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Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific Diplomacy

Introduction

I want to thank the United States-China Economic and Security Review Commission for the opportunity to present my testimony on China’s engagement in the Pacific Islands. The commissioners have asked me to address several topics concerning China’s Pacific engagement, but before doing so I want to offer some context that will help interpret the People’s Republic of China’s (PRC) actions.

Contextualizing the Pacific Islands

Pacific Island Countries (PICs), among the most aid dependent countries globally, live in an ocean region with only one land border (between Papua New Guinea (PNG) and Indonesia). Often referred to as large-ocean countries, the nearly 12 million people living in sovereign independent nation states have limited economic opportunities. Many who live in rural and semi-rural locations maintain a subsistence lifestyle, and even those in urban locales may revert back to subsistence when needed. A government official in Niue noted “There's no such thing as ‘unemployment’ in Niue. A Niuean can ‘go bush’ or ‘can go sea’ to survive” (Mak, 2012:12). At the macro level small Pacific Island economies have limited opportunities, these include mining, palm oil production and logging in Melanesia, as well as tourism, small scale agriculture, boutique exports, strategic rents and fishing throughout the region. The Pacific value chain is dominated by natural resources and primary exports. To make these sectors efficient and profitable PICs require significant investment and assistance from external actors. The need is great in the Pacific, so when opportunities come knocking, island decision-makers are often ready to listen.

It is against this backdrop that I will now turn to the subject at hand, China’s engagement with the Pacific.

The Chinese people have long been present in the Pacific Islands. Three different stages of Chinese economic activity can be discerned. The earliest stage pre-dates the Chinese revolution. For example, Chinese miners who joined in the mid-19th century goldrushes in California and Australia also spread to the Pacific Islands. The second stage comes with the more recent arrival, in the latter quarter of the 20th century, of small business owners migrated to many parts
of the Pacific. Finally, large economic interests, often in the form of state-owned-enterprises (SOE) have played an influential role, especially in the last 10 - 15 years. This testimony refers, primarily, to these later and larger economic interests.

Chinese engagement with the PICs has returned significant benefits to the islands, but not without significant challenges. The benefits include roads, ports, government buildings and more, and the costs have come in the form of environmental destruction, governance and regulatory challenges and in some cases eroded public trust. Sometimes these challenges are caused by China alone, but more often than not the challenges come from interactions between the people and institutions in the PICs and Chinese entities.

**Beijing’s Pacific Influence**

In line with the PRC’s international messaging, engagement in the Pacific is often framed as one developing nation helping other developing nations. In broad terms Chinese enterprises and especially the Beijing government’s approach has been to focus on elites as decision-makers. The elite focus creates the basis for making agreements and pursuing trade and investment outcomes. Chinese engagement stands in contrast to the United States which has been criticized by some in the Pacific for “not showing up” or not being sufficiently present in the region. The eruption of COVID in early 2020 is illustrative. The PRC began its COVID relief efforts to the PICs in March 2020. On March 10,

...senior officials from the Chinese Ministry of Foreign Affairs and the National Health Commission, as well as Chinese ambassadors to Pacific Island countries, held a video conference with over 100 of their Pacific Island counterparts plus PNG's Minister of Health, FSM's Acting Minister of Health and the CEO of Tonga's Ministry of Health (Kabutaulaka, 2021).

Medical supplies and equipment, in addition to advice and coordination, were sent by Beijing. Longer term the PRC’s global COVID diplomacy has been hammered by decreasingly effective vaccines in the face of new COVID variants, misrepresenting vaccine sales as donations, and allegations of linking vaccine distribution to shifting recognition away from Taiwan (Lin et al., 2022 and de Bengy Puyvallée and Storeng, 2022).

While quick action does not necessarily equate to effective action, it at least signals attention. In being present relationships are formed and become the conduit to influence. By showing up China communicates interest, identifies opportunities for investment and development, and sometimes delivers on those opportunities.

Being present gives PRC firms an advantage when preparing procurement bids. They can win government contracts through providing the lowest bid, edging out competitors. For example, the Kingdom of Tonga’s procurement rules published in 2016 stipulate that bids may be awarded solely on the basis of cost, or through a combination of cost and other factors. In this example, no apparent guidance exists for determining whether a bid may be determined for cost alone or by cost and other factors. When procurement processes require value for money assessments, such as those in Kiribati or Vanuatu, those with greater local knowledge may be in a better position to meet those requirements.
The PRC’s elite focus has facilitated deeper engagement and created the opportunity for elite capture. Elite capture facilitates opportunities to win contracts and otherwise wield influence. Rumors of such elite capture have emerged in Solomon Islands, Papua New Guinea and Kiribati. Transparency International’s *Global Corruption Barometer – Pacific 2021* supports the assertion that elite capture is a problem in the region. Transparency International found that “A majority of respondents feel corruption is a big problem in both the business sector and government, particularly among parliamentarians and officials in heads of government’s offices”. In particular, they called out both PNG and Solomon Islands for what appears to be an extraordinarily high level of corruption, with 95% of respondents saying corruption in government was a significant problem. Australian academic, Emeritus Professor Clive Moore, recently echoed this sentiment writing that Solomon Islands government is rife with cronyism and corruption (Moore, 2022) for example.

**Engaging Sub-State Actors**

China actively engages with sub-state actors to advance its goals in the region. Sub-state engagement, also known as paradiplomacy, plays an important role in the Belt and Road Initiative (BRI). “Local governments are important because they are able to make planning decisions on the kinds of infrastructure projects China wants to establish...” in the BRI (Brady, 2017). In 2020 I wrote “Strategic Competition and the Evolving Role of Indo-Pacific Paradiplomacy”, examining the PRC’s sub-state engagement.

Here are three notable cases that illustrate China’s pursuit of local government influence. First, is an overview of the PRC’s work in the Federated States of Micronesia (FSM), second is a brief snapshot of Vanuatu’s the sister city relationship with the PRC and finally the PRC’s engagement with Isobel provincial government in Solomon Islands.

In 2017 FSM President Christian signed an MOU joining the BRI and announced the creation of a sister city relationship between Sokehs municipality in Pohnpei State in the FSM and China’s Zhongshan City, and sister state relationships between Hainan Province and Yap State (FSM Information Services 2017). Chuuk state has been a recipient of PRC largesse. Chuuk is also home to a secessionist movement and chief among their complaints is the allocation of funds from the capital. In 2008, China provided the Chuuk state government with a grant of SUS 3.5 million for its Financial Recovery Program. In 2009, China gave $2.8 million to Chuuk to repair the cargo-passenger ship Chief Mailo. That same year Beijing granted $280,000 to the Chuuk campus of the College of Micronesia-FSM. Not surprisingly, Chuuk leaders have welcomed PRC funds.

A second example of engaging with sub-state actors comes from Vanuatu, which has four sister city relationships with the PRC. Lugarville, with a population of 16,000, signed a sister city agreement with China’s Zhuahia Wanshan Marine Development Experimental Zone in 2019 (Ligo, 2019). Lugarville’s Lord Mayor expressed hope at the public launch of the sister city arrangement that his town would see a raft of benefits follow on, including: 1) road construction machinery, 2) upgrade of pharmacies, 3) youth empowerment through people to people exchanges, 4) improved business connectivity, 5) city beautification, and 6) the creation of a recycling plant. The sister city relationship came about after Vanuatu’s prime minister, Charlot Salwai, had visited Zhuahia Wanshan in 2018. That same year Lugarville briefly gained notoriety with worries that PRC funded wharf would be used as a People’s Liberation Army Navy (PLAN) base (Wroe, 2018).
A final example the PRC’s sub-state focus occurred in September 2020 when the president of the Chinese SOE, AVIC International Project Engineering Company, wrote, Leslie Kikolo, premier of Solomon Islands Isobel Province (Smith, 2022). AVIC International proposed opportunities to develop naval and other infrastructure projects in Isobel Province, on land to be leased to the PLAN for 75 years. While it does not appear that land was leased, it nonetheless suggested a close relationship between the provincial government and AVIC International. Premier Kikolo participated in August 2021 in an online dialogue between officials and business leaders in Shandong Province with an eye towards deepening the link between the two provinces (Press Release, 2021a). The dialogue had been facilitated by the PRC embassy in Honiara. At the dialogue the Chinese also announced the donation of computers at Isabel Province high schools.

Sub-state outreach by the PRC has generated mixed results. Chuuk state certainly benefited, but if the PRC was hoping to ramp up secessionist fury the recent shuttering of the Chuuk Political Status Commission suggests they failed. Sub-state diplomacy does, however, generate people-to-people links and helps to open the doors of opportunity.

**Benefits for Pacific Island Countries**

PICs seek to deepen relations with the Chinese entities in pursuit of investment and infrastructure. For example, PNG, the largest PIC, has the most complex economic relationship with the PRC. Their trade relationship is dominated by PNG exports of natural gas, oil, minerals and timber. PNG imports from China a wide range of value-added and consumer goods. They share a comprehensive strategic partnership and are in discussions over establishing a free trade agreement. Perhaps as a consequence, PNG was one of 53 countries on the UN Human Rights Council to support China’s national security law, limiting freedom of expression in Hong Kong (Wall, 2020a). Most other PICs do not have such a complex economic relationship with the PRC.

PICs seek economic relations with the United States, Australia, and Japan through aid, investment and trade. Fishing, agriculture, tourism and labor mobility all play a role. Strategic rents also contribute to economic engagement. The United States has agreements of free association with FSM, Marshall Islands and Palau, who have swapped their defense interests for domestic financial support. The Marshall Islands went one step further welcoming the Ronald Reagan Ballistic Missile Defense Test Site. Palau has been vocal in urging the United States to establish a base there. Palau’s leaders have been quite open about the development benefits such a base would bring. The Cook Islands and Niue, both in free association with New Zealand, also receive similar financial support (albeit without military bases). Perhaps not rising to the level of strategic rents, PNG and Nauru have provided large scale leasing arrangements to accommodate asylum seekers refused entry into Australia.

PICs have traditionally sought bilateral and multilateral development assistance. Chief bilateral donors in 2019 were (in order of funds contributed) Australia, New Zealand, Japan, PRC, and United States. In addition, the Asian Development Bank (ADB), World Bank and United Nations have all been deeply involved in the region. Reuters reported last year that PICs, in the face of COVID affected budgets, have now also engaged with China’s Asia Infrastructure Investment Bank (AIIB) for support (Barrett & Menon, 2021).

**Impact of China’s Economic Activities**
There can be no doubt that many of the PRC’s projects have returned real and important benefits to the people of the Pacific. Improved roads on the island of Tanna in Vanuatu, for example, facilitate the movement of people and commerce. China’s investments in Vanuatu, according to the Lowy Institute, include expansion of the Luganville wharf, 45km road upgrade, the Santo agricultural college, a building for the Melanesia Spearhead Group secretariat, the National Convention Center, E-government broadband network, three aircraft, upgrading prime minister’s office, university campus expansion, and a tuna processing factory. Taken together, these Chinese investments in Vanuatu are worth roughly $205 million. Echoes of similar stories are common elsewhere in the Pacific.

The PRC’s economic activities among the PICs have had a significant benefit but they have also come with a cost. China is the second largest public lender to the Pacific Islands behind the ABD. The obvious challenge facing the PICs with significant borrowing will be servicing that debt. In 2018, Tonga’s debt with the PRC equated to 26.7% of GDP, making it globally the fourth most heavily indebted country to China (Rajah, et.al., 2019). That same year Samoa and Vanuatu were sixth and seventh most indebted to China.

Perhaps one of most striking negative economic impacts occurred in Palau, a tiny country with a population around 18,000. Tourism accounts for roughly 40% of its GDP. Palau, which does not recognize the PRC, had experienced a large increase in the number of Chinese tourists, peaking to 88,000 per annum. Beijing unsuccessfully pressured Palau to end recognition of Taiwan. As a consequence, in November 2017, Beijing revoked permission allowing tour operators to sell package deals and tourist numbers plummeted as did Palau’s GDP.

In recent years several large-scale Chinese investments have been proposed in a number of different settings. In November 2020, Fujian Zhonghong Fishery Company and PNG signed an MOU to build the Daru fishing industrial park (Wall, 2020b). Local people comment that there are no commercially exploitable fish stocks in the region, which has raised questions in some quarters about the intentions behind the investment. In 2019 the China Sam Enterprise Group attempted to lease the entire island of Tulagi, along with its deep-water port, from Solomon Island’s Central Province (Barrett, 2019). The proposed deal ignored the rights of customary landholders and was deemed by the country’s attorney general as illegal. That same year Honiara signed an MOU with AVIC XAC Commercial Aircraft Company, in which the Solomon Islands government promised to purchase six aircraft and then create a regional air hub (Dziedzic et al., 2022). The proposed deal never took off. Yet, together these are suggestive of Chinese SOE intentions in the PICs.

Chinese economic activity has accounted for significant environmental degradation as well. Three examples are illustrative. In Fiji in 2018, Freesoul real estate, a Chinese-linked company, carved a channel in a reef allowing barges to bring supplies onto land, dumped excavated coral onto the beach of their neighbors’ property, decimated a swathe of mangrove and pumped sewage into the ocean. The story became a cause celebre in Fiji, pitting foreign commercial interests against those of local landholders. Ramu Nickel in PNG, 85% owned by Metallurgical Corporation of China, pumps mining tailings into the sea. It is alleged that these tailings have resulted in the presence of heavy metals in nearby water samples (Fox, 2019). Mismanagement of mining tailings has been a politically fraught issue in PNG, and Ramu Nickel represents another chapter to that story. Finally, China plays a central role in the deforestation of Solomon Islands. China imports 82% of Solomon Islands timber. Timber accounts for two-thirds of
Solomon Island exports. A report produced by Solomon Islands’ Ministry of Finance forecast that at the current pace natural forests will be exhausted by 2036 (Global Witness, 2018). In *Paradise Lost: How China can help the Solomon Islands protect its forests* Global Witness argues that the future of Solomon Islands’ forests rests in Chinese hands. They urged the PRC “to require its timber importers to carry out checks to ensure that the timber they buy is, at a minimum, legal in its country of origin”. No action appears to have been taken. All three examples show an environmental indifference on the part of the businesses, but equally illustrate weak or non-existent regulatory regimes.

**Pacific Institutional Capacity**

Institutional capacity among the PICs varies from state to state. The ABD has described PIC institutional capacity as challenging normative expectations of the state as being the supreme guarantor and arbiter of public order and justice. Writing for the ADB, Laking (2010) explains:

> In many Pacific countries, institutions other than the state engender more trust and reliance for ordering interpersonal and societal relationships. Principal among these are forms of traditional governance based on clan or chiefly authority, and the churches.

The way in which institutional capacity is distributed in many PICs requires in-depth understanding of the people in question. People in authority in the state structure may not necessarily be those with the greatest cultural authority. The important role of the church may also test those without a good understanding and religious appreciation. A useful phrase in thinking about institutional capacity among the PICs is the ‘relational state’. “Despite having no official physical presence, it is responsible for the vast majority of the actual governance on the ground. It consists of bureaucrats leveraging their relational ties, histories, connections and affiliations to get stuff done (Peake & Forsyth, 2021).

One outcome of the relational state is to downplay the formality of dispute resolution mechanisms. So, for example, when the PRC and Solomon Islands concluded their security agreement there was no formal dispute resolution process. Rather, it was left to the parties to consult.

The weakness of formal dispute resolution mechanisms has benefited some Chinese projects. In Solomon Islands, Leeroy Wharf near Henderson Airport in Honiara operates outside the control of the Solomon Islands Port Authority (SIPA). The wharf handles PRC flagged container vessels (Packam, 2022). The Authority complained publicly writing in April 2021:

> SIPA questions why the relevant authorities continue to turn a blind eye and allow Lee Roy Jetty to continue international operations and could potentially destroy the future of a prominent state-owned enterprise employing more than 500 staff and help support more than 8000 family members (Press Release, 2021b).

The prominence of the relational state can leave actors, like SIPA, at the whim of individual and ill-defined requirements. Given the pivotal role individuals can play these settings it also raises the prospect of elite capture. Solomon Islands opposition leader, Matthew Wale and Daniel Suidani, premier of Solomon Islands Malaita Province, have both accused Prime Minister Manasseh Sogavare of being corrupt and aligned with foreign powers (Moore, 2022). Of course, the challenge of such accusations is ferreting out those that are politically motivated from more serious concerns.
Pacific Public Reaction

Not surprisingly pushback against the PRC has been mixed, and often is expressed in local terms. Public reaction to Chinese economic interests has, for the most part, been peaceful, however there have been exceptions. Rioting broke out in Honiara, Solomon Islands, in November 2021, when protests against the government and Chinese owned businesses turned violent. Numerous media reports explained the protests as being centered on complaints over the 2019 switch by the national government from recognition of Taiwan to the PRC. Malaita’s premier, Daniel Suidani, had been an outspoken critic of the switch. The rioting was the trigger to signing the PRC-Solomon Islands security agreement, that provided for the deployment of PRC police and other security personnel at the request of the government in Honiara.

Grassroots protest, media coverage and court action are the most apparent peaceful avenues from which to gauge public reaction to the PRC. In 2021 the Chinese owned company, DingJing, was granted with two mineral exploration licenses for Vuda and Rakiraki in Fiji. The public consultative meeting attracted 40 villagers. The reporter from the Fiji Times summed up their reaction to the proposed mining exploration writing:

...the villagers were adamant and said they welcomed the development, but they would prefer a local company as they had reservations of some of the countries that had applied for a prospecting license in Rakiraki” (Tuilau, 2021).

The villagers’ discomfort with DingJing was modest at best, and in the face of potential economic development no strong objections were lodged.

Environmental degradation has long been a cause of public disputation. Given the PRC’s high profile in natural resource extraction it is hardly surprising that they find themselves the target of legal action. For example, in PNG Ramu Nickel was the subject of a lawsuit filed by landowners, representing some 8000 people, in PNG’s Madang province. The landowners claim the dumping of tailings in the ocean is causing widespread environmental damage (Fox, 2020). In Solomon Islands, a landmark case, Mas Solo Investment Ltd v Nesa [2021], allows for residents of a logged region, and not just landowners, to seek compensation for environmental impact. The case is significant, inasmuch as it offers an avenue for redress of grievances not previously available to members of the public.

The press among the PICs is generally regarded as free. Reporters without Borders 2022 rankings of press freedom place several PICs in the middle of the pack. Samoa is ranked as the most-free PIC at number 45 (for context the United States ranks 42nd). The least-free is Fiji at number 102. Several PICs are missing altogether from the ranking. In the aftermath of the announced security agreement between the PRC and Solomon Islands journalist Dorothy Wickham, of the Melanesian News Network, wrote, “The China security treaty has changed the political landscape, and tested the Solomon Islands government’s commitment to a free press” (Wickham, 2022). Press freedoms are not set in stone and can rapidly change.

Recommendations

Broadly speaking the United States should continue to contest the influence of the PRC in the Pacific by promoting real and meaningful benefits to the PICs. Since 2019 the United States has increased its financial contributions to the region.
I detailed in a January 2022 article entitled “Being a Better Pacific Partner” (Tidwell, 2022) a number of steps for the United States. Chief among these was that the United States should complete negotiations for the Compacts of Free Association by the end of this year. The appointment in March 2022 of Ambassador Joseph Yun as special envoy to lead the United States negotiations is a welcome step. As is the appointment in the National Security Council of an officer with exclusive responsibility for Oceania. In addition, funding from the Pacific Deterrence Initiative should be used to upgrade select PIC facilities, from which the United States Coast Guard can operate, as well as forward position resources in the PICs. Such forward positioning of resources is useful in a time of conflict and has important development benefits today by generating maintenance and security jobs that will have real payoffs locally.

The announcement of new embassies in Solomon Islands, Tonga and Kiribati are clear demonstrations that the United States is showing up. While this a welcome and important step consideration could be given to further deepening of United State engagement.

Another way in which the United States can show up is to improve relationships with elected leaders. The Biden administration’s proposal to convene a meeting of Pacific Island leaders in Washington is an important step. Care must be taken to focus on building respectful relationships with the leaders of all the sovereign Pacific countries. In addition, the United States should build links with sub-state leaders. The State Department, the Department of Commerce, the National Governors Association, the United States Conference of Mayors and Sister Cities International could collaborate to deepen United States work with sub-state governments in the Pacific. This is a powerful way of contesting PRC influence and manifesting United States involvement throughout the region. By helping to promote meaningful people-to-people links the United States can gain greater insight into the needs of the Pacific Island people.

The United States should continue to build on the three people-to-people assets largely unavailable to the PRC. First, the Biden administration’s promotion of the Peace Corps working in Solomon Islands must be expanded to include other PICs. Second, the United States could liaise with American churches to learn from their ongoing involvement in the Pacific. Finally, the United States should work with Americans of Pacific Island heritage to create a formal advisory council to help inform and guide engagement among the PICs. People from American Samoa, Guam, Hawaii, Mariana Islands as well as those from the freely associated countries of the Marshall Islands, Micronesia and Palau could help inform United States policy in the region.

The United States should continue to work with our allies, Australia, New Zealand and Japan, to expand funding of PIC infrastructure.

Finally, the United States should work with its allies, as well as with multilateral agencies, to redouble efforts to promote transparency, anti-corruption and the use of environmental safeguards to ensure that money spent in the region helps build a more secure and sustainable Pacific.

I believe these steps will help counter the unsavory elements of PRC involvement among the PICs.
Bibliography


