

CHINESE DEVELOPMENT AID IN PACIFIC ISLAND COUNTRIES AND OPPORTUNITIES FOR COOPERATION

Chinese President Xi Jinping's recent State visit to Fiji on November 21-23 marked a historical first a Chinese president, where Xi and leaders of eight Pacific Island Countries (PICs) agreed to establish a "strategic partnership" aimed at mutual respect and common development. China announced a range of major measures to strengthen relations with the PICs encompassing trade, investment and aid. They include zero-tariff treatment for 97 percent of imports from Least Developed Countries (LDCs) in the region; 2,000 scholarships and 5,000 study and training opportunities in the next five years; more medical teams to the PICs and deepened cooperation in areas such as tourism, agriculture, climate change and infrastructure construction, among others.ⁱ

The Pacific region is facing massive development challenges: four of the fourteen PICs continue to be classified as LDCs in the latest UNCTAD report (2014)ⁱⁱ and eight of the twenty countries in the world with the highest average annual disaster losses scaled by GDP are PICs.ⁱⁱⁱ As for individual PICs, for example, almost 40 percent of Papua New Guinea's population are still living on less than US\$1 a day, despite 14 consecutive years of economic growth.^{iv} Most of the PICs are dependent on aid, with aid-to-GNI ratios ranging from 2 percent to over 50 percent and a regional average of 10 percent.^v Around US\$ 2 billion is allocated per year to the Pacific region by OECD DAC countries.^{vi} China's role as a development partner in this region has been growing rapidly over the past decade. Xi's historical meeting with the PIC leaders alongside China's commitments not only indicates the greater importance China attaches to its relations with the PICs, but also serves to address some of the major development challenges of this region.

Chinese development aid in the PICs

➤ To whom?

China provides development aid to all eight PICs with which China has established diplomatic relations, namely the Cook Islands, the Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu. The first White Paper on China's Foreign Aid (WP I) shows that China had provided aid to twelve developing countries in Oceania by 2009, whereas this number was reduced to eight in 2010-2012 in the second White Paper (WP II).^{vii} This largely reflects the fact that a number of PICs have switched diplomatic recognition from the Chinese mainland to Taiwan over the past decades, namely Kiribati, Nauru, and the Marshall Islands. There are indications that Palau might have received China's aid at some point without recognizing Beijing.^{viii}

➤ How much?

Trade and investment have been a significant part of the overall China-PICs relationship: China's trade with the PICs has

been increasing at an annual rate of 27 percent since 2006, reaching a total volume of US\$4.5 billion in 2012.^{ix} By 2011, China had become the second largest bilateral two-way trading partner of the Pacific island region, following Australia.^x Despite important commercial ties, China's development aid in the Pacific region is a relatively new phenomenon, most of which started in the early 1980s.

In terms of aid volume, the Pacific region has not been the major recipient of China's aid when compared with Asia and Africa. While a country-by-country breakdown is not available, the WPs provide aggregated data of Chinese aid in Oceania, which shows that 4 percent of China's total aid was allocated to Oceania in 2009 and 4.2 percent in 2010-2012. However, given the PICs' small size compared to other regions in terms of area, economy and population, this is a significant level of support.^{xi}

While Australia remains the single largest bilateral donor of the region, China's aid commitments represented an estimated 1 percent of the aggregated GDP of the eight PICs during 2010-2012,^{xii} and already approximate those of some major donors of the region (Graph 1).



Graph 1. Total aid commitments of China and major donors in PICs, 2010-2012. (2012 US\$ million). Source: graph generated from consolidated data from the OECD DAC Creditor Reporting System and the second White Paper on China's Foreign Aid (UNDP China).^{xiii}

➤ Which sectors?

Despite a lower profile than that of some major traditional donors of the region, China's development aid plays an increasingly important role in promoting local economic growth and sustainable development. Chinese aid to the PICs encompasses a wide range of sectors, from infrastructure, agriculture and health, to training and technical cooperation. Infrastructure construction has been the major focus. Mainly through concessional loans, China has financed public works in the PICs such as government office complexes, school buildings, hospitals, stadiums and roads. Capacity building is also a growing area of Chinese aid. For example, according to the WP II, China has trained over 2,500 officials and technicians in the PICs since 2006. This number is likely to rise in the coming years following Xi's emphasis on people-to-people exchange at the 2014 meeting with the PICs leaders in Fiji.

➤ The China-Pacific Island Countries Economic Development and Cooperation Forum

The China-Pacific Island Countries Economic Development and Cooperation Forum (the "China-PICs Forum") has served as the main mechanism for high-level dialogue and economic cooperation between China and the eight PICs. So far, two Forums have taken place (2006 and 2013) with two Investment, Trade and Tourism Ministerial Conferences in between (2008 and 2011). The China-PICs Forum offers a platform for China to announce its commitments to the region, such as concessional loans for infrastructure, preferential trade measures, scholarships, environmental protection and support for tourism, agriculture and health. For example, at the first China-PICs Forum in Fiji in 2006, China and the PICs signed the China-Pacific Island Countries Economic Development & Cooperation Guiding Framework^{xiv} and announced a 3 billion RMB (US\$492 million) concessional loan facility to the region. At the second China-PICs Forum in November 2013, an aid package of US\$1 billion concessional loans over a four-year period was announced. Most of these loans were and will be directed towards infrastructure-related projects.

➤ What's driving Chinese aid to the PICs?

In the larger context of China's increasingly important role in bilateral and multilateral relations, President Xi's meeting with the PIC leaders demonstrates China's growing strategic interest in this region. China's aid to the PICs, not unlike that to Africa and elsewhere, is usually presented to the host governments in packages combined with commercial loans in support of Chinese investment. For example: hosting the largest single investment by a Chinese company in the Pacific, the US\$1.6 billion Ramu nickel/cobalt mine, Papua New Guinea is also the largest recipient of China's aid in this region. Given the major focus of China's aid on infrastructure, large State-owned infrastructure companies on the ground usually play an active role in identifying and driving aid projects in collaboration with local partners, showing a bottom-up approach.

Prospects for development cooperation

In September 2014, a report on *Development Needs of the Pacific Island Countries* (the "Report") was released as part of a joint project between UNDP China, the Chinese Academy of International Trade and Economic Cooperation (CAITEC) and the Australian Department of Foreign Affairs and Trade (DFAT).^{xv} The Report identifies unmet development needs of three PICs: Samoa, Tonga and Papua New Guinea, and suggests four possible areas for cooperation between China and other development partners: health, agriculture, clean energy and transport infrastructure. These areas align with some of the measures announced by President Xi during his Fiji visit, namely support for medical undertakings, agriculture, renewable energy and the construction of major infrastructure projects. China's high-level bilateral pledges provide policy justifications for future multi-stakeholder development cooperation in these identified areas.

China's approach to foreign aid has been repeatedly contrasted with that of the Development Assistance Committee (DAC) members of the OECD. The Report also highlights divergent interpretations of development effectiveness principles between DAC countries and non-DAC countries. However, despite these differences, multi-stakeholder development cooperation is already being tested by China and traditional bilateral donors in the Pacific region.

In 2012, China, New Zealand and the Cook Islands entered into a trilateral partnership aiming to improve the water supply infrastructure in Rarotonga. This is the largest infrastructure project of the country and the first of its kind, i.e. involving China and a traditional bilateral donor on an aid-funded

project in a host country. The Cook Islands played a key role in driving this trilateral partnership, in line with China's demand-driven principle for development cooperation. Furthermore, China and Australia signed a Memorandum of Understanding in 2013 followed by their first trilateral project on malaria research and prevention in Papua New Guinea.

Conclusion

China's development aid has become increasingly important for the PICs and presents a growing number of opportunities for development cooperation. The Report introduces useful tools for assessing development needs and provides evidence-based policy recommendations for development cooperation between China and other partners. The ongoing trilateral projects in the PICs will also provide practical lessons learned. Development cooperation is a continuing mutual learning process that allows partners to generate synergy. Xi's recent visit to Fiji and China's reiterated commitments to the PICs may signal new opportunities for development partners to engage with Chinese aid in areas of common interest and increase developmental impacts in response to local needs.

This Issue Brief forms part of a series to promote understanding of Chinese foreign aid and encourage the sharing of development experiences between China, other developing countries and the donor community. Thanks to the South-South Policy Team, especially Ms. Christine Han, Mr. Haoting Yang and Mr. Niels Knudsen for their work on this Issue Brief. For more information, please contact the South-South Policy Team at: cn.sspt@undp.org.

ⁱ More details about President Xi's proposal available from:

http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1214281.shtml

ⁱⁱ United Nations Conference on Trade and Development, *The Least Developed Countries Report 2014* (Geneva, 2014). The four LDCs in the Pacific region are Solomon Islands, Kiribati, Tuvalu and Vanuatu. The fourteen independent and self-governing PICs include Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

ⁱⁱⁱ They include: Vanuatu, Niue, Tonga, the Federated States of Micronesia, the Solomon Islands, Fiji, the Marshall Islands, and the Cook Islands.

^{iv} United Nations Development Programme, *2014 National Human Development Report: Papua New Guinea*.

^v Jonathan Pryke, "Rising Aid Dependency in the Pacific", Development Policy Blog, 17 September, 2013. Available from: <http://devpolicy.org/rising-aid-dependency-in-the-pacific-20130917/>

^{vi} OECD DAC, Credit Reporting System (accessed 15 November 2014).

^{vii} The WP I covers a time span of 60 years from 1950 up until 2009. Available from:

http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683.htm

The WP II covers the period from 2010 to 2012. Available from:

http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm

Sovereign states in Oceania include the PICs, Australia and New Zealand. According to the WP II, 9 Oceania countries received China's foreign aid during 2010-2012, including the 8 PICs that have diplomatic relations with China, and New Zealand to which China provided humanitarian aid for the 2011 Christchurch earthquake. However, as New Zealand is a developed country, it is not included here.

^{viii} Eric Harwit, "Taiwan's Foreign Economic Relations with Developing Nations: a Case Study of Its Ties with Palau", *The Contemporary Pacific*, vol. 12, No. 2, pp. 465-479 (2000).

^{ix} Figures extracted from the address by Vice-Premier, Wang Yang, at the second China-PICs Forum in 2013. Available from:

<http://english.mofcom.gov.cn/article/newsrelease/significantnews/201311/20131100386982.shtml>

^x Jenny Hayward-Jones, "China in the Pacific Islands: a Reality Check", *New Zealand International Review*, vol. 38, Issue 5, pp. 8-12 (September/October 2013).

^{xi} For example, according to World Bank data for 2013, the total land area of 10 PIC member states was 64,180 km² compared with 23,589,596 km² of Sub-Saharan Africa. The total GDP of the PICs was US\$8 billion, and 1.59 trillion for Sub-Saharan Africa. The total population of the PICs was 2.28 million, compared with 936 million in Sub-Saharan Africa.

^{xii} Figure calculated using data from: the WP II, the World Bank, the Australian Department of Foreign Affairs and Trade. Niue's 2012 GDP figure was not available and therefore estimated based on an average annual growth rate of 18 percent from previous years.

^{xiii} The WP figure includes not only China's aid to the PICs but also humanitarian aid to developed countries in the region. It is equated with China's aid only to the PICs given the relatively small amount of humanitarian aid to developed countries, for rough comparison here.

^{xiv} Full text of the Framework available from:

http://www.mofcom.gov.cn/article/zt_tpydgl/subjectm/200604/20060401872389_s.html

^{xv} The full Report is available from:

<http://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/the-development-needs-of-pacific-island-countries-report-0/>