

The Honourable Prime Minister, Tuilaepa Lufesoliai Sailele Malielegaoi
Honourable Ministers
Her Excellency Ambassador Madam Li Yanduan
Members of the Diplomatic Corps
Distinguished participants
Ladies and gentlemen

It is an honour to be given the opportunity to contribute to this important conference which is, by happy coincidence, part of my first official visit to Samoa. I want to acknowledge the generous hospitality and warmth extended to me by the people and Government of Samoa, as well as the kind invitation from the organisers to this important and timely conference.

2. I have been given the task, as the Secretary General of the Forum, the political grouping of 16 independent self-governing Pacific states established in 1971, to speak on '**China's growing impact on the regional political order**'. I will do this from the perspective of the Pacific Islands Forum Secretariat that I represent, based on the long and close relationship it has enjoyed with the People's Republic of China since 1989 when China became a Post Forum Dialogue Partner. China has had a close working relationship with many of the Forum members, with Samoa and Fiji being the first Pacific countries to establish diplomatic relations with China in 1975 and with China establishing embassies in our region as early as 1976.

3. In the context of the discussion over the next two and a half days, the Pacific Islands Forum Secretariat as a political institution is aware of the fluid geopolitics and the changing regional economics of the Pacific. China is now the major trading partner for Australia and New Zealand, a key trading partner for larger Forum Island Countries such as Papua New Guinea and a key political partner for a large number of Forum Island Countries. The influence of long term partners, some metropolitan powers and other Pacific powers has shifted as Forum Island Countries reposition themselves to collaborate with partners such as China, Japan, Korea, the European Union and Taiwan.

4. Some powers, like the USA, have clear strategic interests in the region. Others are driven by a desire to access natural resources. China's interests in the

geopolitics of this region are inextricably tied to its economic interests, through development assistance, investment lending, and direct investment, that have conditionalities with regard to labour and sourcing of equipment, for example.

5. Let me first touch on China's presence in the region.

6. China enjoys diplomatic relations with 10 Forum members - Australia, Cook Islands, Federated States of Micronesia, Fiji, New Zealand, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu. Since China first formalised diplomatic relations some forty years ago with two of our Pacific island countries in 1975, the friendship and ties between China and the Pacific have seen remarkable expansion and strengthening. This is a demonstration of mutuality and clear willingness between Pacific governments and China to foster greater and shared understanding and beneficial cooperation.

7. Six other Forum members, Kiribati, Nauru, Republic of the Marshall Islands, Palau, Solomon Islands and Tuvalu recognise Taiwan. This dichotomy has presented the Forum with unique challenges in the conduct of meetings and the multitude of activities implemented by the Forum Secretariat, while at the same time respecting the sovereignty of members and the integrity of Forum processes mandated by the Forum Leaders.

8. There are intrinsic complexities involved when negotiating with China that need to be understood. Most of the Pacific countries that have diplomatic relations with China note that where they have a choice between China and other development partners – especially in infrastructure, they prefer to work with China because they have far less conditionality and much less complex and time consuming procedures and they receive the money or aid/loan in much less time than from all other development partners. They also have the hope that the loans will be turned into grants later or they will be forgiven. There are in fact conditionalities associated with China's development assistance. It is just that they are different conditionalities.

9. Having said that, however, the working relationships have been productive. For example, China respects and participates in all of Samoa's national aid management mechanisms – China attends the government convened quarterly donor meetings and is now starting to contribute to

discussions. In Cook Islands too, China attends the government-led donor partners roundtable meetings.

10. China has also made some tentative moves to engage in regional peer reviews of aid effectiveness, under the Forum Compact. In October 2013, for the first time, China observed the Cook Islands Peer Review.

11. China's South-South Tripartite engagement with Cook Islands and New Zealand to improve the water supply system on Rarotonga, Cook Islands was also a positive development.

12. Turning to **trade**, China's contribution as a major Dialogue Partner of the Pacific Islands Forum has and continues to contribute substantively to the development of the Pacific islands through trade and investment, infrastructure development, loans and grants, amongst other crucial support. This is an outcome reflective of China's relentless economic drive and reform that reflects its own development and economic success. But the Pacific remains a very small part of China's global trade.

13. Between 2000 and 2012 trade between China and its diplomatic partners in the Pacific increased significantly from USD 248 million to USD1.77 billion. China's total trade with the Pacific (or Oceania), including New Caledonia and countries that recognise Taiwan for the same period, amounted to USD 2.7 billion. While manufactured goods flowed from China, the Pacific region contributed materials from the primary sector to meet China's demand for raw materials, resulting in a trade imbalance in favour of the region. The region's trade with China only represents less than 0.12 per cent of China's worldwide trade.

14. The Pacific has a range of products and services to offer and Chinese investors have been encouraged to look at the trade and investment opportunities in the Pacific island countries. But we need to seriously engage with China on broader trade and economic cooperation arrangements.

15. In support of these trade and investment initiatives, the Pacific Islands Trade and Invest (PT&I) network of Offices are being strengthened for increased private sector engagement. The Pacific Trade and Investment Office

in Beijing is at the forefront of developing stronger private sector engagement with Pacific island countries and Chinese businesses.

16. In relation to **development assistance**, up to 2013, it is estimated that China has provided RMB9.4 billion in development assistance to the region. Between 2005 and 2009 China provided USD 1.42 billion to the region, 4.2 per cent of China's global aid package.

17. During this period it is reported that Fiji is the region's largest recipient of Chinese development assistance receiving USD 865 million or 60 per cent, followed by Papua New Guinea with USD 236 million, Tonga USD 133 million, Samoa USD 102 million, Cook Islands USD 47 million, Federated States of Micronesia USD 33 million and Niue 1.6 million.

18. In 2006 the first **China-Pacific Island Countries Economic Development and Cooperation Forum** was held. Since then the region has witnessed an increased flow of Chinese development assistance to the region. At the last China – Pacific Island Countries Forum in 2013, China announced a USD1 billion concessional loan for infrastructure and a further USD1 billion commercial loan for infrastructure projects to support economic and social development.

19. Additionally China pledged to provide zero tariffs for 95 per cent for our products, 2,000 scholarships over the next four years, expand the region's tourism market in China, provide agricultural assistance and to render support on environment protection and disaster prevention and mitigation in the region. By 2013, China's projects in the region amounted to USD 5.12 billion. This has boosted construction and transport infrastructure sectors in Samoa, Papua New Guinea, Tonga, and Fiji.

20. China's **economic impact** in the region is increasingly significant. Its Foreign Direct Investment in the region has risen, particularly in the minerals, construction, retail and wholesale sectors. The single largest Chinese investment in mining in the region is the USD 1.8 billion Ramu Nickel mine in Papua New Guinea.

21. By 2013 more than 150 Chinese companies have invested in the Pacific, with about USD1 billion in non-financial direct investments.

22. The impact and effectiveness of Chinese development assistance in the region is not yet fully clear due to difficulties with data collection and lack of harmonisation of Chinese development assistance with other development partners. Chinese development assistance is provided along bilateral lines, which requires capacity for effective implementation by the recipient country. Whilst China is generous in its support to Forum Island Countries, the ability of Forum Island Countries to repay the high level of Pacific debt to China has been raised as a concern by the IMF.

23. **Infrastructure** remains a priority for Forum Island Countries in their development. China has emerged as the key partner supporting important infrastructure developments in several of our Pacific Island Countries particularly at a time when some multilateral partners have shied away from engaging in large infrastructure projects. For example:

- USD47.71 million was borrowed by the Government of Tonga from the China Exim Bank in 2010 for road construction and the rebuilding of its burnt out CBD. This has been a major contributor to Tonga's government debt, which now stands at 43 per cent of GDP, and raises concerns about Tonga's high risk of external debt distress.
- In Samoa, part of the post-tsunami reconstruction assistance included loans from the Exim Bank for rehabilitation valued at USD149 million.
- In recent years Vanuatu has received considerable funds from China, initially as loans and later converted into grants, to build a range of government buildings and other infrastructure, including on outer islands.
- In Cook Islands, funding from China was used for various construction projects. Perhaps marking a turning point in aid coordination, a large water infrastructure development project was undertaken using Chinese and New Zealand companies.
- With the Federated States of Micronesia approaching the end of the Compact agreement, it is now working on shifting its US-centric foreign policy to China, who is now supporting a range of major infrastructure projects in Pohnpei and in the states.

24. Whilst China is an important partner in development assistance, there remains a question regarding China's **strategic interests** in the region. These have not been prominent in the past, as compared with the United States and Australia. When comparing levels of military financial support, China's current assistance is only a fraction of that provided by Australia.

25. However, China provides military assistance to Fiji, Tonga and Papua New Guinea by way of uniforms, training and funds for equipment and the refurbishment of military quarters. In 2011 China agreed to provide Tonga with USD 1.6 million and in 2013 provided USD 2 million military aid grant to the Papua New Guinea Defence Force.

26. In terms of formal recognition in the Pacific Islands, under current arrangements China's military has not participated in regional defence discussions.

27. **Transnational crime and law enforcement** is another issue I wish to highlight. For the past several years Regional Law Enforcement Secretariats have reported that Asian organised crime groups predominantly linked to China and Taiwan have become increasingly entrenched in the region representing a threat to stability and the rule of law.

28. Operating in a number of Pacific Island countries such as Fiji, Papua New Guinea and Vanuatu, these crime groups have been reported to camouflage their activities with legitimate business networks and have been linked to various crimes such as drug trafficking, human trafficking, prostitution, extortion, loan sharking and illegal gambling. This is an area of concern that needs deeper cooperation between the Government of China and Forum countries.

29. The **Post Forum Dialogue** (PFD) Partners session is a meeting between Forum Leaders and the Forum's development partners held immediately after the Forum Leaders' Retreat. The Forum has 17 PFD partners. Over the past two and half decades, China has progressively engaged as a major partner to the Pacific region, both through development cooperation in the form of trade, loans and grants, as well as through diplomacy.

30. As well, China friendship with the Pacific has stood the test of time. It has supported and has come to the assistance of many of our Pacific island countries in addressing climate change or natural disasters, food security, declining energy resources or global financial instability - these are global forces that have severe impacts on many of our island countries and expose the inherent vulnerabilities of island communities.

31. **In conclusion**, recent events in the Pacific have highlighted China's desire to make its presence felt in the region. President Xi Jinping's meeting with eight Pacific Leaders in Nadi, Fiji in November 2014 signalled a desire by China to engage in greater dialogue regarding diplomatic and development cooperation ties. The November 2014 talks highlighted issues of critical importance to Pacific Leaders – one being climate change – as a key area for further partnership between China and Pacific countries.

32. Whilst China engages on regional issues with less intensity, it focuses on bilateral partnerships building strong relationships with recipient countries. However, as China's presence in the region increases through its trade and economic development partnerships, the Forum Secretariat would like to see China as a regional development partner focusing on matters of common interest.

33. At present, China does not engage actively in helping Pacific Island countries pursue deeper regional integration. Leaders in 2014 gave a very clear signal that this is a high priority for them, when they adopted a new Framework for Pacific Regionalism, which the Secretariat is now in the process of implementing. This is a paradigm shift in the way regional priorities are determined by the region's political leadership, with an expectation that regional partners and donors will act on these priorities.

34. China's willingness to be an implementing partner for regional initiatives would be a positive development.