstate China’s actual aid to the region as figures provided for this report are for pledged, not disbursed aid. Furthermore, while Chinese soft loans would probably be considered concessional under OECD guidelines, it is impossible to verify this without knowing the details of the loan terms.

It is worth noting, however, that China is giving aid to only eight of the 14 developing Pacific Islands Forum members used in this comparison.

**Chart I:**



Source: OECD

## China in the Pacific: Why?

Previous reports in this series have argued that the primary driver of China's engagement in the region is diplomatic competition with Taiwan as well as secondary resource interests in those countries that have them. However, since the election of President Ma Ying-Jeou in 2008, an unofficial diplomatic truce between China and Taiwan has been accepted and adhered to by both sides. This has resulted in some extraordinary developments, with both China and Taiwan rebuffing states seeking to switch from recognizing one China to the other.<sup>6</sup> No country has switched its diplomatic recognition between the two Chinas since Costa Rica moved from recognizing Taiwan to recognizing China in 2007.

The truce has also affected the tone of China's engagement in the region. In April 2006, the first China-Pacific Island Countries Economic Development and Cooperation Forum was held in Fiji and was attended by the eight developing Pacific Islands Forum members that recognize China, as well as Chinese Premier Wen Jiabao, where he announced three billion Renminbi (\$US376 million) in preferential loans over three years. With the détente in place, there was no similarly ostentatious renewal conference after the expiry of the three-year period.<sup>7</sup>

### *Fiji*

Since the last report in this series, Fiji's dictator 'Frank' Bainimarama has continued to make much of his relationship with China.<sup>8</sup> As this series has tracked, after the 2006 coup, China pledged large amounts of aid to Fiji in a bid to pre-empt Fiji's making a switch to diplomatically recognizing Taiwan. This included \$US 5 million in cash immediately following the coup, which led Bainimarama to bring control over Chinese aid under his own immediate office.

However, since the diplomatic truce was agreed between China and Taiwan, China seems to have felt pressure not to be seen to be lavishing aid on a pariah government (most likely because it is uncertain of the return for seemingly frustrating the United States, Australia and New Zealand). It has gone ahead with projects like the Nadarivatu hydro project, which had been previously scoped by the World Bank, but it has been slow to disperse the other aid promised.

The solidification of the détente forces a reassessment of whether diplomatic competition is still China's primary interest in the region. Indications are that it is. As one senior Taiwanese official discussing this issue put it, 'states always plan for the worst'. While the truce is holding, there is still considerable uncertainty that it will endure. China would be mindful that it needs to remain actively engaged so it is ready to restart the diplomatic tussle with Taiwan should the warming in cross-strait relations break down, for example, through the return of an independence-oriented Democratic Progressive Party President in Taiwan.



This view is also supported by official Chinese messages in the region. At a public presentation by a Chinese Embassy official in Fiji to a group of Fiji government officials (at which one of the authors was present), the Chinese official nominated continued ‘accidental’ references to Taiwan in official Fiji government communications as the number one area where the Fiji-China relationship needed work. Reports from official China-Pacific government meetings also continue to record pledges of adherence to the One China policy.<sup>9</sup> Another possible indicator China is hedging against a return to diplomatic competition is the increase in the loan-to-grant ratio of its aid to Pacific countries (see below). These outstanding debts could be used as leverage against states looking to switch to recognizing Taiwan in future.

This is not to say China would abandon the Pacific were the truce to endure. China has some resource interests in the region, and, as a country that sees itself as a rising power, it is natural that it would seek to maintain relations with Pacific countries and gradually enhance its overall influence in the Pacific. China also has an interest in protecting the growing number of overseas Chinese in the region and in securing support in international fora.

In preparation for this paper, several discussants speculated about China’s geopolitical and strategic ambitions in the Pacific. As a rising power, China no doubt hopes to expand its influence globally and is looking to improve its leverage in the Pacific. While legitimate concerns have been raised about whether China is still a force for good in the Pacific,<sup>10</sup> some caution is needed in advancing this thesis too far. On the military front, while China has continued to develop limited military ties with those Pacific countries that maintain defense forces,<sup>11</sup> the China ‘threat discourse’ vis-à-vis the Pacific islands has been robustly rebuffed by Terence Wesley-Smith,<sup>12</sup> and China’s military objectives in the region still seem limited. On the aid front, while China is now among the largest donors in the region, its aid bureaucracy is small (reportedly with under 100 staff in Beijing) and, as the previous paper in this series discussed, China lacks a coherent strategy for its aid program in the region that looks beyond Taiwan. Culturally, Western influence in the region is also entrenched through common colonial history, language, systems, and in the case of FSM, the Marshall Islands and Palau, compacts of free association with the United States.

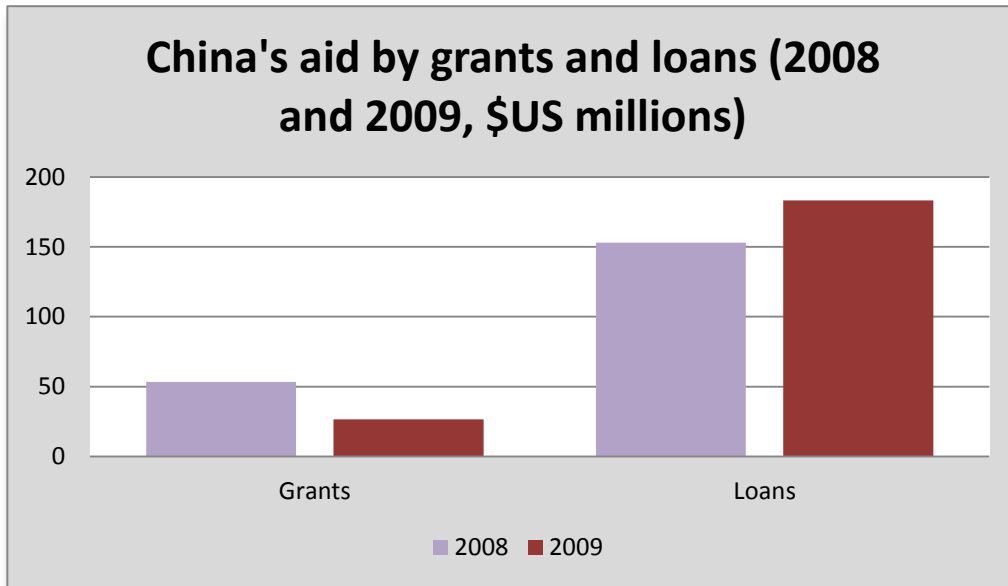
### **Chinese Aid Trends 2005-2009 and Emerging Concerns**

Analysis of the five years of data on China’s aid giving (2005 to 2009) suggests a clear trend of China delivering the vast bulk of its aid through soft loans for infrastructure projects.

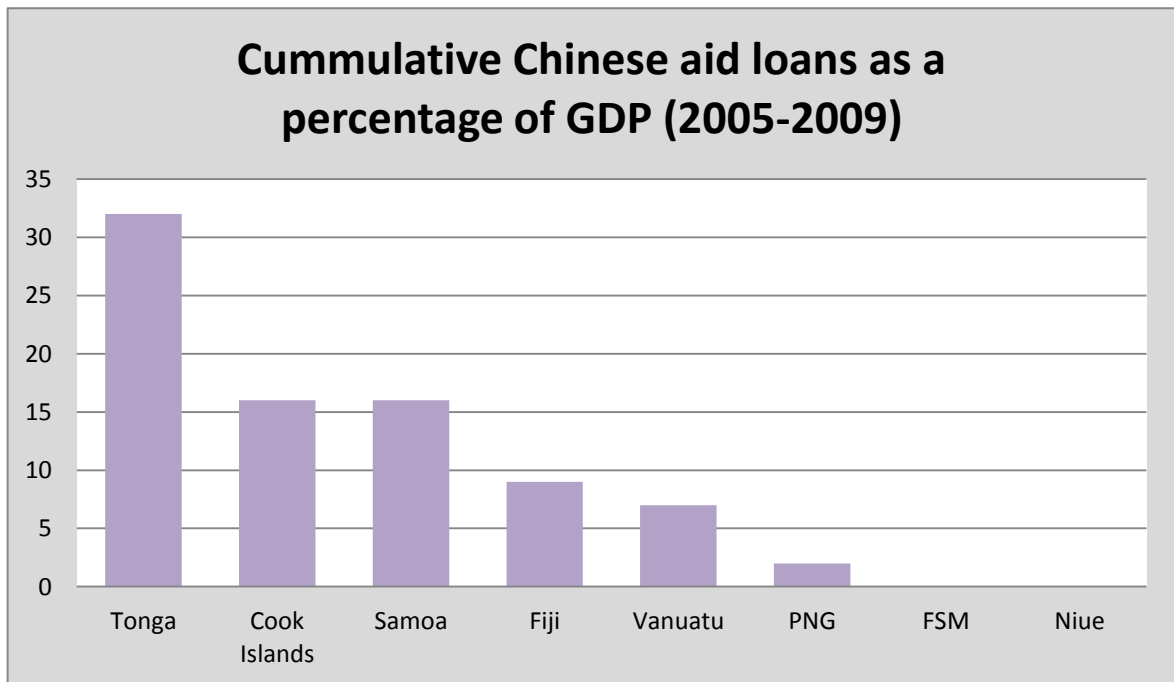
In 2009, China pledged three large loans: \$US 23.44 million to the Cook Islands to upgrade their water supply network and roads, \$US 117.11 million to PNG, the bulk of which was for the construction of 10 tuna canneries, and \$US 42.6 million to Tonga for road upgrades.

Of concern, in 2009, the grant proportion of China’s aid pledges fell from 26 per cent of the total in 2008 to just 13 per cent in 2009. However, without figures for Vanuatu this assessment is somewhat tentative (see Chart II).

**Chart II:**



**Chart III:**



Another mounting concern with this approach is the ability of small Pacific states to service these debts. **Annexure II** reports accumulated Chinese soft loans over the five-year period 2005-09 for each of the eight Pacific nations that receive Chinese aid against their 2009 GDPs. Chart III depicts this as a percentage of GDP – although it does not account for debt forgiveness or loan extensions.

As a proportion of GDP, the most extreme case of debt burdening is in Tonga. In 2009, Tonga's combined loan debt to China was \$US 100.4 million, which is the

equivalent of one third (32 per cent) of its GDP. The Cook Islands' and Samoa's debt, both at 16 per cent of GDP, is also considerable. It is noteworthy that China is not the only major lender in the Pacific. For example, the ADB reported cumulative loans to the region (public and private) were worth almost \$US 2.2 billion at the end of 2009.<sup>13</sup>

There is anecdotal evidence that some island countries are taking on Chinese loans with the expectation China will forgive the debts after an appropriate time has elapsed and if requested. While there is evidence of China's forgiving some loans (in 2006, for example, China extinguished \$US 11.5 million in debt owed by Samoa), one multinational donor knew of two cases where governments had asked for a loan to be forgiven and this request was turned down by China with the explanation that the time was not appropriate (leaving open the prospect of future forgiveness). Of course, there is nothing inherently wrong with countries borrowing money, especially if the borrowing is used to finance projects that will increase capacity for future growth (and ability to repay the loan). China's three big loans in 2009 appeared to broadly target these sorts of projects – water supply, roads, tuna canneries and education. However, in the past, they have been used to finance projects of dubious development merit.

The Cook Islands felt the real-world consequences of this in 2009 when it had its credit rating downgraded by Standard and Poor's, reportedly in part because of the loans provided by China for the South Pacific Mini Games.<sup>14</sup> Another potential downside for Pacific island countries is that the loans could be used by China as leverage to maintain diplomatic recognition.

While it is likely China will have to forgive many of its loans in the Pacific, there are no signs yet of a shift towards increasing the grant component of its aid (instead, as noted, the trend appears to be moving in the opposite direction).

The most recent 2009 data suggest another possible trend: a more interests-based approach to China's aid giving in the region that looks beyond competition with Taiwan. This view is supported by a conversation one of the authors had with a Chinese Foreign Ministry official, that a request had been made to China to develop an overall strategy to guide its approach to the Pacific.

The first paper in this series noted<sup>15</sup> China's curious lack of attention to PNG – the largest and most populous country in the Pacific with an abundance of natural resources. China also has some significant resource interests in PNG, such as the Ramu nickel mine and a recently agreed deal for Sinopec to buy approximately 40 million tonnes of PNG's LNG over a 20-year period.<sup>16</sup>

In 2009, for the first time since the Lowy Institute began gathering data in 2005, China made a substantial aid pledge to PNG. China's pledged aid to PNG was \$US 121.5 million in 2009 compared to just \$US 10.23 million in 2008, \$US 10.7 million in 2007, \$US 14.1 million in 2006 and \$US 3.05 million in 2005.<sup>17</sup> In 2009, the aid received by PNG accounted for 58 per cent of China's total aid to the region. (A \$US 65.4 million concessional loan for PNG was mooted in 2006, but this never went beyond the proposal stage.)

However, it is still too early to tell whether this jump in aid to PNG represents a shift in Chinese policy towards a more interests-based approach or is just an anomaly. China has tended over the last five years to select one or two countries each year to which to give the bulk of its aid. The spike in aid to PNG in 2009 could fit into this pattern.

This aid also needs to be put in context; although China's aid to PNG has been minimal over the last five years, China has had a long and involved commercial and cultural history in PNG.<sup>18</sup>

### **China's Follow-Through**

This series has been tracking China's pledged aid. To determine how often these pledges are actually delivered, we conducted a stakeholder survey of government officials. The survey listed aid projects reported in this series since 2005 and asked officials to note the status of each of the projects. The full results are set out in **Annexure III**. Five countries completed the survey (the Cook Islands, FSM, Niue, PNG and Tonga). The results suggest that a significant proportion of pledged aid is delivered.

In the Cook Islands, of the nine projects pledged between 2005 and 2008, four were completed, another was underway and another under discussion. One had been reconsidered and for two others no information was available.<sup>19</sup> In FSM, delivery was better. From 2005 to 2008, of 27 projects pledged, only one was still underway (for four others details were unavailable) and the rest were completed.

In Niue, of six projects, five had been completed and only one had not started. In PNG, of 27 projects pledged from 2005 to 2008, all had been completed, except one. In Tonga, of 20 pledged projects during this period, three were ongoing, two had been delayed (one of these delayed projects had had its feasibility study completed), for two others no information was available and the rest were completed.

### **Recommendations**

This report suggests both positive and negative trends in China's aid program to the Pacific. On the positive side, the détente with Taiwan has eased the destabilizing and corrupting dollar diplomacy. It has also allowed China to step back from its overblown support for Fiji's dictatorship. Increased aid to PNG might also suggest China is putting more thought into its aid giving in the Pacific and this could translate into consideration of the appropriateness of some of its approaches to aid giving, like debt burdening in small states. There are also indications that China may be responding in some cases to Pacific countries' requests to allow local workers to be employed on Chinese aid projects and for some materials to be sourced locally where they are available.

On the negative side, China appears to be reducing the grant component of its aid and increasing the soft loan proportion. This adds to the growing problem of debt burdening that will become increasingly pressing as Chinese loans accumulate and the five-year grace periods on the loans expire. While there are some tentative indications

China may be moving towards increasing the transparency of its aid program, there is still considerable improvement needed.

At this stage, China appears confident in its aid program and sensitive to analysis of it, with a Chinese foreign ministry spokesperson going so far as to describe the first report in this series as ‘totally pointless and unacceptable’.<sup>20</sup> In this atmosphere, the success of other countries’ efforts to encourage improvements in China’s approach is likely to be limited. Instead, reform is most likely to come as the result of pressure from Pacific governments or local backlash. Nonetheless, some modest efforts are worth pursuing with a view to driving improvements over the long term.

- 1) AusAID and other major donors should continue to try to engage China in joint projects in the region and in discussions on aid effectiveness and coordination. One area for potential collaboration is infrastructure, which the Pacific requires and China can provide at low cost. Although AusAID has not traditionally focused on infrastructure, it could offer to partner with China on a modest infrastructure project (providing funding) with a view to working through solutions to Chinese aid difficulties (for example using local labor and contractors and publically reporting on aid projects).
- 2) Major donors, including multilateral donors, could begin a discussion on debt burdening in the region, including on what levels are sustainable.
- 3) While China has made only modest moves towards improving transparency, one means of persuading China towards improving the pace of reform could be to attempt to multilateralize calls for reform, playing on China’s concern for its international reputation. A mechanism could be explored, for example, to raise issues surrounding China’s aid program in the UN or G-20.
- 4) At present, some Pacific governments appear to view China’s increased aid giving as a chance to play Western donors off against China. China also appears to be viewed as offering a less bureaucratic approach to aid. For this reason it may seem valuable to have China delivering aid outside traditional Western guidelines. In the medium term, however, this calculus may well change. For example, if China uses growing Pacific indebtedness as leverage, if Chinese aid projects fail to deliver economic benefits (and cannot be maintained) and if local workers and contractors are denied access to Chinese construction projects. Unrelated issues, like illegal Chinese immigration, organized crime, and impressions of a growing Chinese economic presence may also impact on perceptions of China, fueling a local backlash.

For these reasons it would be in Pacific governments’ interests to:

- report aid flows from all sources, including China;
- continue to urge China individually and as a group to improve the use of local laborers, contractors and, where possible, materials in China’s aid projects, ideally by agreeing to contestable contracts for aid work, opening supply up to any source;

- push China to coordinate its aid activities consistent with the objectives Pacific leaders set out in the Cairns Compact;<sup>21</sup>
- select Chinese aid projects that will maximize development outcomes; and
- encourage China to start accounting for maintenance and recurring costs in project budgets.

## **Annexure I: Chinese Aid Pledges to the Pacific in 2009**

The following figures were provided by Pacific government officials through private correspondence with the authors and on condition of anonymity.

### **Cook Islands**

- \$US 23.44 million (\$NZ 37.5 million) soft loan to upgrade the water supply network and roads around Rarotonga.
- 25 tractors for agriculture initiatives throughout the country.

### **FSM**

- \$US 1 million grant for FSM Trust Fund (national government).
- \$US 1 million grant for Kosrae coastal erosion.
- \$US 0.16 million grant for Pohnpei government administration building furniture.
- \$US 0.07 million grant for meeting house, Meerur, Yap.
- \$US 0.28 million grant for Chuuk campus power generator.
- \$US 0.22 million grant for renovation of tennis court and swimming pool, Pohnpei State.
- \$US 0.12 million grant for YWA multifunctional centre, Yap.
- \$US 0.05 million grant for Chuuk hospital.
- \$US 1 million grant-in-aid for Chuuk State to refurbish and repair MS Chief Mailo.
- \$US 0.14 million grant-in-aid for scholarships.

### **Fiji**

- \$US 2.93 million (\$Y 20 million) grant in the form of two banking agreements (\$Y 10 million each).
- Agreement to fence the President's palace.
- Nine scholarships.
- 100 public servants trained.

### **Niue**

*The Niue government reported there were no Chinese aid projects in 2009.*

### **PNG**

- \$US 117.11 million (\$Y 800 million) concessional loan (2 per cent interest) to fund the construction of 10 tuna canneries in Madang Marine Industrial Zone Park and for Goroka University, signed on the occasion of the visit by Chinese Vice Premier Li Keqiang. (\$US 95 million to be spent on the canneries and the remainder on Goroka University).
- \$US 4.39 million (\$Y 30 million) technical and cooperation grant for an international convention centre (on the occasion of the visit by Vice Premier Li Keqiang).
- 20 university scholarships.
- Continued enrolment of five senior officers from the PNG Defense Force under a China-PNG military exchange program.

- Continuation of the Chinese medical team based at Port Moresby General Hospital (eight doctors, an interpreter and a chef).

### **Samoa**

- \$US 5.86 million (\$Y 40 million) grant for post-tsunami reconstruction (reconstruction and furnishing of three schools).
- \$US 0.4 million grant for relief assistance providing supplies and procurement of bitumen for the resealing of roads.
- \$US 0.78 million (\$Y 5.3 million) grant for an agriculture team to assess horticultural practices and provide assistance to commercial famers.
- \$US 1.46 million (\$Y 10 million) grant to complete the refurbishment of the Women and Youth Hall.

### **Tonga**

- \$US 42.6 million (\$Y 291 million) concessionary loan for national road upgrades.
- \$US 0.13 million donation (in two parts) to the Tonga ferry disaster relief fund.
- \$US 6.68 million (\$T 13.6 million) grant for the construction of a new bridge in Vaipua.
- 40 short-term training positions for officials.
- 15 scholarships.

### **Vanuatu**

**[\*Figures for 2009 were not provided. The Vanuatu government instead provided figures for calendar year 2010]**

- \$US 5.86 million (\$Y 40 million) grant aid as part of bilateral economic and technical agreements to fund three projects: the USP Francophone Wing Emalus Campus; Vanuatu National Convention Centre and the expansion of the Prime Minister's Office.

<b>Country</b>	<b>Total grants (\$US millions)</b>	<b>Total loans (\$US millions)</b>	<b>Total loans + grants (\$US millions)</b>
<b>Cook Islands</b>	0	23.44	23.44
<b>FSM</b>	4.04	0	4.04
<b>Fiji</b>	2.93	0	2.93
<b>Niue</b>	0	0	0
<b>PNG</b>	4.39	117.11	121.5
<b>Samoa</b>	8.5	0	8.5
<b>Tonga</b>	6.81	42.6	49.41
<b>Vanuatu</b>	*	*	*
<b>TOTAL</b>	26.67	183.15	209.82



**Annexure II: Estimated Cumulative Chinese Soft Loans by Country\*<sup>22</sup>**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total loan amount (\$US millions)</b>	<b>GDP 2009 (\$US millions)</b>	<b>% of GDP</b>
<b>Cook Islands</b>	0	0	0	9.6	23.44	33.04	203	16
<b>FSM</b>	0	0	0	0	0	0	274	0
<b>Fiji</b>	0	20	150.3	83.1	0	253.4	2,825	9
<b>Niue</b>	0	0	0	0	0	0	13	0
<b>PNG</b>	10.3	0	0	0	117.11	127.41	7,893	2
<b>Samoa</b>	12.9	6	21	40	0	79.9	496	16
<b>Tonga</b>	0	0	57.8	0	42.6	100.4	311	32
<b>Vanuatu</b>	0	0	14.6	28.8	-	43.4	648	7
<b>Totals</b>	23.2	26	243.7	161.5	183.15	637.55		

\* The table does not account for any debt forgiveness by China or repayment extensions. Some figures have been updated from previous reports to reflect better data. In a few instances where it was not possible to determine whether a project was a soft loan or a grant a best estimate was made. Figures provided from 2008 onwards are the most reliable as they were broken down by grants and loans after this time. All GDP figures are for 2009 (World Bank) except for Niue and Cook Islands where 2006 and 2008 (DFAT) figures were used.

### Annexure III: Survey on Delivery of Chinese Aid Pledges

	<b>Cook Islands</b>	<b>Completed</b>	<b>Underway</b>	<b>Not Started</b>	<b>Other</b>
<b>2005</b>					
	\$US 2.8 million for new police headquarters.	√			
<b>2006</b>					
	\$US 3.2 million for a 5.5km road upgrade (Nikao-Takuvaine).				Reconsidered
<b>2007</b>					
	\$US 7.3 million to build a 500-tonne inter-island ship.				No information
	\$US 6.8 million soft loan for a sports complex for the 2009 South Pacific Games, other infrastructure and equipment.	√			
	Commitment to fund five scholarships.				No information
	Funding for a tour of China by two media workers.	√			
<b>2008</b>					
	\$US 2.9 million (\$Y 20 million) economic and technical cooperation grant.			Under discussion	
	\$US 1.1 million (\$NZ 1.6 million) soft loan to construct a new education administration building (part of a \$US 9.6 million (\$NZ 13.5 million) soft loan the bulk of which was for Mini-Games facilities and Mini-Games operational costs reported in 2007 aid figures).		√		
	Sports coaches to train athletes for the Mini-Games.	√			
<b>2009</b>					
	\$US 23.44 million (\$NZ 37.5 million) soft loan to upgrade the water supply network and roads around Rarotonga.				Being reconsidered
	25 tractors for agriculture initiatives throughout the country.		Supply tender underway		

	(\$NZ20 million from previously pledged grants for projects on outer islands as well as agricultural development, pearl industry development, Penrhyn and Manihiki harbours and cyclone centres in Mitiaro and Mauke.)			Still in preparation	
	<b>Federated States of Micronesia</b>	<b>Completed</b>	<b>Underway</b>	<b>Not Started</b>	<b>Other</b>
<b>2005</b>					
	\$US 3.7 million economic and technical assistance grant.	√			
	\$US 0.25 million grant to purchase cars for protocol use.	√			
	Tuna Management Commission Headquarters.	√			
<b>2006</b>					
	\$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.				No information
	\$US 2 million loan MOU signed.				No information
	\$US 0.32 million for 17 scholarships to study in China.	√			
<b>2007</b>					
	\$US 2.3 million for repair and renovation of Chuuk State airport.	√			
	\$US 4.4 million for construction of a cargo and transport ship.				No information
	\$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.	√			

	\$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.	√			
	\$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.	√			
<b>2008</b>					
	\$US 0.03 million for a language instructor at the College of Micronesia, FSM.	√			
	\$US 0.32 million for four full scholarships to study at Chinese universities.	√			
	\$US 0.16 million for human resource development.				No information
	\$US 0.014 million for the provision of computers to the FSM Congress.	√			
	\$US 3.5 million discretionary grant to assist government reforms in Chuuk.	√			

	\$US 0.5 million discretionary grant to assist government reforms in Kosrae.	√			
<b>2009</b>					
	\$US 1 million grant for FSM Trust Fund (national government).	√			
	\$US 1 million grant for Kosrae coastal erosion.				No information
	\$US 0.16 million grant for Pohnpei government administration building furniture.	√			
	\$US 0.07 million grant for meeting house, Meerur, Yap.				No information
	\$US 0.28 million grant for Chuuk campus power generator.	√			
	\$US 0.22 million grant for renovation of tennis court and swimming pool, Pohnpei State.		√		
	\$US 0.12 million grant for YWA multifunctional centre, Yap.		√		
	\$US 0.05 million grant for Chuuk hospital.				No information
	\$US 1 million grant-in-aid for Chuuk State to refurbish and repair MS Chief Mailo.		√		
	\$US 0.14 million grant-in-aid for scholarships.		√		
	<b>Niue</b>	<b>Completed</b>	<b>Underway</b>	<b>Not Started</b>	<b>Other</b>
<b>2005</b>					
	No figures available.				
<b>2006</b>					
	\$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.			√	
<b>2007</b>					

	\$US 0.75 million grant for wharf construction, airport maintenance, road and electricity upgrades.	√			
<b>2008</b>					
	\$US 0.2 million (\$NZ 0.3 million) for asbestos reroofing.	√			
<b>2009</b>					
	No new projects reported.				
	<b>Papua New Guinea</b>	<b>Completed</b>	<b>Underway</b>	<b>Not Started</b>	<b>Other</b>
<b>2005</b>					
	\$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.	√			
	\$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).	√			
<b>2006</b>					

	\$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.				√ (This only got to the stage of a concept project proposal document)
	\$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.	√			
<b>2007</b>					
	\$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.	√			
<b>2008</b>					
	\$US 1.6 million grant for undisclosed projects.	√			
	\$US 2.9 million grant.	√			
	\$US 3.7 million (\$K 10 million) grant.	√			
	\$US 12 million loan: repayments extended for 10 years.	√			
	Agreement for a Chinese medical team comprising eight doctors, an interpreter and a chef to work at the Port Moresby General Hospital.	√			
	30 scholarships to study in China.	√			

	\$US 0.13 million (\$K 0.35 million) for the Taurama hospital.	√			
	\$US 1.9 million (\$K 5 million) for a technical co-operation agreement.	√			
<b>2009</b>					
	\$US 117.11 million (\$Y 800 million) concessional loan (2 per cent interest) to fund the construction of 10 tuna canneries in Madang Marine Industrial Zone Park and for Goroka University. (\$US 95 million to be spent on the canneries and the remainder on Goroka University).		√		
	\$US 4.39 million (\$Y 30 million) technical and cooperation grant for an international convention centre.	√			
	20 university scholarships.	√			
	Continued enrolment of five senior officers from the PNG Defence Force under a China-PNG military exchange program.		√		
	Continuation of the Chinese medical team based at Port Moresby General Hospital (eight doctors, an interpreter and a chef).	√			
	<b>Tonga</b>	<b>Completed</b>	<b>Underway</b>	<b>Not Started</b>	<b>Other</b>
<b>2005</b>					
	15 scholarships to attend university in China.	√			
<b>2006</b>					
	\$US 3 million grant for a new conference centre (Fa'onelua)	√			
	\$US 2.5 million grant from the Fiji summit (this appears to have been re-announced in 2007 for road maintenance and community projects.)				No information
	15 scholarships to attend university in China.	√			



	Grant to refurbish the Dateline Hotel.	√			
	1st phase of Tonga High School construction	√			
	2nd phase of Tonga high School construction feasibility			Delayed	
	Agreement to upgrade the Fua'amotu international airport and relocate the Vava'u airport.			Feasibility study completed	
<b>2007</b>					
	\$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.		Ongoing		
	Gift of 20 police motorcycles, 21 cars and a van for the Pacific Islands Forum meeting.	√			
	15 scholarships to attend university in China.	√			
	Funding for short term training of 50 officials	√			
<b>2008</b> *					
	\$US 3.6 million (\$T 7 million) grant for the Tongatapu Trunk Road.	√			
	\$US 2.9 million (\$Y 20 million) grant for the construction of Mu'a Super Health Centre, Vaini Health Centre and the Prince Ngu Health Centre.		Ongoing to mid 2010		
	\$US 0.7 million (\$Y 5 million) grant for a piggery-biogas-vegetable demonstration farm.		Ongoing to 31/12/2010		
	\$US 0.5 million for eight trucks for the Tongan Defence Force (an aircraft was also promised).	√			
	\$US 0.7 million (\$Y 5 million) grant for the Ha'apai high school maintenance project.	√			
	\$US 12.1 million (\$T 23.6 million) grant awarded as part of sale of Tonga Satellite				No information

	18 scholarships to study in China.	√			
	40 officials and technicians sent to China for training.	√			
<b>2009</b>					
	\$US 42.6 million (\$Y 291 million) concessionary loan for national road upgrades.			About to commence	
	\$US 0.13 million donation (in two parts) to the Tonga ferry disaster relief fund.	√			
	\$US 6.68 million (\$T 13.6 million) grant for the construction of a new bridge in Vaipua.			About to commence	
	40 short-term training positions for officials.	√			
	15 scholarships.	√			
	* For financial year 2008/09				

**Annexure IV: Total Pacific trade 2009 (imports + exports) (\$US millions)**

	<b>World</b>	<b>Australia</b>	<b>China</b>	<b>EU</b>	<b>Japan</b>	<b>Singapore</b>	<b>US</b>	<b>NZ</b>
<b>Fiji</b>	2453.76	393.13	106.74	164.21	77.41	351.95	186.28	248.38
<b>Nauru</b>	243.91	19.08	0.02	3.92	1.68	0	3.6	2.96
<b>Kiribati</b>	108.76	19.78	3.91	5.21	14.79	N/D	2.1	4.05
<b>Palau</b>	N/D	0.51	1.31	N/D	20.51	N/D	0	0.27
<b>PNG</b>	11613.56	3935.49	896.54	822.31	749.13	331.61	337.03	137.49
<b>Samoa</b>	467.73	62.92	47.89	6.52	13.6	38.99	25.17	84.73
<b>Solomon Islands</b>	632.92	73.54	180.47	35.05	15.83	68.91	7.62	17.73
<b>Tonga</b>	166.89	11.98	8.84	6.02	3.36	0	17.66	39.06
<b>Tuvalu</b>	124.09	3.21	6.04	1.65	57.41	N/D	0.2	1.66
<b>Vanuatu</b>	651.76	63.33	53.43	111.96	104.08	53.78	6.29	32.89
<b>Totals</b>	16463.38	4582.97	1305.19	1156.85	1057.8	845.24	585.95	569.22

*Source: IMF Direction of Trade Statistics CD-ROM*

## About the Author

**Mary Fifita** is Board Research and Administrative Officer at the Special Broadcasting Services (SBS). She began her internship with the Lowy Institute in late 2008 working as a research assistant for Fergus Hanson, Research Fellow with the Institute, on Chinese development assistance to the Pacific region. She was the sole researcher for the policy brief: China: Stumbling through the Pacific. On the completion of this project she assisted with organizing the Lowy conference: The Global Economic Crisis and the impact on the Pacific Islands, which was held in Brisbane prior to the Pacific Islands Forum 2009. Following the conference, she worked on Leadership Mapping in the Asia Pacific, focusing specifically on Indonesia, Samoa and Timor-Leste. She is currently preparing the 2009 update of Chinese aid to the Pacific Islands.

**Fergus Hanson** is the Director of Polling and a Research Fellow at the Lowy Institute. He has a Masters in International Law from the University of Sydney and his published thesis focused on regional stability in the Pacific.

Fergus worked for the Department of Foreign Affairs and Trade (DFAT) from 2004 to 2007. From 2005 to 2007 he served at the Australian Embassy in The Hague where he was responsible for Australia's relations with five international legal organizations and domestic political issues.

Prior to joining DFAT he was a fellow at Cambridge University's Lauterpacht Research Centre for International Law. Fergus has also studied at Uppsala University.

Fergus was a visiting Vasey Fellow at the Center for Strategic and International Studies, Pacific Forum from November 2010 to January 2011. He was awarded a 2011 Professional Fulbright scholarship to pursue further research on e-diplomacy and the use of opinion polling by foreign ministries.

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## NOTES

<sup>1</sup> Fergus Hanson, *China: stumbling through the Pacific*, Lowy Institute Policy Brief, July 2009; Fergus Hanson, *The dragon looks south*, Lowy Institute Analysis, June 2008; and Fergus Hanson, *The dragon in the Pacific: more opportunity than threat*, Lowy Institute Policy Brief, June 2008.

<sup>2</sup> *Progressive partnerships and sustainable development: White Paper on foreign aid policy*, Ministry of Foreign Affairs Republic of China (Taiwan), May 2009.

<sup>3</sup> Deborah Brautigam, *The dragon's gift: the real story of China in Africa*. Oxford, Oxford University Press, 2009, p 166.

<sup>4</sup> Deborah Brautigam, *The dragon's gift*, pp. 167-68.

<sup>5</sup> Fergus Hanson, *China: stumbling through the Pacific*, Lowy Institute Policy Brief, July 2009.

<sup>6</sup> See for example, Fergus Hanson, [El Salvador to lead the way in the Pacific?](http://www.lowyinterpreter.org/post/2009/04/01/El-Salvador-to-lead-the-way-in-the-Pacific.aspx), *The Interpreter*, 1 April 2009, <http://www.lowyinterpreter.org/post/2009/04/01/El-Salvador-to-lead-the-way-in-the-Pacific.aspx>; and Relief for Canberra aid headache, *Sydney Morning Herald*, 15 May 2009. This conclusion was also drawn from private discussions with Chinese and Taiwanese diplomatic officials.

<sup>7</sup> Fergus Hanson, *The dragon looks south*, Lowy Institute Analysis, June 2008, p 8.

<sup>8</sup> See for example, Daniel Flitton, Fiji's chief plans to spurn Australia and turn to China, *The Age*, 12 August 2010, <http://www.theage.com.au/national/fijis-chief-plans-to-spurn-australia-and-turn-to-china-20100811-11zsu.html>.

<sup>9</sup> For example, Wen Jiabao holds talks with his Papua New Guinean counterpart Somare, *States News Service*, 15 April 2009; China, Tonga seek to further boost military cooperation, *People's Daily*, 7 July 2010, <http://english.peopledaily.com.cn/90001/90776/90883/7056874.html>; China, Papua New Guinea vow to expand military cooperation, *PacNews*, 30 June 2009, <http://www.mvariety.com/pacific-news/china-papua-new-guinea-vow-to-expand-military-cooperation.php>.

<sup>10</sup> Jenny Hayward-Jones, What have I changed my mind about this year? China 2010, <http://www.lowyinterpreter.org/post/2010/12/23/What-have-I-changed-my-mind-about-this-year-China-in-the-Pacific.aspx>.

<sup>11</sup> See for example, China, Tonga seek to further boost military cooperation, *People's Daily*, 7 July 2010, <http://english.peopledaily.com.cn/90001/90776/90883/7056874.html>; China, Papua New Guinea vow to expand military cooperation, *PacNews*, 30 June 2009, <http://www.mvariety.com/pacific-news/china-papua-new-guinea-vow-to-expand-military-cooperation.php>; and Fergus Hanson, Chinese navy in Vanuatu, *The Interpreter*, 1 September 2010, <http://www.lowyinterpreter.org/post/2010/09/01/Chinese-navy-in-Vanuatu.aspx>.

<sup>12</sup> Terence Wesley-Smith, *China in Oceania: new forces in Pacific politics*. Pacific Islands Policy 2. Honolulu, East-West Center, 2007, [http://www.eastwestcenter.org/publications/search-for-publications/browse-alphabetic-list-of-titles/?class\\_call=view&pub\\_ID=2287](http://www.eastwestcenter.org/publications/search-for-publications/browse-alphabetic-list-of-titles/?class_call=view&pub_ID=2287).

<sup>13</sup> ADB, *Annual report 2009*, Chapter 9, p 62, [http://www.adb.org/documents/reports/annual\\_report/2009/](http://www.adb.org/documents/reports/annual_report/2009/).

<sup>14</sup> Fergus Hanson, Looking the gift horse in the mouth, *The Interpreter*, 14 September 2009, <http://www.lowyinterpreter.org/post/2009/09/14/Looking-the-gift-horse-in-the-mouth.aspx>.

<sup>15</sup> Fergus Hanson, *The dragon looks south*, Lowy Institute Analysis, June 2008, p 12.

<sup>16</sup> Sinopec and Exxon Mobil, Sinopec Corp. and PNG LNG Finalize LNG Sale and Purchase Agreement, 3 December 2009, [http://english.sinopec.com/media\\_center/news/archive/2009/20091203/download/20091203.pdf](http://english.sinopec.com/media_center/news/archive/2009/20091203/download/20091203.pdf); and Liam Fox, China taps into PNG's new gas flow, *Radio Australia*, 5 November 2009, <http://www.radioaustralianews.net.au/stories/200911/2733360.htm?desktop>.

<sup>17</sup> Hanson, *The dragon looks south*, June 2008.

<sup>18</sup> Nelson, Hank, Chinese in PNG, in *China in Oceania*, p 105, 2010.

<sup>19</sup> In some instances, a lack of information on follow-through could be because for aid projects listed in 2005, 2006 and 2007 it was not always possible to confirm all projects reported in the media with government officials. Some projects may

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have been listed as a result of an erroneous news story. Funds for projects are also sometimes redirected which may explain some other cases where no information was available.

<sup>20</sup> China rejects charge of aid diplomacy in Pacific, *Reuters*, 12 June 2008, <http://www.reuters.com/article/idUSPEK335715>.

<sup>21</sup> Forum Communique fortieth Pacific Islands Forum, Cairns Compact on strengthening development coordination in the Pacific, available: <http://www.ausaid.gov.au/publications/pdf/CairnsCompact.pdf>, August 2009.

<sup>22</sup> Before 2008, it was not always possible to confirm with government officials whether aid was given as a grant or loan. For this table, in some instances then, a best estimate was necessary. In two cases figures differ slightly from previous reports where more up-to-date information was available.