

INDO-PACIFIC STRATEGIC PAPERS



# China's Growing Influence in the South-West Pacific: Australian policies that could respond to China's intentions and objectives

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MARCH 2015

VICE CHIEF OF THE DEFENCE FORCE  
Australian Defence College  
Centre for Defence and Strategic Studies



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## Abstract

This paper analyses interests, policies and actions of Australia and China with respect to the South Pacific island nations, in particular those members of the Pacific Islands Forum. The paper cautions that China's influence in the South Pacific should not be over-stated. However, it also suggests that China's growing influence has eroded Australia's standing and leadership role, and that Australia can and should be doing more to rebalance China's influence.

The paper argues that a number of Australia's existing policies should be reviewed, namely in relation to the Seasonal Workers Program, aid coordination and joint Australia/China aid projects, the Cairns Compact (on strengthening development coordination), and the US presence in the South Pacific. It also argues for a new policy of relationship management with South Pacific island leaders. The paper concludes that China's aid and trade can contribute significantly to the prosperity and development of the South Pacific, and that Australia should look to work with the region and China to maximise the benefits to the mutual benefit of all parties.

## China's Growing Influence in the South-West Pacific: Australian policies that could respond to China's intentions and objectives

Australia's over-riding national interest—and that of Pacific nations—is for the Pacific to be stable and secure, peaceful and prosperous. Because it is our neighbourhood, I believe Australia has a primary responsibility to help drive economic development, reduce poverty and lift standards of living in the Pacific.

Julie Bishop, Australia's Minister for Foreign Affairs, June 2014 <sup>1</sup>

The expansion of Chinese influence [in the South Pacific] reflects more than a benign attempt to gain access to the region's abundant minerals, timber and fisheries. Strategic issues often have economic faces. Rising Chinese activity in the region has a broader twofold purpose: to sideline Taiwan and to undermine ties between Pacific island nations and regional powers such as the United States, Australia and Japan. It should be seen as part of a longer-term political and strategic investment aimed at challenging the leadership of the United States in the greater Asia Pacific region.

Susan Windybank, 'The China Syndrome', 2005 <sup>2</sup>

### Introduction

The rise of China in the late 20<sup>th</sup> and early 21<sup>st</sup> centuries is an exceptional phenomenon, subject to extensive analysis and prediction. Rarely is a contemporary security or foreign affairs journal published without at least one article devoted to China's impact on the geopolitical landscape—and with good reason. China is a large and growing power, with an economy that surpassed Japan as the world's second largest in 2010—and it appears set to eclipse that of the US, the world's largest economy, sometime in the next 10 to 15 years.<sup>3</sup> Meanwhile, China's military modernisation has been extensive, making its closest neighbours nervous and driving the US military to develop and acquire capabilities to directly counter those of China.<sup>4</sup>

The growth of China's national power appears boundless, even if it is so far commensurate for a nation as physically large and populous as China. What China intends to achieve with that power and how that power will be wielded is a global concern and at the heart of great power rivalry between China and the US. However, of more concern to Australia—a middle power on the periphery of that great power tussle—is the influence that China wields in Australia's immediate region, especially among the island nations of the South Pacific.

The South Pacific islands feature prominently in Australia's geostrategic perspective and are central in the formulation of Australia's foreign and defence policies. Australia's Defence White Papers over the last 40 years have placed self-reliance in defence of Australia as the top priority and, in doing so, have recognised that a crucial aspect of that defence is the ability of any hostile force to use the Pacific island nations as bases from which to attack.

In more recent years, Australian policy has emphasised a raft of other, more likely threats to Australia's national interests in the South Pacific, notably social and political instability, and transnational crime. Australia has implemented a range of policies intended to shape the nations of the South Pacific, with aid and trade at the forefront of this diplomacy. However, China has increased its own presence in the South Pacific through a range of measures, including development aid, low-interest loans and expanding trade.

When considered in the context of recent assertiveness in the South China Sea and modernisation of its military, questions arise as to China's intentions. Australia must, therefore, continue to develop and implement policy that balances its crucial trade relationship with China against the desire to retain a strong influence in the South Pacific region.

This paper analyses interests, policies and actions of Australia and China with respect to the South Pacific island nations, in particular those members of the Pacific Islands Forum, comprising

Papua New Guinea (PNG), Solomon Islands, Vanuatu, Fiji, Nauru, Samoa, Kiribati, Niue, Cook Islands, Tonga, Federated States of Micronesia, Palau, Marshall Islands and Tuvalu. It begins by defining the Pacific islands region and the sub-regional groups, before analysing what the academic discourse is saying about China's intentions, objectives and impact in the South Pacific. The paper then examines the interests of both Australia and China in the South Pacific.

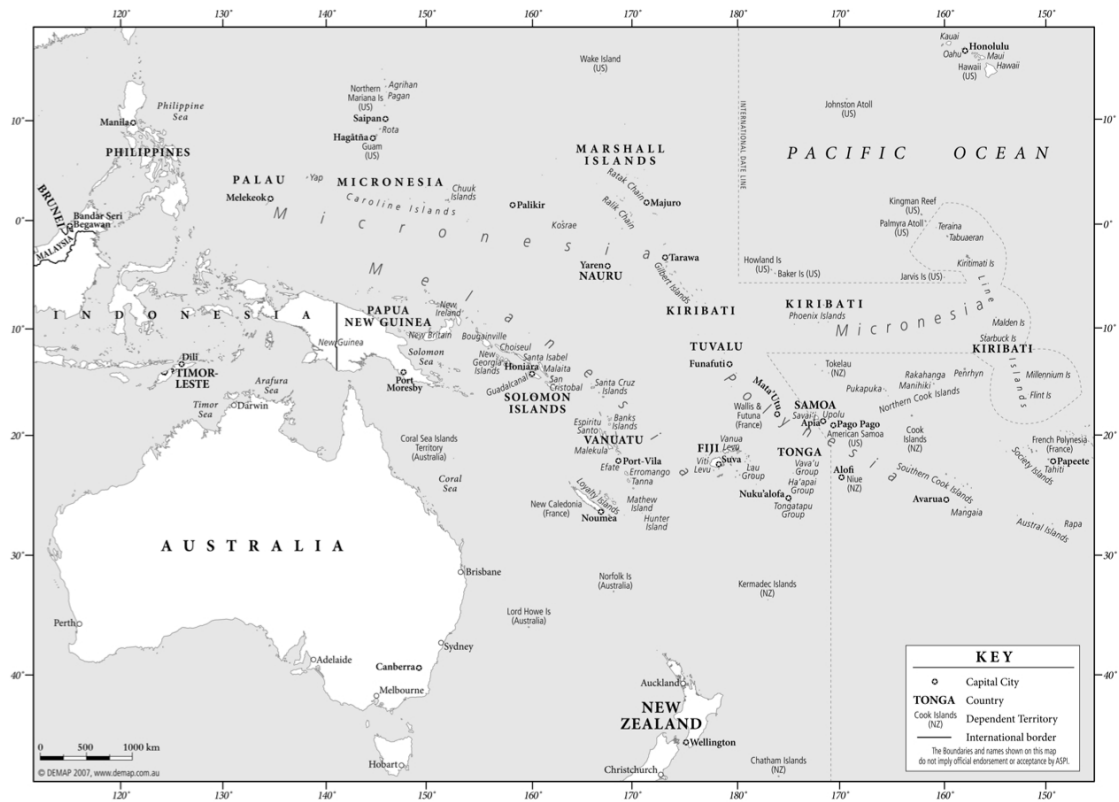
The paper notes that Australia's key interests in the South Pacific are stability and security, which involves defence cooperation with regional states and the conduct of military operations as required.<sup>5</sup> The paper also notes, however, that China's growing influence has come at the expense of Australia's and that Australia can and should be doing more to rebalance China's influence. The paper argues that a number of existing policies should be reviewed, namely in relation to the Seasonal Workers Program, aid coordination and joint Australia/China aid projects, the Cairns Compact (on strengthening development coordination), and the US presence in the South Pacific. It also argues for a new policy of relationship management with South Pacific island leaders.

## Definitions and context

For context in discussing Australian policy and action in the South Pacific, this paper defines the Pacific islands region and the political alignment of its 22 states as shown in Table 1. Their relative locations and spread across the Pacific Ocean are shown in Figure 1.

**Table 1: Entities and political alignment of the Pacific islands region** <sup>6</sup>

Pacific island entity	Political alignment
American Samoa	US territory
Cook Islands	free association with NZ
Federated States of Micronesia	free association with US
Fiji	independent
French Polynesia	overseas territory of France
Guam	US territory
Kiribati	independent
Marshall Islands	free association with US
Nauru	independent
New Caledonia	overseas territory of France
Niue	free association with NZ
Northern Mariana Islands	Commonwealth of the US
Palau	free association with US
Papua New Guinea	independent
Pitcairn Islands	dependency of the UK
Samoa (formerly Western Samoa)	independent
Solomon Islands	independent
Tokelau	territory of New Zealand
Tonga	independent
Tuvalu	independent
Vanuatu	independent
Wallis and Futuna	overseas territory of France



**Figure 1: Australia and the Pacific islands region <sup>7</sup>**

The eight territories belonging to the US, UK, France and New Zealand have their security guaranteed, are politically stable, and their economies are subsidised through their incorporation with their parent states. Of the remaining 14 entities, five are freely-associated states and are also subsidised by the US or New Zealand and have special migration freedoms not available to other states, while continuing to enjoy the status of independent nations. The nine independent states exist mostly in the South West Pacific, albeit parts of Kiribati are north of the equator, and comprise 90 per cent of the Pacific islander population. Table 2 lists the nine independent states and their approximate populations and land areas.<sup>8</sup>

**Table 2: The population and land area of independent Pacific island states <sup>9</sup>**

State	Population	Land Area (km <sup>2</sup> )
Fiji	837,000	18,272
Kiribati	98,000	811
Nauru	12,000	21
Papua New Guinea	7,500,000	462,243
Samoa	185,000	2934
Solomon Islands	550,000	28,530
Tonga	102,000	699
Tuvalu	10,500	26
Vanuatu	221,000	12,190

## China's motives in the South Pacific

In general, there are two basic perspectives regarding China's motives in the South Pacific. One subscribes to the 'China threat' theory, which is prevalent in the broader context of China and US strategic competition in Asia and the Pacific. It uses China's actions in the South and East China Seas, and China's broader strategic competition in the Asia-Pacific with the US, as evidence of China's intent to erode US influence and establish its own hegemony.

In 2003, John Henderson and Benjamin Reilly argued that 'China is in the process of incorporating the Pacific islands into its broader quest to become a major Asia-Pacific power at the expense of the United States, Japan and other Western allies' and that part of that strategy would be to base military capabilities in the region akin to the so-called 'string of pearls' that China has established across the Indian Ocean.<sup>10</sup> Susan Windybank goes further and singles out the South Pacific as an area 'attractive as a testing ground for China's growing power and ability to shore up allegiance in a region hitherto considered an "American lake"'.<sup>11</sup> Moreover, Windybank believes that:

Chinese influence coincides with growing political instability in a region facing an uncertain economic future, thus making the [South Pacific] islands vulnerable to manipulation.<sup>12</sup>

The other perspective on China's motives is much more benign and holds that China's interests in the South Pacific are very much aligned with its interests in Africa and are simply driven by the need for natural resources. Several commentators make strong cases to support this perspective, with Jenny Hayward-Jones, for example, asserting that:

[T]here is little evidence that China is doing much more than supporting its commercial interests and pursuing South-South cooperation in the region. Even if China's interests go beyond these interests, its ability to seriously challenge the role of longstanding powers in the region, such as Australia and the United States, is limited.<sup>13</sup>

Along similarly-benevolent lines, Yongjin Zhang notes that:

Chinese power ... has become significant only in the context of the withdrawal and decline of other traditional powers in the Pacific, most notably the US and Great Britain. In other words, China has become a regional power in the Pacific by default.<sup>14</sup>

Putting aside any notions of China's geostrategic malevolence, China's presence does present concerns for Australia's interests in the South Pacific. Key among those concerns is China's unique approach to the provision of aid with 'no strings attached'. China is not a member of the OECD's Development Assistance Committee, which provides policy guidance for most traditional (Western) donors, including Australia.<sup>15</sup> Instead, China asserts its adherence to 'eight principles' for economic and technical assistance to other countries, first espoused in 1964 by then Premier Zhou Enlai, which reflect China's overall approach to international engagement, especially with respect to another country's sovereignty and independence, and most notably state that China's aid 'never attaches any conditions'.<sup>16</sup>

A central tenet of OECD policy is the use of conditionality to require improvements in governance and accountability to ensure that the donor's money is used for the purpose for which it was given and to instil the right processes and procedures so often lacking in receiving countries. That China's aid can be obtained without any such conditions undermines the efforts of other donors, including Australia, in achieving lasting improvements in the sustainability of good governance functions in recipient nation bureaucracies. Notwithstanding the claim that China's aid is provided without condition, there is nearly always one condition, which is that a receiving country must officially recognise the People's Republic of China and not the Republic of China (Taiwan).<sup>17</sup>

Competition between China and Taiwan for recognition and influence in the South Pacific has been a concern for Australia, especially during the 2000s. Noting that a cluster of six Pacific island states recognise Taiwan, a number of commentators have concluded that the principal goal

of China's presence in the South Pacific has been to isolate Taiwan.<sup>18</sup> An Australian Senate report in 2006 noted:

Diplomacy and aid in the Pacific region are intrinsically linked as the PRC and Taiwan compete for recognition, often utilising the blunt foreign policy tool of aid payments. Amongst some Pacific island nations, 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.<sup>19</sup>

Competing aid, including reports of cash payments to politicians, was a factor in the instability and degradation of security in the Solomon Islands in 2003. A change in Taiwan's government in 2008 has resulted in a tempering of the 'dollar diplomacy' of the earlier 2000s, although this apparent truce could easily be undone. Another bidding war of the sort that emerged in the 2000s would be destabilising for South Pacific security and therefore inimical to Australia's national interests.

Notwithstanding this negative aspect to China's presence in the South Pacific, Australia has repeatedly welcomed China's interactions in the region. In 2012, then Australian Parliamentary Secretary for Pacific Island Affairs, Richard Marles, stated that 'China's increased presence in the Pacific is fundamentally welcomed by Australia'.<sup>20</sup> More recently, the Australian Parliamentary Secretary to the Minister for Foreign Affairs, Senator Brett Mason, echoed the sentiment in his address to the 2<sup>nd</sup> China-Pacific Island Countries Economic Development and Cooperation Forum.<sup>21</sup> Publicly at least, Australia sees the value of China's presence in the South Pacific but there are more issues than the 'dollar diplomacy' that became prevalent in the competition for recognition between China and Taiwan.

At first glance, China's trade with South Pacific states is a welcome and important source of income and development for these nations. However, a closer examination reveals concerns with a range of associated issues. Mineral resources are a particularly valuable source of income for PNG and Fiji but the Chinese experience of mining in Africa appears to be replicated in the South Pacific. Stewart Firth and Katherine Hannan note that hallmarks of China's overseas investment are the absence of environmental impact assessments and lack of adherence to human rights of local employees, as well as poor governance; moreover, 'Chinese companies use Chinese-sourced materials and machinery and have preferred Chinese rather than local contract workers'.<sup>22</sup>

China's overseas investment is often portrayed as a 'win-win' outcome but, for many in the Pacific islands, the Chinese are better known as exploiters and harsh employers.<sup>23</sup> Finally, there is also strong evidence to show that China's aid in the South Pacific tends to be about building large and obvious infrastructure. Key examples include a sports arena in the Cook Islands, a multi-storey government office building and hospital in Samoa, the Melanesian Spearhead Group's Secretariat building in Vanuatu, and the rebuilding of a cyclone-devastated part of Nuku'alofa, the capital of Tonga.<sup>24</sup> Ron Crocombe notes that China's South Pacific aid is:

[F]ocused more on high-profile projects with public relations value for the donor and recipient politicians. The hardest projects to get aid for are vital services like sewage that are underground and unattractive.<sup>25</sup>

Notwithstanding concerns that much of China's development aid could be better spent on more worthwhile projects, China's aid is welcomed by South Pacific island nations, meets the genuine humanitarian aims of China's aid policy and assists in the pursuit of China's national interests. The following sections examine the interests of both Australia and China in the South Pacific.

## Australia's interests in the South Pacific

According to former Australian Prime Minister John Howard:

It is in Australia's interests and in the interests of our Pacific Island neighbours to strive for a region that is economically viable, politically stable and free from crime. The financial costs and potential threats to Australia from failing states, including transnational crime and international terrorism, would be immense.<sup>26</sup>



The 2013 Defence White Paper listed ‘a secure South Pacific and Timor-Leste’ as the second of four strategic interests (after ‘a secure Australia’) and asserted that the accompanying principal task is to ‘contribute to stability and security in the South Pacific and Timor-Leste’.<sup>27</sup> Moreover, Defence White Papers back at least as far as 1976 have been clear about the importance of the regions that incorporate approaches to Australia’s territory and the need to interdict any adversary prior to reaching Australia.

In theory, strong, politically-stable and economically-viable states are less likely to be agreeable to or coerced into accepting the presence of elements hostile to Australia’s interests. Such states are also more likely to have police and security forces better able to prevent transnational criminal activity within their states that could reach across into Australia. From a regional security perspective, political stability and good relations have therefore defined the aims of Australian policy for many decades.

Australia’s regional policies are exercised through bilateral relationships with South Pacific island countries and also through support for and participation in the Pacific Islands Forum, a Suva-based inter-governmental organisation, founded in 1971, that aims to enhance cooperation between the independent countries of the Pacific Ocean.<sup>28</sup> Nancy Krause notes that:

Central to the Australian Government’s approach to the Southwest Pacific is the view that Australia has a special role to play in the region. Enhancing Australia’s leadership role in contributing to security and stability in the region is at the core of this approach.<sup>29</sup>

Through the late 1990s and 2000s, Australia was also willing to intervene directly in South Pacific island affairs, with Australia’s leadership of the Bougainville Peace Monitoring Group and subsequent leadership of the Regional Assistance Mission to the Solomon Islands being key examples. However, a number of commentators have noted the risks to Australia’s leadership from China’s increasing presence in the region, with Krause contending that:

According to some commentators, Australia’s dominant role in the region is now being challenged by China, which has increased its use of ‘soft power’ in the region, primarily through diplomatic and economic influence. Some sources estimate that China has become the third largest provider of foreign assistance in the region, consisting mostly of loans, infrastructure and large construction projects (which, unlike Australian aid, is notably free of any preconditions on the part of receiving countries).<sup>30</sup>

Miles McKenna has similarly concluded that the main issue for Australia is that China’s engagement is bringing the region a choice of influence previously unavailable, noting that ‘the government in Suva has a choice. The trader in Nuku’alofa has a choice. Australia is losing its security—it no longer controls the policy space’.<sup>31</sup> The concern for Australia’s policy-makers would be that its decreasing influence in the South Pacific will lead to a decreased ability to control Australia’s security, underscoring the need to better understand China’s interests and intentions.

## China’s interests in the South Pacific

In 2006, then Chinese Premier Wen Jiabao asserted that:

As far as China is concerned, to foster friendship and cooperation with the Pacific island countries is not a diplomatic expediency. Rather, it is a strategic decision.<sup>32</sup>

The most obvious of China’s interests in the South Pacific are resources. Firth and Hannan note that ‘secure access to raw materials and resources (supply security) continues to dominate Beijing’s “going global” agenda’.<sup>33</sup> Hayward-Jones observed in 2013 that China’s trade with the region had increased seven-fold in the previous decade and that, in 2011, exports from the region to China totalled US\$1.17 billion.<sup>34</sup> The value of this trade was considerably less than that with Australia, which imported US\$4.14 billion but it is not insignificant and is an important aspect of the relationship between the South Pacific states and China.<sup>35</sup>

More noteworthy, though, is the ‘dollar diplomacy’ that resulted from China’s interest in denying Taiwan’s legitimacy as an independent state. Efforts to isolate Taiwan were key interests for

China until 2008. At one extreme, Andrew Nathan and Andrew Scobell argue that China's engagement is driven by three motives: rivalry with Taiwan regarding diplomatic recognition; natural resources such as fish; and geopolitics such as 'weaning Australia and New Zealand from their habit of close cooperation with the US'.<sup>36</sup>

Commentators such as Terence Wesley-Smith and Jenny Hayward-Jones, however, represent the mainstream view that there is little evidence to support the notion of geostrategic competition with the US and its allies.<sup>37</sup> As Karl Claxton points out, whether such geostrategic competition is underway or not, 'China doesn't need to try ... to supersede [Australia] for its growing local presence, weight and clout to greatly complicate [Australia's] interests'.<sup>38</sup> However, one issue that would certainly complicate Australia's interests would be the stationing or continuing deployment in the South Pacific of a Chinese military presence.

The People's Liberation Army Navy (PLAN) caused a sensation in February 2014 when several of its ships were observed sailing into the Indian Ocean between the northwest of Australia and Christmas Island.<sup>39</sup> The three Chinese warships transited the Sunda Straits into the Indian Ocean, and then the Lombok and Makassar Straits into the Pacific. However, apart from such transits, there has been little overt Chinese military presence in the South Pacific.<sup>40</sup> Fergus Hanson notes that it is generally associated with the provision of aid and confined to more benign assistance, such as upgrading a military hospital in PNG or the supply of non-lethal equipment (uniforms and cars) to the Vanuatu Mobile Force.<sup>41</sup>

However, China does have a considerable diplomatic presence, which pursues a range of political interests. In addition to competing with Taiwan for recognition, China also values the South Pacific islands as a voting bloc in international forums, especially within the UN. For example, China has used its aid activities as a means of gaining support for its position of opposing Japan's efforts to gain a permanent seat on the UN Security Council, although it should be noted that other major donors in the South Pacific have leveraged their provision of aid for similar purposes.<sup>42</sup>

As noted by Wesley-Smith, China's strong political presence in the South Pacific is because 'China has a strategic interest in cultivating strong relations with other states in order to minimize potential threats, while enhancing its standing and influence in the global community'.<sup>43</sup> China is certainly seeking influence in the South Pacific and, by default, may be considered to be competing with Australia. However, whether that competition comes at the cost of Australia's national interests is less clear for, as Hanson notes, China too has a strong interest in a stable South Pacific.<sup>44</sup> Indeed, Hayward-Jones contends that:

Australia's dominant role in the region is not under threat from China. Rather than speculating on China's future ambitions, Australia should focus on making more of its evolving strategic partnership with China and cooperate with China in aid and investment activities that support Pacific Island development priorities.<sup>45</sup>

## Key Australian policies on the South Pacific islands

Having examined the interests of Australia, China and the South Pacific island nations, the following section looks more closely at a number of policy options that Australia could be pursuing in order to advance its interests in the South Pacific. The five options being proposed are not an exhaustive list. But they represent key areas where Australia could likely achieve the best return for its continued investment, while providing positive outcomes for the South Pacific islands.

The policies have been selected because they span two key outcomes in support of Australia's interests in the South Pacific. The first is improved Australian influence to ensure that Australia remains a trusted and welcome regional leader and key political influence in the South Pacific. The second is for the South Pacific to be politically 'stable, secure, peaceful and prosperous'.

The first policy concerning the 'Seasonal Workers Program' is not specifically aimed at balancing China's influence in the South Pacific. However, it does directly target regional security and improving Australia's regional influence. The second policy is that of partnering with China in the

coordination of aid and the delivery of joint projects. This policy is important because it seeks to engage China, which has the resources and desire to 'invest' in the South Pacific, and permits Australia to help shape how that aid is delivered to achieve greater effects.

The third policy relates to encouraging and engaging China to commit to the Cairns Compact (an initiative of the Pacific Islands Forum to strengthen development coordination in the Pacific) so that China's aid complements the efforts of Australia and other OECD donors to improve good governance and self-reliance in South Pacific nations.

The fourth policy is a renewed emphasis on encouraging a continuing US presence in the South Pacific and aims specifically to balance China's influence, and especially any potential for military influence. The fifth policy is the only new policy suggestion. It seeks a deliberate emphasis on improving Australia's relationships with the leaders of the South Pacific island nations in order to extend efforts to improve Australia's influence.

While the first four policies are already exercised by Australia to varying degrees of effort, the following sections discuss the key issues and suggest adaptations to improve policy effectiveness.

### *Seasonal Workers Program*

In June 2014, Australia's Foreign Minister Julie Bishop said:

Greater labour mobility will also be a key issue for the Pacific in the years ahead, particularly for those countries with challenging domestic economic prospects. Which is why Australia is keen to expand our Seasonal Worker Program; and why we continue to build up vocational skills to allow greater remittance earnings.

Some seasonal workers have earned up to \$12,000 in Australia, and have been able to remit about \$6,000 over a six month placement.... We know that that scheme is having flow-on benefits. Some workers have used their income to pay for school fees for their children, to purchase tractors, to invest in a small business, and the like.<sup>46</sup>

Remittances are known to be an essential component of national income for South Pacific island states, especially Tonga, Samoa, Fiji, Kiribati, Tuvalu and Vanuatu.<sup>47</sup> In her foreword to the recently-released Australian policy on foreign aid, Foreign Minister Bishop noted that 'aid flows into developing countries are now dwarfed by foreign direct investment, equity flows and remittances'.<sup>48</sup>

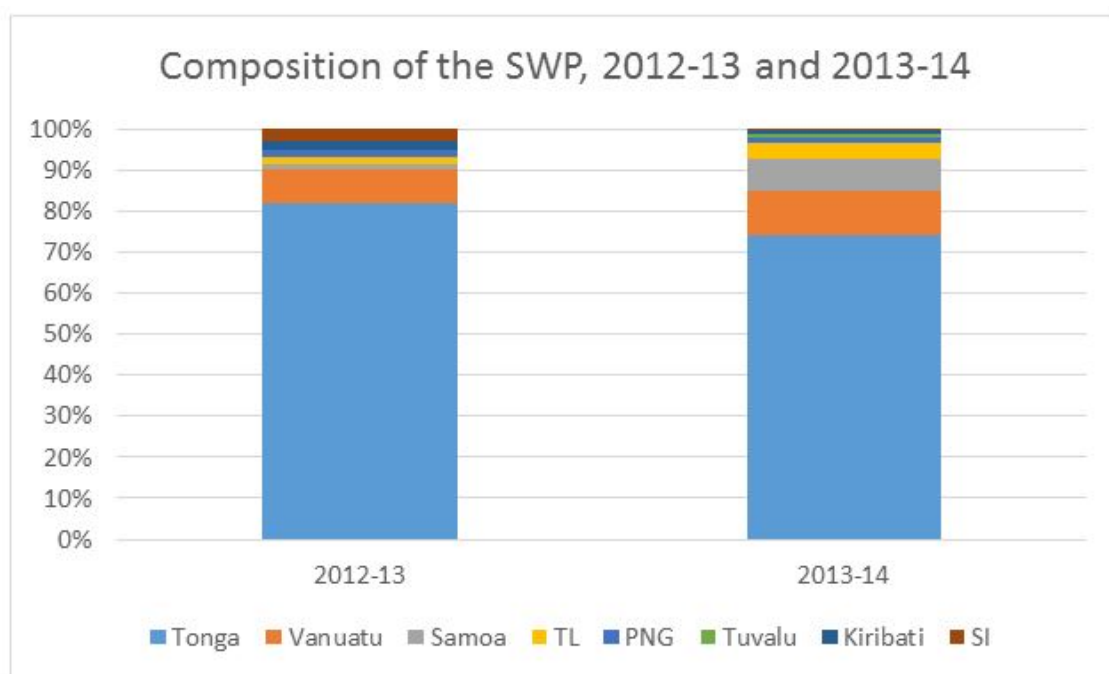
A 2006 report from the World Bank, titled 'Pacific Islands at Home and Away', which examined the economic arguments in favour of increased labour mobility for Pacific island nations, is generally regarded as the catalyst for the introduction of Australia's 'Seasonal Workers Program', designed to supply labour to Australia's horticulture industry, which effectively began with a pilot scheme in 2009.<sup>49</sup>

Yet the take-up by Pacific islanders has been very low and the program has yet to achieve worthwhile results from a Pacific islander perspective.<sup>50</sup> In the first three years of the trial, approximately 1100 workers arrived in Australia, although the cap had been set at 2500.<sup>51</sup> The pilot scheme has since transitioned to a mature program, and the take-up has increased substantially. In 2013/14, some 2000 workers utilised the program but this was still short of the 2500 cap. It was also well short of New Zealand's equivalent program, with around 8000 workers, which achieved its then cap of 7000 in its second year of operation and continues to be oversubscribed.<sup>52</sup>

The largest obstacle in the Australian scheme relates to the number of participating growers. A survey in 2011 showed that approximately half of the growers in Australia's horticulture industry did not know about the scheme, while only 2 per cent of those who did were using it.<sup>53</sup> The same survey revealed that most growers relied instead on backpackers, who have the additional incentive that three months' work in the horticulture industry gains them an additional year on their visa.

There is also evidence of a significant number of illegal workers in the industry, who are often paid less than the award wage for the same jobs that the Seasonal Workers Program is designed to fill.<sup>54</sup> There are also additional costs for growers participating in the program, including airfares and domestic transfer costs for the workers, as well as complicated and time-consuming bureaucratic processes, all of which provide strong reasons for Australian growers not to use the Seasonal Workers Program.

Another key concern is the place of origin of the workers. Figure 2 shows that in 2012-13 and 2013-14, the vast majority of workers participating in the program were from Tonga, a relatively-affluent country in the South Pacific, where remittance flows are already healthy. According to Stephen Howes, it is Melanesian countries, especially PNG and Solomon Islands, which most need the opportunities presented by the program, yet only 35 workers came from these two countries in 2013-14.<sup>55</sup>



**Figure 2: By-country participants in the Seasonal Workers Program, 2012-13 and 2013-14**<sup>56</sup>

Between the lack of awareness and incentives for Australian growers to use the Seasonal Workers Program, and the distorted composition of participants, the program is failing to achieve its potential as a key tool for addressing the challenging economic prospects faced by South Pacific nations.

The root of the problem is that the program's origins were about the provision of low-skilled labour for the Australian horticulture industry, where traditionally there has been a shortage of workers, rather than it being a dedicated component of Australia's aid and development policy for the South Pacific island countries. While in opposition, Bishop signalled a desire to address the obstacles hindering the effectiveness of the program, noting the need for 'strengthening of Australia's existing guest worker program to enable greater numbers of Pacific islanders to undertake seasonal work in this country'.<sup>57</sup>

Improving the participation of workers from South Pacific island nations, balancing the composition to include a far higher percentage of Melanesians, and increasing the total number of participants should be at the forefront of government efforts to strengthen the Seasonal Workers Program. While a comprehensive breakdown of the individual problems and their potential solutions would require a lengthy paper in its own right, dealing with the following three issues

would make a significant difference to the program's effectiveness and contribute meaningfully to the security of South Pacific island nations.

The single most effective change the Australian Government should implement is to remove the incentive for backpackers to work in the horticulture industry in preference to other industries. At the very least, the 'playing field' should be levelled so that South Pacific seasonal workers are not competing unfairly with workers who have an incentive to work in the horticulture industry unrelated to their performance or the industry as such.

The second initiative should be a clampdown on the use of illegal workers in the horticulture industry. In theory, there are already sufficient motives for the government to pursue illegal workers and those who hire them, yet a 2011 study by ANU's Development Policy Centre found that only 12 per cent of growers surveyed were prepared to say that there was no use of illegal labour in their industry.<sup>58</sup> In that same study, the authors noted that the clamp down on illegal labour and cash payments had been a significant component of the success of New Zealand's scheme.<sup>59</sup>

Finally, improving the overall take-up of the scheme to the maximum allowed under the increasing cap, which for 2014/15 is 3250, would provide little additional assistance to Melanesian states unless the composition of the program is better balanced. It is not clear why Melanesian participation has been so low, although the composition of the New Zealand scheme is far better balanced.<sup>60</sup> Whatever the reasons, Australia should be working with the Melanesian countries and the Pacific Islands Forum to increase the participation of Melanesians, which may require Australian government agencies in Melanesia to assist host governments with recruiting, processing and administering participants. Target numbers, if not quotas, for Melanesian countries should also be introduced.

Costs associated with proposed changes to the Seasonal Workers Program would be mostly in the political sphere and associated with the impact on backpackers. But there are also likely cost increases to the horticulture sector where reduced access to cheap labour, especially illegal labour, should result. Working with Melanesian countries to improve recruiting and selection of Melanesian participants would also likely require additional consulate staff.

An initial estimate to assist the governments of PNG, Solomon Islands and Vanuatu to recruit, process and administer participants in the Seasonal Workers Program is for one additional Australian staff member to be posted to each country. Approximate costs for such postings would be in the order of A\$300,000 to A\$400,000 per person, depending on local security requirements of the respective office.<sup>61</sup> Total annual costs would therefore be in the vicinity of A\$0.9-1.2m.

### *Aid coordination and joint projects*

Jenny Hayward-Jones and Philippa Brant have asserted that:

The Pacific islands region is one where Australia's diplomatic influence intersects most obviously with a rising China. Australia has the influence, the motivation and the capacity to work with China to create better development outcomes for island countries and enhance its own standing in the region.<sup>62</sup>

In a recent report for the UN Development Programme, Graeme Smith and colleagues noted divergent interpretations of aid effectiveness principles between OECD members and South-South Development Cooperation members.<sup>63</sup> A distinct difference is the use of 'tied aid'. The OECD defines it as aid that is given on the condition that it is used to procure goods and services from a particular country or region.<sup>64</sup> For OECD-compliant members, the tying of aid is discouraged but for China it is the usual.<sup>65</sup> Moreover, tied aid from China is often not handled by the recipient country at all, and the aid money moves directly to the Chinese state- or privately-owned construction/service provider, bypassing the recipient's bureaucracy. In comparison, all of Australia's aid programs have been untied since 2006.<sup>66</sup>

The other noteworthy difference is that for OECD members, the focus on results should be to 'use recipient-led assessment frameworks, support results-based budgeting and promote

international best practice’—in other words, the emphasis is on the journey. For China, the focus is on speed of delivery, low cost, the use of its own development knowledge and achieving the project outcome—that is, the focus is the destination.<sup>67</sup> These differences, and the ‘no strings policy’, are notable because collectively they highlight what for many recipients are the virtues of China’s aid over aid from Australia. Firth and Hannan note that:

Developing country governments have appreciated the Chinese government’s respect for national sovereignty, which contrasts with the restrictive conditionality of Western aid providers with their good governance checklists. A senior Pacific diplomat is quoted as saying that ‘[t]raditional donor allies of the Pacific are losing support because they are becoming more and more stingier in what they give the Pacific. They have attached far too many strings and conditions to their assistance’.<sup>68</sup>

Despite the apparent negativity surrounding Australia’s aid in comparison to China’s, Australia remains the largest donor in the South Pacific by a wide margin. Hayward-Jones notes that Australia’s total gross aid dispersal in the Pacific islands region in the period 2006-11 was US\$4.8 billion, with the US next at US\$1.3 billion and China fifth with US\$850 million.<sup>69</sup> Moreover, Australian aid to the Pacific islands was over \$US1 billion and 60 per cent of the aid for the region in 2012-13.<sup>70</sup>

The issue then is not whether Australia remains the biggest donor in the region but rather whether the South Pacific island nations are developing their capacity to generate sound government, self-sustaining business, and trade skills which ultimately meet Australia’s interests by creating stable and secure island nations. China’s presence is, by and large, welcomed by the South Pacific island nations. Maintaining influence and achieving development aims for the South Pacific region will require Australia to work with rather than attempt to ‘out-influence’ China. Working with China in the South Pacific was mooted by the Australian Senate’s Foreign Affairs, Defence and Trade Committee at least as far back as 2006 but progress has been slow.<sup>71</sup>

That committee’s report on the implications of China’s emergence recommended ‘that Australia works closely with China to encourage both countries to enter joint ventures designed to assist the development of the island states of the Southwest Pacific’.<sup>72</sup> Formalising such an arrangement did not occur until 2013, when both countries committed to a memorandum of understanding (MOU) for a Development Cooperation Partnership.<sup>73</sup>

The MOU commits both nations to ‘explore practical means’ to strengthen aid cooperation and collaboration, work together towards shared objectives and reduce poverty. A day after the signing of this MOU, a media release from the Department of Foreign Affairs and Trade announced that the first initiative under the MOU would be a pilot study into drug resistant malaria in PNG. How far this study has progressed is not clear. Nor is there any sign that joint work on HIV/AIDS or water resource management, touted as follow-on projects, has commenced. That an MOU exists at all is a good start but much more can and should be done in collaboration between the two countries.

The joint project with Australia is not China’s only joint development. In 2012, New Zealand became the first developed nation to sign an agreement with China for a joint development project, when they agreed to collaborate on water supply infrastructure in the Cook Islands.<sup>74</sup> Brant notes that ‘a number of countries have [also] undertaken joint assessments of aid projects with Chinese counterparts’.<sup>75</sup> Moreover, during the Pacific Islands Forum meeting at Rarotonga in August 2012, China’s Vice Foreign Minister Cui Tiankai told a press conference that China was open to closer communication and coordination with other countries, including the traditional donor countries, and:

... [was] ready to exchange views, compare respective practice and where possible and feasible, we’re also open to work with them for the benefit of the recipient countries here in this region.<sup>76</sup>

Senator Mason was of a like mind when he addressed the China-Pacific Island Countries Economic Development and Cooperation Forum in November 2013.<sup>77</sup> During that speech, he noted the Australian Government’s priorities for the South Pacific, listing trade, diplomatic and

development linkages. In addition to welcoming 'China's cooperation with [Pacific Island] Forum colleagues', Mason also stated that:

Australia looks forward to further discussions with China on our common interests in the Pacific and to deepen cooperation in how best we might assist the development of all our friends in the Pacific.<sup>78</sup>

With all the good intent being expressed from both sides, and an MOU to formalise that intent, the results on aid cooperation have so far been disappointing, although there are specific types of joint aid that could satisfy both the OECD-style of Australia and the 'South-South' style of China.

Smith provides the example of a building project for the University of Goroka in PNG, where the aid was provided in the form of a concessional loan for new dormitories.<sup>79</sup> A Chinese building company, Guangdong Foreign Construction, worked directly with the finance source in China, the Exim Bank, to negotiate the loan agreement. However, the university and lead architect in PNG pushed back and insisted on different requirements for the project design and oversight, which the bank accepted. Smith believes that:

This successful pushback by the university shows how Australian agencies such as DFAT ... and Treasury can make a positive difference to the Pacific's reception of foreign aid. China has the finance to build the infrastructure the Pacific needs, and there are Chinese infrastructure companies that need the work. Demonizing such loans or encouraging Pacific leaders to 'just say no' is foolish. Naïve even.<sup>80</sup>

Smith goes on to suggest that Australia could take on a constructive role in a broker-like fashion by assisting 'Pacific partners to reduce the asymmetry of power when loans are being negotiated, [and] coordinate with Chinese infrastructure companies based in the Pacific'.<sup>81</sup>

A more recent example of where Australia might have been able to combine with China and a recipient to achieve a better development outcome is the new Navua hospital in Fiji. The hospital has been completed but has a number of design flaws that must now be rectified at the hospital's expense. The flaws include toilets that regularly block, slippery floor tiles, basins that are too shallow, poorly-located telephone connections and inappropriately steep ramps between the two wards requiring transfer by ambulance rather than trolley.<sup>82</sup> Projects like this offer Australia an opportunity to help the donor recipients receive the intended outcomes within budget and schedule, while also assisting China to achieve the positive outcomes it seeks.

Such a policy may result in connecting South Pacific nations with more aid from China, with implications for control over governance, accountability and procedural development. However, the result would be to assist South Pacific island nations access the aid and finance they are already seeking from China, while allowing Australia to be seen as a partner with China rather than a competitor. Moreover, Australia would continue to expand its aid relationship at the working level in aid delivery, while also providing the opportunity to better influence the way China provides aid in the South Pacific.

The most prominent aspects of the presence of China and Australia in the South Pacific are felt through their respective aid programs and, while Australia's aid program currently dwarfs that of China, China's aid offers the South Pacific benefits not available with Australia's. Moreover, if China wanted to increase its aid to the South Pacific, its rapidly expanding economy and national wealth would facilitate such an expansion with little effort.

Australia must, therefore, look for ways to work with China to achieve 'win-win-win' if Australia wishes to remain a relevant influence in the South Pacific. Working with China would help the South Pacific nations achieve better outcomes from the generous aid that China is making available—and allow Australian aid officials to influence the way China delivers its aid. However, changing China's approach to conditionality of aid will be difficult, as evidenced by its reticence to commit to the Cairns Compact.

## *Cairns Compact*

The OECD asserts that:

How to engage with China in a manner that contributes to the international aid effectiveness agenda and the achievement of the Millennium Development Goals has been an issue of great concern for [OECD] donors. China's endorsement of the principles, commitments and actions enshrined in the 'Busan Partnership for Effective Development Co-operation' is therefore a welcome step forward. This new Global Partnership provides the basis for promoting stronger engagement between China and [OECD] donors in delivering more and better development co-operation, including Aid for Trade.<sup>83</sup>

This paper has already noted China's approach to aid, the 'Eight Principles' and China's transactional/mercantile nature, which together make its aid distinct. From China's perspective, its aid respects the sovereignty of recipients, so adherence to OECD principles, which would have China's aid agencies insisting on strict governance and accountability conditions, is antithetical.

Nonetheless, China has endorsed the commitments outlined in the 'Kavieng Declaration of Aid Effectiveness' (a localised version of the Paris Declaration) and the 'Busan declaration', noting that for China this is non-binding.<sup>84</sup> Encouraging China to move from non-binding endorsement to adherence of OECD principles—the Paris Declaration, Accra Agenda for Action, and Busan Partnership—must remain a goal of Australia.<sup>85</sup> However, having China commit to similar principles for aid in the South Pacific, as determined by the Pacific Island Forum, is of more pressing importance for Australia's interests in the South Pacific.

At the 2009 Pacific Islands Forum meeting in Cairns, the leaders agreed an initiative known as the Cairns Compact on Strengthening Development Coordination in the Pacific. It is a program designed specifically to address shortfalls in the progress of South Pacific nations towards achieving the UN's Millennium Development Goals (related to socio-economic development and health) by 2015.<sup>86</sup> Australia's Department of Foreign Affairs notes that:

The Compact aims to accelerate progress towards the achievement of ... [the Millennium Development Goals] by strengthening Forum Island countries' leadership of their own development agenda, and encouraging development partners to work more effectively together.<sup>87</sup>

Noteworthy elements of the compact include development partner reporting on coordination and aid effectiveness and the strengthening of public finance management systems. Ultimately, the compact has a focus on the coordination of aid efforts, which is precisely what Australia should be seeking from all donors to the South Pacific. As yet, China has not joined the compact—and appears unlikely to do so. Shortly after the signing of the Cairns Compact in 2009, Wang Yongqiu, the senior Chinese representative at the forum, explained China's reasons for not joining as:

We have different approaches and practices from Western developed countries. We feel it is unnecessary to accept this multilateral co-ordination mechanism, but we need time to study it. China is open and transparent in providing aid.<sup>88</sup>

Hayward-Jones cites several possible reasons for China's reluctance to commit to the Cairns Compact, including the 'rigours of transparency required by the compact'.<sup>89</sup> In all likelihood, China does not want to constrain its freedom and blunt the effectiveness of its aid. As an example, China's welcome and influence in Fiji rose exponentially from 2006 as Australia, New Zealand and the US pressured the coup leaders and then in 2009 supported Fiji's suspension from the Pacific Island Forum. The Cairns Compact would not prevent aid delivery to Fiji under such circumstances but nor would China want to necessarily be seen to be aligned to traditional donors.

Australia and New Zealand have continued to encourage China to join the compact without success. At the 2011 Post-Forum Dialogue in Auckland, China reiterated its desire not to be bound by the compact, emphasising the value of its aid given in friendship versus aid given under conditions.<sup>90</sup> Noting that the origins of the Cairns Compact reside in the Pacific Island Forum



member states' failure to progress adequately toward their Millennium Development Goals, and that those goals will likely be updated in 2015, the Cairns Compact will similarly likely be reviewed and probably replaced, notwithstanding that the underlying principles of the compact remain relevant and should provide the basis of any new agreement.

If and when this occurs, Australia should insist on China being part of the negotiation process which, after all, would be appropriate if China is to be treated as a partner of Australia in providing aid to the South Pacific. Resourcing a new focus on aid coordination and joint projects, and convincing China of the value of joining the follow-on to the Cairns Compact, is not likely to incur significant additional cost.

It would be more about the need for greater engagement at the diplomatic level, which would require a multi-tiered approach given the myriad Chinese agencies involved in the delivery of aid, including the Ministry of Commerce, Ministry of Foreign Affairs, Chinese embassies, Chinese finance institutions and construction companies. Moreover, Australia should be seeking support for these endeavours from the other major donors in the South Pacific, as well as the recipients.

### *US presence in the South Pacific*

In 2012, then US Secretary of State Hillary Clinton noted that:

The United States did not leave the Pacific, instead we focused on making sure that the region continued to be safe and secure so that you could develop, you could pursue commerce, you could raise your children in peace, you could become more prosperous. We're going to work together to ensure that all the people of the Pacific islands, in the 21<sup>st</sup> century, have the chance to fulfil their own God-given potential.<sup>91</sup>

The apparent US retrenchment from the South Pacific at the end of the Cold War is a reason commonly given for China's success in gaining presence and influence among the South Pacific islands. Examples of waning US interest include a halving of the number of US Peace Corps volunteer missions between 1995 and 2003, the closure of US Information Agency offices in the mid 1990s, and the closure of the US Agency for International Development (USAID) offices in Suva and Port Moresby in 1994.<sup>92</sup> While the USAID offices have been re-established, after a 16-year absence, the period of reduced US presence occurred at the same time that China's presence was being dramatically increased.

However, Firth contends that 'after years of minimal interest in the Pacific islands, the US is responding directly to China's increased Pacific presence [and that] the Obama Administration chose Suva as the location for USAID's new regional office, which operates from a newly-built American embassy', as well as re-establishing an office in Port Moresby in 2011.<sup>93</sup> Moreover, during Obama's first presidential term, the US Secretary of State, Hillary Clinton, visited several Pacific island nations, while the Assistant Secretary for East Asian and Pacific Affairs, Kurt Campbell, 'held talks with Pacific leaders in Kiribati, Samoa, Tonga, Solomon Islands, PNG, Palau, the Federated States of Micronesia and the Marshall Islands with view to enhancing US involvement and assistance'.<sup>94</sup>

Of note, Campbell was one of the architects of the 'Pivot to the Pacific' by the US, and his participation may be seen as a direct action aimed at countering burgeoning Chinese influence in the South Pacific which, by the mid 2000s, was receiving considerable political attention.<sup>95</sup> Arguments over the apparent absence of the US in the South Pacific aside, Australia should welcome a greater presence of the US and look for ways to expand US military, security and diplomatic influence in the region.

One of the US's most valuable contributions to the South Pacific islands is the 'shiprider' program, whereby South Pacific island law enforcement officers—police, fisheries, customs—travel aboard US Coast Guard and US Navy ships and aircraft on patrols in the exclusive economic zones of the South Pacific.<sup>96</sup> In one example, the program has assisted Kiribati issuing fines of more than \$4 million for illegal fishing.<sup>97</sup> The program is particularly valuable not only because it enables the islands to be more responsible for their own security but because most of the South Pacific island

nations have only limited means to otherwise conduct surveillance of their exclusive economic zones.

Another well-received program, delivered in conjunction with the US Navy in 2011 and again in 2013, was Project HOPE (Health Opportunities for People Everywhere).<sup>98</sup> One of its key activities involved a medical team embarking the USS *Cleveland* and, over the course of three months, visiting Tonga, Vanuatu, PNG, Timor-Leste and the Federated States of Micronesia, treating thousands of patients. In Tonga alone, 'over 2300 patients received care ... and more than 300 medical professionals and local residents received health education'.<sup>99</sup> A similar mission, titled Pacific Partnership 2013, was undertaken during the following year.<sup>100</sup> Such visits are extremely well received because they bring specialist medical staff to countries where medical services are over-subscribed and where much specialist care is not routinely provided.

China too realises the value of medical assistance in the South Pacific islands. In September 2014, China's *Peace Ark* hospital ship completed a four-week visit to the South Pacific, visiting Tonga, Fiji, Vanuatu and PNG.<sup>101</sup> The medical teams on board treated up to 1000 patients a day and were able to provide the same diverse range of services provided by Project HOPE, with the addition of traditional Chinese medicine.

Brant believes that the visit of the *Peace Ark* was 'an easy soft-power' win for China by helping to counter negative views of new Chinese migrants and shoddy workmanship seen on some of the aid projects.<sup>102</sup> Both the *Peace Ark* and Project HOPE missions are good examples of diplomacy and humanitarian aid, as they connect the donors directly with the people of the South Pacific islands, rather than with governments or bureaucracies, and do so in a high-profile way, likely to attract favourable media attention.

The idea that the US should mirror China in providing this type of aid may seem simplistic and competitive but the soft-power value of this type of aid is significant. Australia should encourage an increased presence of US medical assistance in the South Pacific, and contribute with its own medical support. China's presence in the South Pacific may well be driven at present by a combination of commercial, resource requirements and humanitarian interests but, as previously noted in this paper, China's Premier admitted in 2006 that his country's interest in the South Pacific is strategic.<sup>103</sup>

Australia should continue to press for an increased presence of the US in all forms—USAID, diplomatic visits, attendance at the Pacific Islands Forums, ship-riding, medical assistance and trade—but not in an effort to drive China out. The region has certainly remained relatively stable and secure since the Second World War, when the region fell under the influence of the US. However, China has much to offer the region and the South Pacific islands benefit greatly from China's aid and trade.

Resource costs for Australia for the policy approach described in this section would largely be limited to the provision of medical staff. Australia already makes a worthwhile health contribution to the South Pacific, typified by the 56 specialist visiting teams and teaching visits to 10 South Pacific countries conducted in 2012.<sup>104</sup>

However, wherever possible, Australian medical teams should be part of any future medical ship visits, as one team was for the Vanuatu and PNG legs of the *Peace Ark* mission.<sup>105</sup> Using military reserve specialists, for example, to participate in two hospital ship visits each lasting four weeks would likely cost A\$200,000-A\$250,000 per year (based on the deployment of four 06-level specialists).<sup>106</sup> Such efforts would make a valuable contribution to Australia's total health aid activities in the South Pacific and, more importantly, help Australia maintain a high profile when China is scoring such easy soft-power wins.

There would also be significant political effort required to encourage an increased US presence in the South Pacific, in all its forms. Such increases could well be justified in principle under the existing US pivot policy. However, convincing the US that additional resources should be expended, particularly in an environment of fiscal constraints, would likely be challenging.

## *Learning from China – better management of relationships*

Foreign Minister Julie Bishop has expressed frustration that other donors win much greater recognition from Pacific Islands for much smaller contributions than Australia's. She wants to see ... recognition that Australia is the partner of choice for Pacific Island countries.<sup>107</sup>

Among the criticisms of China's approach to aid is an issue that is viewed both with contempt and grudging admiration. Called 'visit diplomacy', because it involves high-level delegations visiting from China or delegations from aid recipient countries travelling to Beijing, such visits are a key aspect of China's soft power and are highly valued by South Pacific island leaders. Invitations to visit Beijing are extended both to present and future leaders, and their occasionally extensive entourages are often funded by China.

Anne-Marie Brady and John Henderson note that South Pacific leaders are treated no differently to the extravagant way more notable world leaders are treated and that '[t]his attention is greatly appreciated by island politicians who don't get such a welcome when they visit Washington, Canberra or Wellington'.<sup>108</sup> Moreover, newly-elected leaders often visit Beijing before they visit Canberra, and 'Pacific elites have closer personal contacts with their Chinese counterparts than they do with US, Australia or New Zealand'.<sup>109</sup>

Australia's longer and deeper engagement with the South Pacific islands, as well as its proximity and status as the largest aid donor by a huge margin, should result in Australia having the strongest influence. Yet China's visit diplomacy has come at the expense of Australia's sway with the South Pacific.

This paper has discussed the value some South Pacific islands place in China's 'no strings attached' aid but China also has lessons for Australia in its generous approach to hosting South Pacific island leaders and making them feel special. Examples of where Australia has failed to respect the authority and dignity of South Pacific island leaders include the incident at Brisbane airport in August 2013 when the Prime Minister of the Solomon Islands was stopped at a security checkpoint to be checked for explosives residue.<sup>110</sup> In another travel-related incident, the Prime Minister of PNG was asked to remove his shoes at a Brisbane airport security check.<sup>111</sup>

These incidents are reasonably simple failures of protocol that could easily have been avoided had appropriate dignitary escort personnel and procedures been in place. However, beyond such lapses, there are also other examples. In 2012, the private secretary of the Prime Minister of Vanuatu was arrested in a very public manner at Sydney airport for conspiring to defraud the Commonwealth, after he and the Prime Minister's delegation were forced to pass through immigration while enroute to Israel. The Prime Minister of Vanuatu reacted angrily by expelling 12 Australian Federal Police from Vanuatu, jeopardising the important security policing work being done there.<sup>112</sup>

Personal and professional relationships between leaders could also be more meaningful if the Australian Prime Minister made his or her best effort to attend the gathering of South Pacific island leaders at the Pacific Island Forum's annual conference. The current Minister for Foreign Affairs and her Parliamentary Secretary have been active in the region but Nic Maclellan contends that Prime Minister Abbott has had little interest in the South Pacific islands.<sup>113</sup> Much was made in the media when he failed to attend the 2014 leaders' meeting.<sup>114</sup>

Prime Minister Howard was similarly unavailable for several leaders' meetings, which prompted the Senate Foreign Affairs, Defence and Trade References Committee in 2006 to recommend again, as it had in 2003, that 'the Prime Minister of Australia place the highest priority on attending all Pacific Forum Meetings'.<sup>115</sup>

Finally, Australian officials could be more publicly appreciative and genuine in welcoming China's aid in the South Pacific, with Fergus Hanson asserting that:

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.<sup>116</sup>

Australia has little to lose and much to gain by learning from China's approach to the treatment of South Pacific island leaders, and additional resource costs need not be significant, with the possible exception of the Prime Minister's time. However, it would seem useful to allocate additional funding, in the order of A\$1-3 million, to facilitate visits to Australia by South Pacific leaders and their immediate staff, which should include subsidising their travel costs. Ultimately, efforts directed towards the maintenance of peace and stability in the South Pacific, and Australia's enduring influence, are at the core of Australia's national interests.

### **Funding**

The variations to policy, including a more generous approach to hosting South Pacific island leaders, could be funded from within the existing 'regional Pacific' budget of A\$196.9 million for 2014-15.<sup>117</sup> However, noting the importance of the South Pacific as the second of Australia's four strategic interests, additional funding is arguably warranted.

The Australian Government is not likely to agree to an increase in the overall aid budget, given its commitment to reducing the federal budget deficit, with the 2014-15 total aid budget already reduced by A\$107 million (from the 2013-14 budget). Accordingly, this paper proposes a transfer of proposed funding from within the Australian aid budget, which for 2014/15 is estimated to be approximately A\$5 billion.<sup>118</sup>

One area where funding could be transferred is the aid budget in relation to Indonesia. In 2014-15, the budget allocated A\$605.3 million in aid to Indonesia, representing the largest aid spending to a single country.<sup>119</sup> While Indonesia remains of the utmost importance to Australia's national security, as well as being a developing country of 250 million people, its recent economic growth has outstripped Australia's, with Indonesia's GDP ranked 16<sup>th</sup> internationally.<sup>120</sup> A one per cent reduction in Australia's aid budget to Indonesia would provide A\$6.05 million for reallocation to the South Pacific, which seems a reasonable sum to fund the policy variations and proposals outlined in this paper.

### **Conclusion**

Hayward-Jones cautions that China's influence in the South Pacific should not be over-stated, asserting that:

China is a very long way from approaching Australia's dominance of the aid, trade and strategic domains in the Pacific Islands region or displacing the United States as the dominant military power from the north. If China's aims in the region are to be described in terms of geo-strategic competition, then on the available evidence, China is not a particularly committed competitor.<sup>121</sup>

Nevertheless, it is clear that China is pursuing a long-term strategy of building relationships in the South Pacific to be able to exert influence, much as Australia has done for many years. The motives behind this are likely to be little different to China's motives for increasing its influence throughout Africa. China needs access to resources to feed its growing economy, and to food sources to feed its enormous population. Australia's choice is whether to accept that China's growing influence in the Pacific is for the benefit of the Pacific island nations or whether that influence is coming at the expense of Australia's influence and supporting outcomes in Pacific island nations inimical to Australia's interests.

This paper has argued that Australian policies should seek to improve the security and stability of the South Pacific island nations while also maintaining Australia's key leadership role and influence. China's aid and trade can contribute significantly to the prosperity and development of the South Pacific, and Australia should look to work with the region and China to maximise the benefits. This can be done without ceding influence to China, especially if Australia also seeks to independently improve its standing with greater contributions through labour migration and high-level diplomacy.

Assessing the effectiveness of the policies discussed in this paper should be done through the security and stability lens of the South Pacific nations. Countries of key concern to Australia, such

as PNG and the Solomon Islands, continue to make incremental improvements on the UN's Human Development Index and yet the security and stability of those nations is not assured.<sup>122</sup>

Australia's ability to assist the nations of the South Pacific to achieve the UN's Millennium Development Goals and to facilitate more substantial improvements in socio-economic indices, such as the Human Development Index, will be the highest level assessments of policy effectiveness. The heart of Australia's concerns regarding China in the South Pacific lies not with the presence of China or the influence China has over the island nations but with the stability and prosperity of the nations themselves. China's desire to assist the development of South Pacific nations through aid, loans and trade represents an opportunity for the South Pacific and Australia.

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