

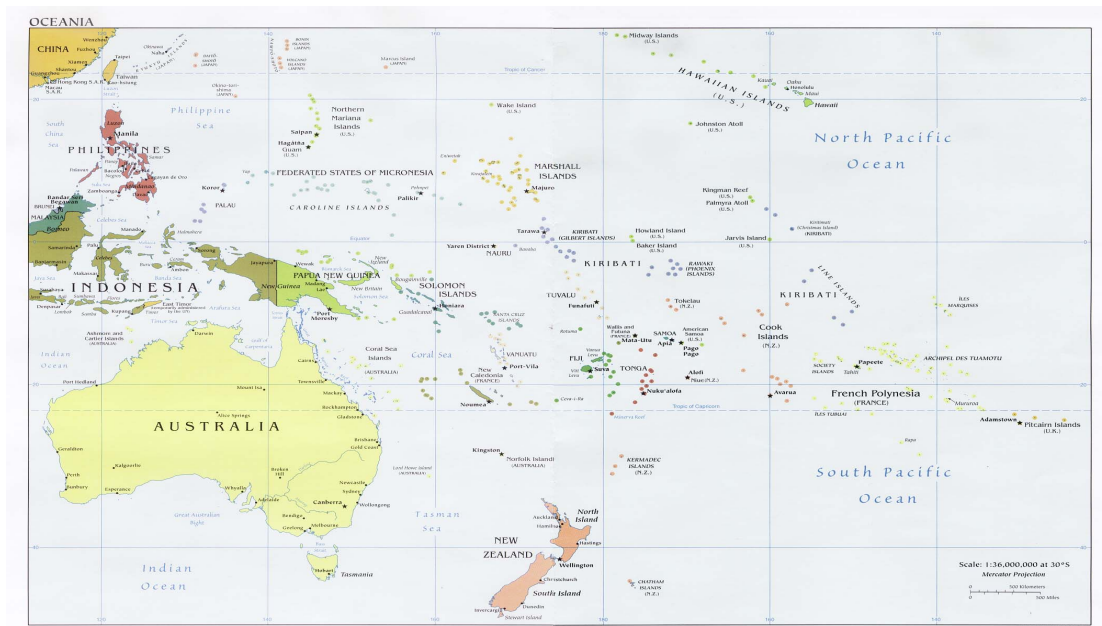
# China's Economic Relations with Pacific Island Countries

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### 1. China's Overseas Economic Interests and the Pacific Islands



Chinese geography texts show there are 14 independent countries in the Pacific Island region and that the region is part of the Pan Asia-Pacific. The average distance between China and these countries is about 10,000 kilometres. Pacific Island countries (PICs) are developing countries with small land areas and small populations.

The Pacific has become 'an important strategic link in China's greater periphery diplomacy [中国大周边战略的重要环节]' for China in the 21<sup>st</sup> Century. Many of these countries are rich in natural resources, especially minerals and marine resources. Both China and the Pacific Islands have, therefore, a complementary relationship in terms of level of economic development and natural endowments.

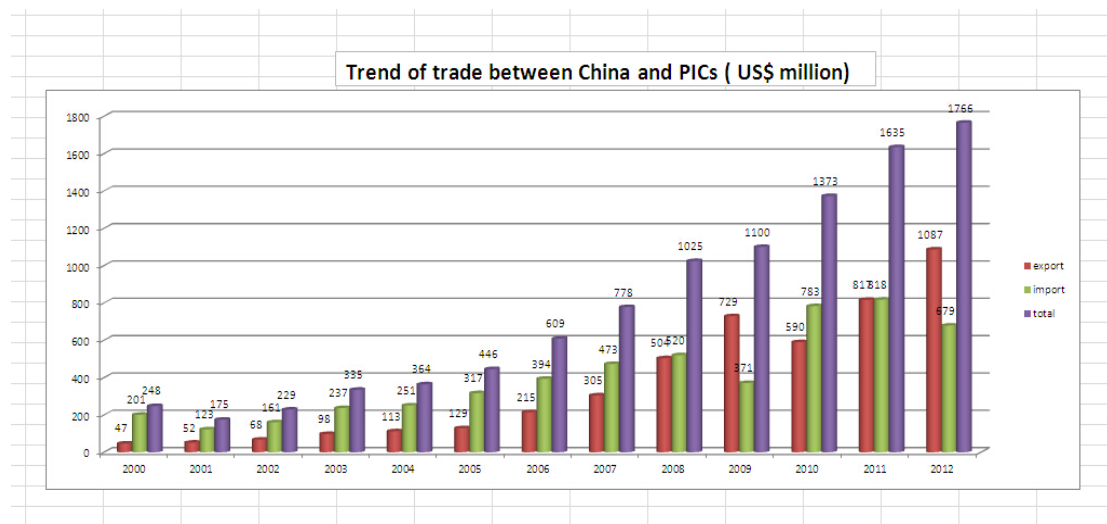
In the first one and a half decades of the new century, Chinese economic diplomacy has exhibited the full range of development momentum. China's diplomacy toward the PICs has achieved much in the areas of trade, investment and development assistance.

## 2. Trade

In 2000, the volume of bilateral trade between China and the seven PICs with diplomatic relations with China—Papua New Guinea, Fiji, Cook Islands, Micronesia, Samoa, Tonga, and Vanuatu—amounted to US\$248 million. By 2012, total bilateral trade between China and those countries had reached US\$1.766 billion, an increase of more than 7 times the annual volume in 2000. Since 2006, the year when the first China-Pacific Island Countries Economic Development Cooperation Forum took place, the annual growth rate for trade reached 27%.

The merchandise composition of China's exports to the PICs shows China's exports to the region are mainly electronic products and daily necessities, such as telephones, TV sets, instant food, machinery, clothing and footwear, furniture and construction materials. Chinese imports from the PICs consist of mostly raw materials (timber and seaweed), seafood and mineral products.

In terms of the trade balance, calculating the gross value over the 13 years from 2000 to 2012 shows that China is in a trade deficit position. This is mainly because China has imported a large amount of raw materials and mineral products from Papua New Guinea. The amount of trade with the other PICs remains relatively small and China has a favourable position.



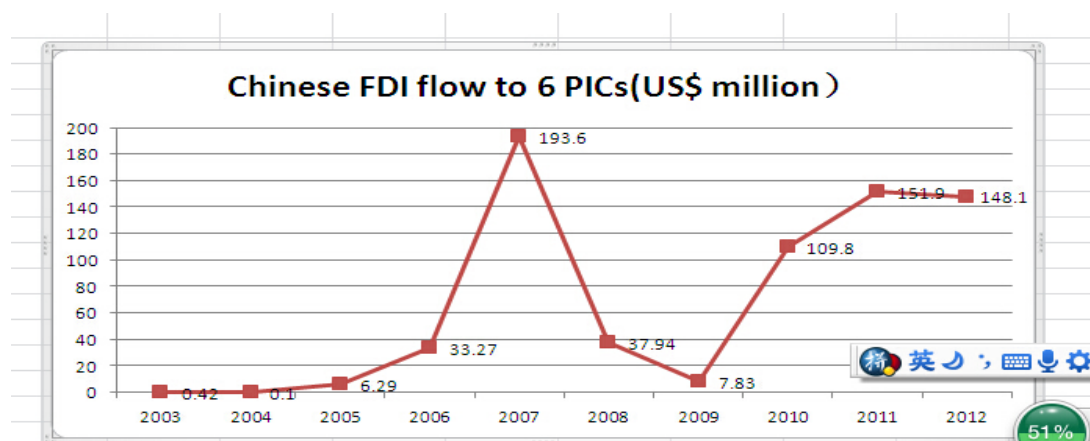
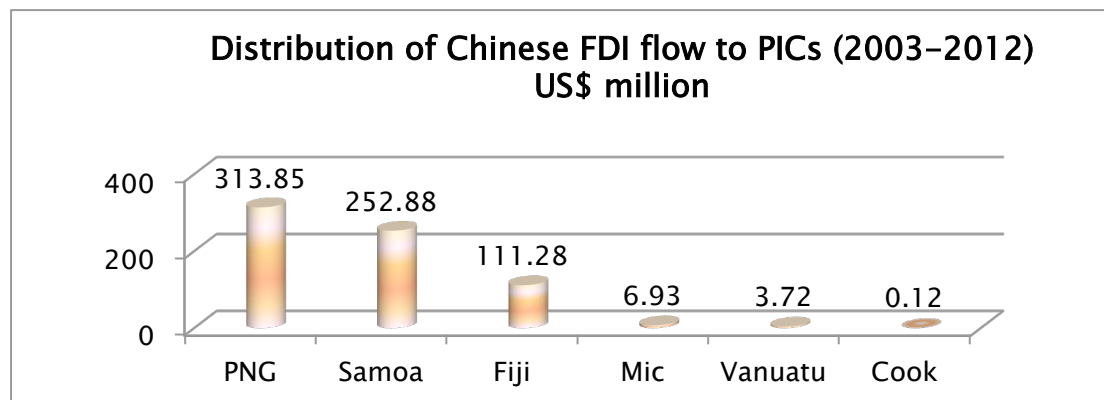
One trade phenomenon is very strange. The total trade between China and the PICs that do not have diplomatic ties with China—Solomon Islands, Nauru and New Caledonia—actually exceeds trade with the PICs with diplomatic relations with China. In 2012, total trade between China and all PICs was over US\$4.5 billion. The total trade volume of those PICs with diplomatic relations with China was only about US\$1.7 billion, accounting for less than 40% of total trade.

In general, most PICs are sparsely populated and their purchasing power is limited so the overall volume of trade between China and these countries is very small. According to statistics, from 2011 to 2012, the total trade volume between China and the ten PICs accounted for only 0.11 to 0.12% of China's total foreign trade (this includes countries with and without diplomatic relations with China).

### 3. Investment and Economic Cooperation

In recent years, PICs have become a hot spot for Chinese enterprises 'going out [走出去]' to invest abroad. According to official Chinese statistics, up until September 2013, there were about 150 Chinese enterprises that have carried out direct investment in PICs, with a total accumulated capital flow of US\$1 billion, which accounted for only 0.18% of China's total foreign direct investment during the same period. The actual number is likely to be much higher.

The vast majority of such investments took place in the early 21st century. For the ten years from 2003 to 2012, Chinese foreign direct investment (FDI) in Oceania accumulated to about US\$689.2 million. The main FDI destination is Papua New Guinea (US\$313 million), followed by Samoa (US\$252 million) and Fiji (US\$111 million).



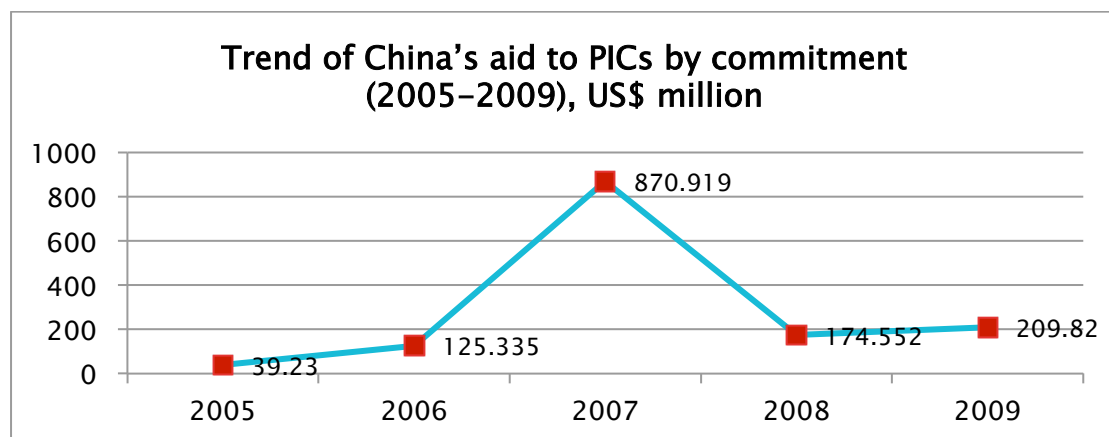
Investments are mainly in resource developments, fisheries, real estate and the service industry. Investors are mainly large and medium-sized central-level state-owned enterprises and local-level state-owned enterprises. Significant private enterprise investment remains small.

In addition to investment, Chinese enterprises have also won a lot of project contracts in the Oceania region. Up to September 2013, Chinese enterprises had signed various project contracts with a net value of US\$5.12 billion.



#### 4. AID

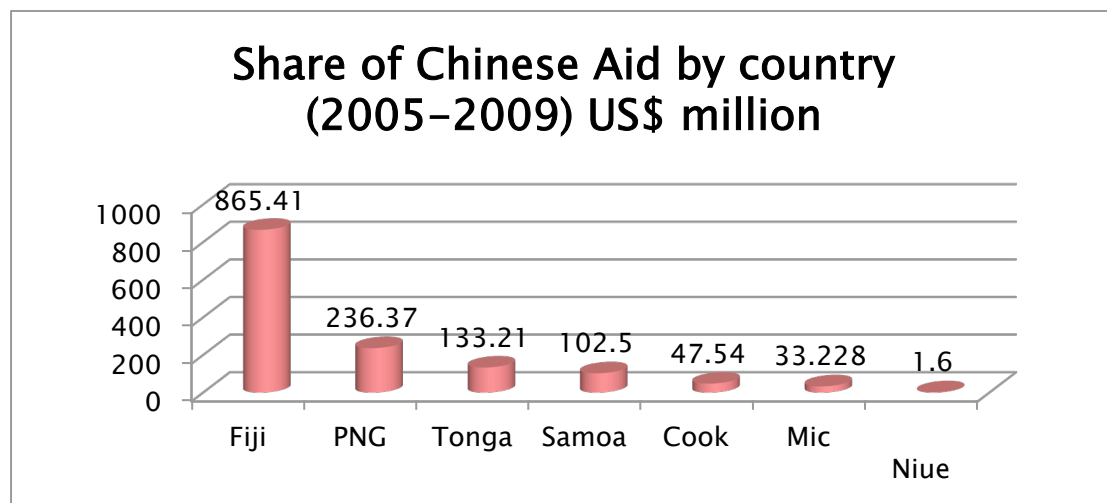
With the rise of its overall economic strength in the 21<sup>st</sup> Century, the Chinese Government has increased efforts to provide foreign aid. China has accumulated up to 9.4 billion RMB Yuan of Chinese aid in PICs up to September 2013. This includes provision of all kinds of assistance and more than 90 sets of reconstruction projects. However, we do not have complete and accurate data from government documents due to confidentiality regulations in China.



According to some sources of data, from 2005 to 2009, PICs accepted Chinese aid (through commitments) worth US\$ 1.419 billion. Based on calculations using the recently issued *White Paper on China's foreign Aid* (2014), during the three years from 2010 to 2012 China's total aid to those countries amounted to 3.752 billion RMB Yuan. According to the White Paper, PICs have received only 4.0 to 4.2% of total Chinese foreign aid.

Among them, the largest recipient of Chinese aid in the region is Fiji. During the five-year period from 2005 to 2009, China's aid to Fiji amounted to US\$865 million, accounting for over 60% of the country's total aid. After the 2006 military coup in Fiji, Western countries imposed sanctions and reduced aid commitments to Fiji. Over this period, China actually increased its aid in adherence with the principle of non-interference in another country's internal affairs.

Another important recipient of aid is Papua New Guinea. In the five years from 2005 to 2009, China's aid to PNG amounted to US\$236 million, accounting for 18% of its foreign aid to the region. Papua New Guinea, a country rich in resources and the most highly populated country in Oceania, has become one of the most important countries for Chinese overseas economic engagement. This is why China increased its aid to PNG.



According to *China's Foreign Affairs White Paper*, from 2000 to 2012 China provided 30 aid projects in areas such as important government office buildings, education, sports and cultural venues, medical facilities, roads and bridges, hydropower, bulwarks, model villages and e-government.

Other forms of Chinese assistance include emergency humanitarian aid, climate change assistance, education and development of human resources. Besides bilateral aid, China also supplied optional financial assistance to regional organizations such as the Pacific Island Forum (PIF), the Secretariat of the Pacific Community (SPC), and the South Pacific Trade Commission (SPTC).

At the Second China-Pacific Island Countries Development Cooperation Forum in Guangzhou, November 2013, the Chinese Government announced it would provide PICs with a US\$1 billion concessional loan over the next four years and that the China Development Bank will set up commercial loans worth US\$1 billion for infrastructure projects to support economic and social development in each island state.



## 5. Conclusion

The above analysis shows that overall China's peaceful rise and comprehensive development is bringing important economic benefits to the outside world, including those countries in the Pacific Islands region. China's peaceful rise is not a threat but creates opportunity for the world. However, some obstacles and misunderstandings about China's role and foreign policy towards the region remain.

Firstly, as shown above, we should not exaggerate China's role in the Pacific. In terms of trade, investment and aid, Chinese influence is growing, but at the same time it has not replaced the position of traditional trade, investment and aid partners of the Pacific such as Australia, New Zealand, the United States, Japan and the European Union.

Secondly, we should not just judge China's role in the Pacific from the outside but also make more effort to understand and judge it from the perspective of these island countries and peoples.

Thirdly, as China is currently undertaking great changes, the outside world should have enough confidence and afford it the necessary space and time to adjust its policy.