‘One Belt One Road’: China’s Trade and Investment in Pacific Island States

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> *‘The Chinese government’s “One Belt One Road” policy and the creation of the new Asian Infrastructure Investment Bank (AIIB)… promise exciting new opportunities for investors, construction companies and communities* (Xinhua 2015a)

For the last decade China’s ‘going global’ policy has been a means for China to promote world-wide access to resources, including natural resources (particularly oil, gas and mineral reserves) as well as access to investment and trade opportunities. As the ‘going global’ policy evolved, Chinese interests diversified, the geographic reach of the policy expanded and further resource, investment and trade priorities were added. Secure access to natural resources was joined by a growing interest in secure food sources for China’s increasingly urban population. China’s involvement in climate change and green technologies was also promoted and has been particularly welcome in Pacific Island nations. At the same time, Chinese companies have been increasingly encouraged by their government’s priorities and policies to seek contracts abroad. Under the auspices of China’s ‘going global’ policy these companies, both state-owned and private but usually state-owned, have been engaged in a wide-range of infrastructural projects.

The ‘going global’ policy is now being absorbed into Beijing’s new One Belt, One Road Initiative. Chinese President Xi Jinping announced this extremely ambitious programme in late 2013, and the Chinese government set out its major issues and priorities in March 2015, presenting it as a trade and infrastructure network that will ‘connect Asia to Europe and Africa through the Silk Road Economic Belt and the 21st Century Maritime Silk Road.’ (Xinhua 2015b). [1]

The Belt and Road Initiative has considerable geographic scope while, at the same time, offering the romantic notion of reviving ancient Silk trade routes between China and the West. It is intended to integrate markets, promote infrastructural development and cooperation

[1] ‘The Belt and Road Initiative was announced by President Xi Jinping during visits to Kazakhstan and Indonesia in 2013. See ‘Xi on “Belt and Road”: Not China’s solo but Inspiring Chorus’, *Xinhua*, 28 Mar 2015.

between countries and regions and improve the efficiency and security of resource allocation. Economic 'corridors' are to be established to increase logistic efficiency and promote 'the connectivity of Asia, Europe, Africa and adjacent seas' (Xinhua 2015c)

The Belt and Road Initiative is attended by the establishment of a number of well-funded financial institutions. The most prominent of these is the Asian Infrastructural Investment Bank [AIIB], which had 57 founding country members by mid-2015 and an expected 100 members by the end of 2016. The Bank is already operational with an initial holding of $US100 billion (China Daily Europe 2016).

The question we ask in this paper is – What does the Belt and Road Initiative mean for China's resource exploitation, investment and trade with Pacific Island countries?

Section I

What Is It? An Overview of China's Belt and Road Initiative

Strengthening Economic Cooperation

The Belt and Road Initiative's agenda for connecting the 'vibrant East Asia economic circle' and developing African nations to 'Europe's developed economic circle'(Xinhua, 2015c) gives it the appearance of having a clear geographic identity, but with so many countries (60 as at mid-2015) 'in relevant regions [that] have shown their interest in joining the Belt and Road', its geographic identity is extensive and diffuse. The Belt and Road Initiative has been estimated to 'potentially' involve 'an area that covers 55 per cent of world GNP, 70 per cent of global population, and 75 per cent of known energy reserves', with another source offering the slightly more modest view that 'the vision, once realized, will directly benefit 4.4 billion people, or 63 per cent of the global population'(China Analysis 2015)[2]

China's state approved media has been keen to record the progress of Belt and Road projects. Beijing has announced that there be a new Eurasian Land Bridge and economic corridors linking China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula. Two recently cited examples of Belt and Road transport priorities already in

[2] The China Analysis authors have drawn these estimates from a report from Renmin University where a think tank has confirmed 'the project's ambition'. They also note that the Chinese report also confirms 'the limits of current planning' associated with the Belt and Road Initiative. See also 'Xi on "Belt and Road"- Not China's Solo but Inspiring Chorus', *op. cit*. and 'Commentary: "Belt and Road" Initiatives to Benefit Asia, Beyond', *Xinhua*, 31 Mar 2015

operation offer an idea of its scope. It has been reported that ‘a cargo ship with one hundred thousand German-made water purifying bottles took 14 days to travel from Germany to the western Chinese Chongqing Municipality, crossing Poland, Belarus, Russia, Kazakhstan and Xinjiang along the Eurasia International Railway…’ At the same time, regular freight trains will now shuttle between east China and Rotterdam in the Netherlands. A significant amount of time is saved on both freight journeys fulfilling the Chinese government’s claim to greater transport efficiency, speed and lower transport costs resulting from Belt and Road Initiatives (Xinhua 2015d and 2015e).[3]

In the name of greater connectivity among countries along the Belt and Road routes, investment in oil and gas pipelines has been included as transport infrastructure together with improved rail, road, port, and aviation networks. Cross-border power supply networks are to be built, upgraded and transformed. In addition, communication networks are to be funded and improved with cross-border optical cable networks, improved satellite information passageways and transcontinental submarine optical cable projects. An ‘Information Silk Road’ is on Beijing’s agenda (Xinhua 2015f).

Chinese media reports relating to the Belt and Road routinely present the Trans-Asia Railway connecting Laos, Malaysia, Thailand and Vietnam as a central component of the land-based Silk Road. Chinese scholars note that ‘the world has many infrastructure development challenges and Asia has more of it [them] than the developed western economies’. The Belt and Road is to promote ‘common development’ and to address infrastructural ‘shortcomings… with help from outside.’(Xinhua 2015a) Chinese media sources also note the proposed Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor. Investment in the China-Pakistan Economic Corridor alone is estimated to have topped $US30 billion (Xinhua 2015g; China Analysis 2015). In addition, a large number of African countries are cited in connection with common development, regional connectivity, infrastructural development and the Belt and Road Initiative. For example, a standard gauge rail line is currently under construction that will ensure ‘better regional connectivity’ by linking the port of Mombasa with Kenya’s capital Nairobi. Construction orders in Africa totalling almost $US5.5 billion have been signed with China Railway Construction Corporation,

[3] The first Netherlands/China shuttle trains set off in November 2015 carrying solar wafers from a Chinese manufacturer. This journey was not only relatively quick it also was reported to be fifty percent cheaper than air transport for the same journey. The journey is 12,000 kilometres and carries the freight through Russia, Belarus, Poland and Germany. See also Xinhua 2015a.

including a $US3.51 billion contract for an inter-city railway in Nigeria and $US1.93 billion for residential construction in Zimbabwe (Xinhua 2015h and 2015i). Seventy per cent of roads in Addis Ababa (Ethiopia) are now being built by Chinese contractors (China Daily Africa 2015a). By 2014 Chinese overseas direct investment in Africa was at record levels with the added observation that 'China will continue to resolve the structural challenges facing its [Africa's] economy…'(China Daily 2015). Comment such as this is not only intended to inform, but also to re-assure African countries involved in trade and investment with China that the Belt and Road Initiative will promote, continue and expand policies adopted under the going global regime.

While minerals and oil flows (particularly oil from Angola and Nigeria) continue to make up as large percentage of China's $US200+ billion trade with African countries, China's role in infrastructural investment is increasing at an impressive rate. Building 'roads, ports and airports to mass transit systems and high-speed rail' fits well with Belt and Road priorities (China Daily Africa 2015a and 2015b). Chinese media commentators recognise that Chinese infrastructural investment in African countries 'will serve China's Belt and Road initiative as building a large network of roads and railways in Africa will ease commercial exchanges between China and Africa'. One Chinese media publication has even noted that the ancient Chinese navigator Zheng He (during the Ming Dynasty 1368-1644) 'made first contact with the coastal city that would eventually become the Kenyan city of Mombasa' (Xinhua 2015h and 2015j).

In November 2015 at a Central and Eastern European economic summit, China's Premier Li Keqiang announced that 'China is likely to invest more than $1 trillion overseas in the next five years'. He went on to note that China can 'help… countries with funding problems to upgrade infrastructure in transportation, electricity, industrial equipment and in other fields 'and then stated that 'as long as they use Chinese equipment and products, China will provide more flexible funding conditions…' (Xinhua 2015k). Western academic commentators are increasingly referring to this approach as 'embedded conditionality'. The concept does not refer to demands for outright changes to a country's economic policy', but rather to the conditionality embedded in project financing requirements. In other words, the recipient country must meet a number of project related demands. These will involve funding dependent on 'the use of Chinese contractors and sub-contractors, as well as China-sourced, technology, equipment, suppliers, management and training'. A Chinese work-force is also quite often a part of project related conditions. For his part, Li Keqiang offered a simpler, but consistent, observation. He argued that China has 'huge foreign exchange reserves' and so 'why not use them to support Chinese firms to "go global"… By the end of 2014 China's foreign exchange reserves had reached $US3.65 trillion (Xinhua 2015k and China Daily Africa 2015b).

At a time when Chinese investment and assets are spread worldwide and with an ever increasing dependence on sea-routes for the supply of raw materials and trade for the domestic market, Beijing has announced that the focus of its maritime policy is to 'build smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road'. There is a recognised need to build up maritime resources and to 'develop the capability of safeguarding China's rights and interests'. China's current sea transport links have been seen by Beijing as 'a strategic vulnerability' with the Strait of Malacca, the Straits of Hormuz and Bab-el Mandeb recognised as 'chokepoints' (Len 2015; Xinhua 2015l).

Chinese sources argue that 'China has no intention of seeking maritime competition and domination through the [Maritime Silk Road] initiative. Nevertheless, both 'the New Silk Road Economic Belt and the 21st Century Maritime Silk Road' initiatives will effectively establish increased dominion over already established transport routes. China's proposed maritime supply routes based on safe and secure provision of raw materials to the Chinese economy already confront difficulties. Zhang Yunling, the director of International Studies at the prestigious Chinese Academy of Social Sciences, has argued that: 'the challenge will be to manage the disputes with some ASEAN members over territorial claims in the /South China Sea and strategic distrust with India…' (Zhang Yunling 2015a). If the Maritime Silk Road 'is to become a reality', Zhang argues, the South China Sea must be recognised as a site of many territorial disputes. He thinks tensions in the region may escalate, hindering the establishment of a new regional trading order. At the very least, China will be obliged to 'use its growing strength to persuade its neighbours to shelve disputes and pursue joint development' (China Analysis 2015 and Zhang Yunling 2015b) . The sensitive nature of this issue is reflected in comment reported in *China Daily*'s European issue, which pointed out that in spite of 'strong reactions from the [ASEAN] region toward the South China Sea disputes… ASEAN members have not refused to engage with the AIIB' (China Daily Europe 2016). There is also obvious anxiety and suspicion over China's role in the Indian Ocean, fuelled by the increasing number of Chinese naval vessels sent there, including submarines.

The AIIB and China's 'special role'

China's leaders maintain that the structure of the world economy is changing. They argue that the liberal free-market globalisation promoted by institutions such as the World Trade

Organisation and the World Bank has not produced fair results for developing economies, whereas China offers an alternative global order. ‘In a globalised world’, Chinese commentators say, ‘there are two key mechanisms: one is liberalization, while the other is co-operation’. They depict the Belt and Road Initiative as policy based on cooperation.

Beijing is invoking its familiar vision of ‘a common prosperity’ in relation to the Belt and Road Initiative. A common prosperity is to sit alongside the win/win, south-south cooperation claims well rehearsed during the going global period. The cooperative approach of the Belt and Road Initiative is to be promoted and operationalised with newly established financial institutions such as the AIIB playing a central role. The Bank is intended to operate on ‘the principle of wide consultation, joint contribution and shared benefits’ (Zhang Yunling 2015a; China Daily 2015b).

The AIIB’s brief is to focus its considerable financial resources on infrastructural development including ‘energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics…’ The Bank is slated to be a new multilateral lender paralleling the Asian Development Bank, ‘not as a rival but a complementary bank’. Membership of the AIIB has grown rapidly. China holds approximately a thirty per cent share: the largest share-holder with veto power over major decisions, though this veto power is not intended to be permanent. China expects to have ‘about 26.6 per cent of total voting rights’ (China Daily 2015b).

The AIIB’s public procurement contracts will be open to all countries, not just those from member countries. While a number of other financial institutions promoted under the Belt and Road initiative are geographically specific, Beijing is presenting the AIIB ‘as an open and inclusive multilateral lender…’ (China Daily 2015c and 2015d).

The AIIB will be the core financial institution of the Belt and Road, but it will be joined by a number of other facilities. The Silk Road Fund, to which China will contribute $US40 billion, will finance infrastructure, resource projects, industrial and financial cooperation (Xinhua 2015g). The New Development Bank (known as the BRICS bank) opened in Shanghai in July 2015. BRICS brings together Brazil, Russia, India, China and South Africa, representing more than 40 per cent of the global population. China’s leaders present the BRICS bank as an ‘important platform for cooperation among today’s emerging powers’. It is expected to promote economic growth and regional security and has an obvious geographic profile (Xinhua

2015n). At the same time the Shanghai Cooperation Organisation has agreed to establish its own financing institution (members of this grouping are China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, with India and Pakistan joining in 2015).

In addition to the new Banks, Beijing has proposed the establishment of multinational financial firms as a means of expanding funding channels for infrastructural development (Xinhua 2015k). At the same time, sovereign wealth funds of countries engaged with the Belt and Road initiative are to be encouraged to provide equity investment funds. Chinese leaders advise that commercial equity investment funds and private and government funds should be encouraged to participate in financing key construction projects associated with the Belt and Road (Xinhua 2015l).

Perceptions matter, and Chinese leaders sound a note of caution in relation to the way their ‘grandiose’ plan is perceived. They stress that the Belt and Road must not be seen as a version of America’s Marshall Plan. According to Chinese Foreign Minister Wang Yi, it is ‘the product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with an outdated Cold War mentality’ (Xinhua 2015g). Chinese sources insist that, unlike the Marshall Plan, the Belt and Road is not a political alliance but, instead, ‘a cooperative venture where everybody will participate together’. It has no strings attached (China Analysis 2015 and Xinhua 2015o). Though it has now been questioned on a number of fronts (including in discussions of embedded conditionality), ‘no strings attached’ is a mantra welcomed by developing countries, including Pacific Island countries, during their experience with Beijing’s approach to going global over the last decade.

In the first three quarters of 2015 Chinese companies’ investment in countries along the Belt and Road initiative jumped 66.2 per cent year-on-year, with Singapore, Kazakhstan, Laos, Indonesia, Russia and Thailand as the most popular investment destinations for Chinese companies. These countries, and many others, are recognised as having ‘huge potential for investment’ (Xinhua 2015p).

In addition to the economic benefits of the Belt and Road, and alongside the claim that the Initiative must not be seen as an instrument of geopolitics, Chinese leaders describe it as ‘a strategic vision’. They claim credit for promoting regional security and cooperation by not only providing ‘platforms for cooperation among today’s emerging powers’, but also ‘enhancing China’s strategic mutual trust with relevant countries’ (Xinhua 2015n).

Section 2

What are the Implications of the One Belt One Road Initiative, if any, for Pacific Island Countries?

Hugging the Tiger?

When we began research on this question, we did not assume that One Belt, One Road would be transformative for China's presence in the Pacific Islands. The South Pacific, after all, merits just one mention in the Chinese government's lengthy and detailed *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* policy document of March 2015 (Chinese Government 2015). Even informed Chinese commentators tend to see the Pacific as remote. Yu Changsen - Director of the Center for Oceanian Studies at Sun Yat-Sen University in Guangzhou – emphasises the geographical remoteness of the region and its lack of historical connection to China: 'China is indeed very far away from Oceanian countries, as the straight-line distance is ranging from 4000 to 10000 kilometres. Further, the South Pacific region is beyond the traditional Chinese maritime "silk road" historically.' (Yu Chang Sen 2015) The Pacific Islands' sandalwood trade with China obviously does not count.

China nevertheless looms large in Pacific Island countries as the major development assistance donor to Fiji, and the second biggest in Samoa, Tonga, the Cook Islands, and Papua New Guinea. China is a source of investment and tourism. Chinese two-way trade with PNG is worth $US715 million (PNG is by far China's largest trading partner in the Pacific Islands region), and Chinese companies are growing in importance as investors in mining and infrastructure. China therefore occupies first place in the 'Look North' foreign policies of Pacific Island countries such as Fiji and Papua New Guinea, with numerous cooperative ventures, training programs for Pacific Islanders, and bilateral official visits. And Pacific leaders saw the 2014 visit to Fiji by President Xi Jinping, who promised to boost mutual cooperation even further, as confirming the arrival of a new era in which Chinese investment and trade would matter more than ever.

While much will remain the same in China's engagement with the Pacific Islands, the new Chinese policy will affect the way in which Pacific governments gain access to Chinese financing, a key issue for some Pacific countries. The emergence of the AIIB and other financial institutions points to a greater commercialisation and routinisation of Chinese loans to developing countries. As Philippa Brant shows, while most Chinese development assistance comes in the form of concessional loans that are attractive to Island governments, the room for political manoeuvre over repayment is already small, as Tonga has discovered. The Tongan government asked for debt forgiveness and was offered only a deferral on repayment until 2018. An assessment published in February 2015 noted that Tonga's public debt stood at nearly 50% of the country's GDP and that $US112.4 million of the country's $US174.2 million external debt is owed to China's Exim Bank (Brant 2015; Matangi Tonga 2015). In the past Tongan government representatives have received grants from China alongside concessional loans. It was the provision of a $US15 million grant that prompted representatives of the Tongan government to confidently state that 'the two governments [China and Tonga] will continue to discuss necessary frameworks and agreements to accommodate [financial] arrangements that will place Tonga in a stronger economic and financial situation' (Matangi Tonga 2013), but the scope for such arrangements has already proved to be much more limited than anticipated by the Tongan administration. Direct special-purpose grants may well continue to be provided by the Chinese government. Yet with by far the largest proportion of funding for Pacific Island countries coming in the form of concessional loans, combined with the priorities of the Belt and Road Initiative, room to manoeuvre over loans can be expected to disappear altogether. When agreeing to loans, including concessional loans for infrastructural projects, Pacific governments will be operating on an equal basis with numerous other governments, and the AIIB's operations are expected 'to strictly follow the internationally accepted principles laid out jointly by its equal members' (Zhang Yunling 2015a).

While immediate benefit, economic and political, can be derived from infrastructural investment in projects such as roads, hospitals, housing and schools, these projects will have to be paid for over time and loans made available through the AIIB will not be tied to Beijing in a manner that would enable developing country government representatives to visit the capital and ask for either loan forgiveness or for improved and extended repayment conditions. The Belt and Road, and particularly the establishment of the AIIB, marks the complete routinisation of loan provision, including loans provided to governments of Pacific Island countries. Under Beijing's going global programme the erasure of debt was a slender hope.

Under the Belt and Road Initiative it would be a case of no hope. With China's Exim Bank being commended by China's leaders for the role it is already playing in promoting infrastructural development in favoured Belt and Road countries and the Bank establishing a number of cooperation funds for investment in Belt and Road areas Exim Bank and Chinese Development Bank loans are almost certain to conform to AIIB standards (Xinhua 2016). Since the 2006 introduction of China's going global policy concessional loans to Pacific Island governments have usually been negotiated with China's Exim Bank.

The benefits Chinese trade and investment have brought to Pacific island countries fit exactly with the benefits China's leaders promote as central to both the going global period and the Belt and Road Initiative. Development of raw material resources plus the construction of roads, airports, ports, hospitals and other health-care facilities, schools, electric plants, administrative buildings, urban housing, sports stadiums, agricultural projects, environmental and forestry projects, marine parks, fish canneries, marine research centres, and more have been provided by Chinese interests, with concessional loans funding a large proportion of these projects. Even small projects make a considerable difference in many parts of the Pacific Islands and beyond in the eastern Indonesian region. For example, in Timor-Leste a Chinese company – Longping High-tech – is assisting with improving rice cultivation. This project, rated a success, will now be expanded to three further districts. In addition, another Chinese company, China Green Energy, is negotiating to lease 12,000 hectares of land for cassava production. While Chinese companies have also won what are described as 'lucrative contracts' in Timor-Leste, such as a $US430 million contract to build two power plants, the immediate effect of much smaller projects on Pacific Island communities cannot be under-estimated (Macao Hub 2014 and Macao Link 2016).

The provision of highly visible infrastructure to an impressive number of developing countries, including those in the Pacific, has been at the heart of Beijing's exercise of 'soft power'. Infrastructural largesse has fostered China's world-wide involvement in resources exploitation, trade and investment and provided substance for Beijing's win/win, south/south cooperation rhetoric. Concessional loans for infrastructure as a part of China's 'soft power' agenda and the provision of funding are now affording considerable advantage to Chinese companies seeking to expand their overseas operations. Chinese companies are increasingly bidding for overseas contracts, not as a component of Beijing's soft power approach, but primarily to increase the scope and profitability of their own enterprises. This approach has become particularly important as domestic profits diminish (Xinhua 2015q and Xinhua 2015r). By 2014 China's

Overseas Direct Investment (ODI) had grown to the point where, for the first time, China became a net capital exporter. Western sources now routinely recognise that ‘China is rapidly emerging as a major source of FDI [foreign direct investment]’ (Hannan and Firth 2015: 865-66; Dollar 2015; Xinhua 2015q).

China’s state-owned enterprises have been in the vanguard of China’s substantially increased, and increasing, overseas direct investment. They are ‘major players in Chinese ODI’ and are the enterprises most likely to be involved in monopolised or highly-controlled areas of the Chinese economy such as finance, power and utility holdings, petrochemicals and energy, aircraft and telecommunications (Fan He and Bijun Wang 2014). The considerable role played by China’s large state-owned banks (particularly the Exim Bank and China Development Bank) in concert with China’s state-owned enterprises in infrastructural development and social welfare projects is ‘a peculiar feature’ of Chinese overseas investment, trade and development assistance (Xu Yi-Chong 2014).

It has been claimed that ‘China has added more power stations and built more roads than anywhere else in the world’ and in the process Chinese enterprises, particularly state-owned enterprises, have accumulated considerable experience in managing large infrastructural projects both at home and abroad (Xu Yi-Chong 2014). Indeed, overseas projects have been useful in using the surplus production capacity of a large number of Chinese companies specialising in capital works projects. At the same time, however, the behaviour of these companies has led to tensions and contradictions in host countries. One problem is embedded conditionality, as we have seen, while other problems are associated with the way Chinese enterprises operate and the way funds are provided for infrastructural projects.

A key source of tension has been Chinese companies’ insistence on importing their own workers for construction projects. Chinese workers are brought to countries where local wage-paying employment is in chronic short-supply. They come on short-term contracts and can be remarkably insensitive to local culture and concerns. They are temporary economic migrants from poor rural communities and have been imported by Chinese companies in much the same manner as Chinese materials and machinery. Chinese companies use their connections within China to ensure supply of labour and materials, agreed delivery dates and competitive prices. When the importation of Chinese workers for overseas projects has come to the fore in Belt and Road accounts that discuss the expected increase in infrastructural development opportunities, Beijing has warned that Chinese companies operating overseas must employ more local labour, but even when local workers have found jobs with Chinese companies there have been problems. In both Africa and the Pacific local worker expectations in terms of wages and working conditions have not been met, and Chinese companies have flouted local rules and laws.

A parallel tension in Pacific Island countries has emerged in the form of land-owner disputes. For example, at PNG's giant Ramu Nickel mine majority owned by China's Metallurgical Corporation, workers have gone on rampages destroying and damaging vehicles and equipment. Accommodation blocks have also been damaged and on at least two occasions Chinese employees have been injured. Recently, even as PNG Prime Minister Peter O'Neill was launching the first phase of a Pacific Marine Industrial Zone, local land-owners were arguing that the land used for the Marine Park had been given by them to the Catholic Church and therefore should have been returned to them rather than given to the PNG government and then used for the Marine Industrial Zone (PNG Post-Courier 2015a).

The Ramu nickel mine's estimated value is $US2.1 billion while the cost of establishing the new Marine Industrial Zone in Madang is expected to total $US195 million, with the first phase costing $US95 million. The project is funded by the PNG government and China's Exim Bank. Construction of the Marine Park is to be undertaken by China Shenyang International Technical Economic Corporation. Capital works for this project will consist of a 276 meter container port plus a fishing port, roads, power, water and waste treatment systems and an office building. There will also be ten fish processing plants that would value-add by allowing licensed fishing companies to fish and process their catch in PNG canneries (Suisheng Zhao 2014: 1044; PNG Post-Courier 2015a and 2015b).

A further issue is Chinese companies' cavalier treatment of the environment in host countries, including those in the Pacific, a contradiction that is particularly acute at a time when Beijing is actively promoting green innovation and clean technology.

A complicating factor is that neither the Chinese government nor Chinese enterprises are single entities. The Chinese state, like all states, has separate departments and advisory bodies with various priorities and each Chinese province has its own government. Chinese enterprises involved in the going global programme have ranged from large state-owned and administered enterprises and state-owned banks through provincial state-owned and administered corporations to private companies. Chinese companies bid for a range of projects (both wholly

Chinese sponsored projects and projects associated with institutions such as the World Bank and the Asian Development Bank and joint projects with host country governments). Work can also be sub-contracted, though an acceptable level of transparency in sub-contracting arrangements is often absent. While most large prestige infrastructural projects undertaken overseas are funded by China's development banks and undertaken by very large Chinese state-owned companies, many of them directly administered from Beijing, a range of Chinese companies operate overseas. Regardless of size or administrative status, Chinese companies are recognised as 'almost single-mindedly pursuing business interests'. They have been accused of a 'heavy-handed approach' when engaged in resource exploitation and 'insensitive business practices' when it comes to both resource and infrastructural development projects (Hannan and Firth 2015: 872).

Chinese companies can also influence the development agenda and infrastructural choices of host country governments. In the case of the Pacific Islands, Graeme Smith has noted that Chinese company representatives knock on the doors of PNG government departments offering advice on infrastructural needs and touting for business for their companies (Smith 2011). In a recent study of the effectiveness of Chinese development aid, Matthew Dornan found that 'even civil servants in Pacific Island countries often don't know exactly how decisions relating to assistance are being made', and that 'Pacific governments are not aware of why certain companies are being awarded contracts'. He noted that Chinese contractors directly approach government ministers. Dornan concluded that while any demands made by Chinese contractors approaching Pacific Island government ministers were 'managed in some countries to a certain degree', in other countries 'it has been more problematic' (Dornan 2014). His conclusion is supported by other studies arguing that developing countries with strong governance 'will not want to accept large numbers of Chinese workers or take on large amounts of debt relative to their GDP', but that other countries will find it much more difficult to set agendas based on 'reasonable' long term objectives (Dollar 2015).

There is no doubt that, in the short term at least in the Pacific, 'decisions made by local politicians to accept Chinese financing in order to secure fast-track economic development bolster their political legitimacy' (Mattlin and Nojonen 2015; Dollar 2015). With the advent of Beijing's Belt and Road Initiative we can safely assume that the pressure will intensify on Chinese companies to win infrastructural contracts in developing countries, including those in the Pacific (Xinhua 2015p).

Strategic Concerns, Training and Tourism

Respected Chinese sources argue that the Belt and Road 'represents a sea-change in China's international profile', marking the end of a considerable period when China has pursued 'low-profile diplomacy that corresponded to Deng Xiaoping's advice to "hide your capabilities and bide your time" '. They argue that the adoption of the Belt and Road Initiative marks a new period where China should be seen as 'a great new power… trying to supplement the international economic order' (China Analysis 2015). Others, usually Western commentators, attribute strategic significance to China's increasing engagement, seeing its steady rise in influence as part of a 'grand strategy' to supplant the United States as the hegemon, particularly in the Pacific region and in the long term. United States policymakers would appear to endorse this assessment, judging by the Obama administration's pivot to the Asia-Pacific and by the concerted American push to reassert US engagement with Island nations south of the equator in recent years. Viewed from this perspective, China's assistance to the PNG Defence Force and the recent report that China would be happy to assist Fiji in establishing a new naval base take on added significance as harbingers of things to come and evidence of a changing regional order (Fiji Sun 2015). President Xi Jinping signed an MOU with Fiji in 2014 providing for military cooperation between China and Fiji, and soldiers of the Republic of Fiji Military Forces participated in the 2015 military parade in Beijing marking the 70th anniversary of the defeat of Japan at the end of World War II. Ever since the Fiji military coup of 2006, Fiji military officers have been receiving training in Beijing rather than Canberra. As for Papua New Guinea, China presented its defence force with $US2m in 2013, apparently prompting the US offer of a new military training scheme the following year.

Yet the South Pacific is not the South China Sea, and the extent of China's military engagement with Pacific Island states is minimal. Only three Pacific Island countries have military forces at all, and they are extremely small, about 3,500 personnel each in PNG and Fiji, and a mere 650 officers and men in the Tongan Defence Service. Fiji's navy is one of the smallest in the world, with a fleet of nine patrol boats designed for border control and maritime surveillance, and Fiji's 'naval base' near Suva could be mistaken for a small shipyard. Fiji Navy vessels are in any case often unable to put to sea for technical reasons. On present plans, the future fleet will come from Australia, which has promised Fiji two new patrol boats in the next few years (Fiji Times Online 2015). China's gift to the PNG Defence Force, moreover, was a small grant of the kind China is constantly making to developing countries as a token of bilateral cooperation.

There seems little reason to question Terence Wesley-Smith's conclusion that military planners in Beijing take little if any interest in the Pacific Islands and focus instead on
'The Straits of Taiwan, on the disputed maritime resources of the South China Sea, and on the strategic sea lanes that service its burgeoning trade in raw materials and energy.' (Wesley-Smith 2013: 354). No evidence of a Chinese grand strategy in the region can be found.

Chinese tourism to the Pacific Islands is surging, mirroring a similar surge in Australia and New Zealand. Chinese tourist numbers to the Pacific Islands increased by 150% over the previous year in the first quarter of 2015, for example, with Fiji a favourite destination (Radio New Zealand International 2015a). Charter flights have brought a similar influx of tourists to Fiji, with the first flights from Shanghai in February 2015. They are organised by Rosie Holidays, a well-established Fiji tourism company with offices in Shanghai, Beijing and Guangzhou. The Chinese tourism market for Fiji is fast growing, with the number of tourists from China growing from 18,000 in 2010 to more than 28,000 in 2014. While still far fewer than tourists from Australia and New Zealand, Chinese will come in ever-increasing numbers in future years, especially as direct flights were inaugurated between Beijing and Nadi in 2016 (Fiji Times 2015 and 2016). A similar pattern applies to the Cook Islands, where a modest number of Chinese tourists (1,267 in 2014) are expected to grow fast, and where tourist authorities are endeavouring to make Chinese tourists feel at home. As the CEO of the Cook Islands Tourism Corporation, Halatoa Fua, says, 'Chinese visitors, when they get here, they'd like to get onto their mobile roaming straight away. The telecommunications company here does not have a roaming agreement with the mobile service providers in China. If we can't get this sorted at their level, then we'll probably take it up to the political level and see if they can facilitate this.'(Radio New Zealand 2015b).

Closer to China than most Pacific countries, the Northern Marianas and Palau are now key destinations for Chinese tourists. Chinese investors have become major resort and hotel developers in Saipan, and the growth of charter flights to Palau has caused a Chinese boom, driving up the cost of living for ordinary Palauans. 6,176 tourists from the PRC arrived in Palau in January 2015 and 10,955 the following month, compared with 1,720 in January 2014. As Hong Kong's *South China Morning Post* reported, 'Jia Yixin, a 30-year-old from Shanghai, didn't think twice about paying $1,133 (1,000 euros) for a six-day trip to Palau that she found online. "It is like paradise here," she beamed. "In Shanghai the air is polluted but here people respect the environment." The capital Koror struggled to accommodate the tourists, and the Palau government placed limits on the number of charter flight arrivals, restricting them to about 32 a month with an average of 200 to 250 tourists per flight, perhaps the first time a Pacific country has ever restricted tourist entry (Oceania TV News 2015). Some Palauans did not welcome the influx, blaming the tourists for wrecking corals, throwing rubbish in the sea and injuring wildlife such as the turtles that are found in Palau's pristine lagoons. As elsewhere in the Pacific, the fact that Palau recognises Taiwan rather than the PRC as China is proving irrelevant to commercial realities.

Foreshadowed in the 2006 going global meeting between China and Pacific countries, confirmed at the Guangzhou meeting in 2013, and reiterated by Xi Jinping on his visit to the region in 2014, substantial Chinese development assistance to Pacific Island countries has become a permanent element in Pacific countries' expectations.

Educational and training links between the China and Pacific Island countries have existed for a long time but at a modest level. Tongans have been going to study in China since 1999, for example, but only 150 of them in 15 years (Matangi Tonga 2015). Such opportunities are now multiplying following Xi Jinping's promise of 2000 scholarships and 5000 training opportunities for Pacific Islanders 2015-2020. Since 2012 Fiji has sent more than 80 senior public servants to the China Executive Leadership Academy in Pudong, and more will go in the future (Fiji Times 2015c).

Similarly, China's assistance for Pacific health systems is not new but is now growing. China has been sending medical teams on two year visits to Samoa since 1986 in a continuous stream. In the last two years, both Fiji and Samoa have opened new hospital facilities, in what constitutes a considerable addition to China's health assistance. In Samoa's case, China is funding a long term renovation of the national hospital.

Fiji and Samoa, which have been celebrating 40 years of diplomatic links with China, are particular beneficiaries. The old marine school in Samoa, for example, closed in 2009, and Samoa turned to China for a new one, which will train Samoans for work on the merchant marine internationally. In 2015 Samoa opened the US$14m School of Maritime Training and Marine Research at the Mulinu'u campus of the National University of Samoa.

Chinese companies commonly contract for infrastructure projects in the Pacific Islands and, as we have been arguing, with the Belt and Road Initiative these companies will be presented with increased opportunity for overseas investment in both Belt and Road specified countries and in developing countries generally. The China Railway First Group (Fiji) company built the new F$228m Nabouwalu to Dreketi road in Vanua Levu, Fiji, and in Papua New Guinea its parent company contracted to build a new 35 kilometre road to link the city of Lae with Nadzab airport. China Railway First Group, with subsidiary companies in the Sudan, Mongolia, Pakistan, Venezuela and Guyana, has undertaken construction projects in more than 20 countries. China Harbour Engineering Company Ltd built the Lae tidal basin, a major port redevelopment and has been responsible for the new roads now linking different parts of Port Moresby and beyond, including Nine Mile Road, the Port Moresby-Baruni back road, and six new bridges on the Hiritano Highway connecting the capital with Kerema to the west. The PNG government finances these infrastructure projects in a number of ways, from its own budget (though that is now seriously stretched), from the Asian Development Bank and from development partners, particularly China.

Chinese Civil Engineering Construction Corporation laid and welded the water mains around Rarotonga in the first phase of the Te Mato Vai project in the Cook Islands, bringing the Chinese, New Zealand and Cook Islands governments together in a trilateral aid cooperation project (Denghua Zhang 2015).

Chinese construction projects across the Pacific, however, are renowned for structural defects. In the biggest, the Lae tidal basin, which was co-funded by the Asian Development Bank (85 per cent) and the PNG Government (15 per cent) at a cost of $US266m and constructed by China Harbour Engineering Company, an Australian engineering company identified extensive flaws in the revetments of the port and recommended remediation works. CHEC has agreed to cooperate in fixing the project (The National 2016). Problems have also emerged in three main Chinese-built structures on Rarotonga, Cook Islands: the Ministry of Justice Building, the Police National Headquarters and the Telecom Sports Arena. All three have developed leaks and are partly rusting, so much so that the Cook Islands government was obliged to allocate $US582, 000 in the 2014/ 2015 budget for repairs. A steady flow of equipment has come to the

Cook Islands from the Chinese government over the last decade, ranging from 25 new tractors in 2010 to US$7.6 million worth of pearl industry machinery in 2015 and concern has been expressed over the on-going maintenance required for this machinery in coming years (Cook Islands News 2015).

Conclusion

The Chinese government promotes the Belt and Road Initiative as an action plan; an economic vision that will push trade and investment with China's foreign partners; and a proactive strategy of further opening-up. China is to be seen as a benevolent development partner promoting a common prosperity and south/south cooperation and the Belt and Road is to be recognised as 'an important initiative for co-operation through an innovative approach toward sharing responsibility, resources and benefits' (Xinhua 2015m). The Belt and Road Initiative is expected to enhance China's 'special role' as a large developing country in a global economy where developing countries are increasingly important (Zhang Yunling 2015a).

In the first section of this paper we profiled China's Belt and Road programme and underlined the export of China's huge infrastructure-building capacity predicated on large state-owned companies competing for projects in concert with funding made available through Chinese state-owned banks. The situation provides significant comparative advantage for Chinese interests engaged in global trade and investment.

In the second section of our paper we recognised the benefit that China's investment, trade and infrastructural projects have brought to host countries, including those in the Pacific Islands region. Developing countries, by definition, have what Chinese commentators like to call a significant 'infrastructural deficit' (Zhang Yunling 2015a; Xinhua 2015q and 2015l). For developing countries engaged in trade and investment with China there are obvious benefits brought by new roads, ports, power plants, hospitals, schools, government buildings, housing, agricultural and environmental projects and research centres.

The re-furbishing of China's 'going global' programme under the mantel of the One Belt One Road Initiative will result in the continuation and intensification of existing trends in the Pacific Islands. There will be more Chinese investment in resource projects, more Pacific exports of bauxite, nickel and other minerals and metals (perhaps including seabed mining) and more

Chinese companies building roads and ports. More Chinese tourists will head for Island destinations such as Fiji, the Cook Islands and Palau. The Pacific Island countries attract a small proportion of Chinese tourists (the overall number of outbound tourists that Chinese authorities expect during the next five years is ‘more than 500 million’) (Xinhua 2015r) but their increased presence in Pacific Island countries will offer a welcome economic boost. The new Chinese policy, however, will also bring less welcome changes to the Pacific, above all to the way in which Pacific Island governments will be obliged to gain access to and service concessional and other loans.

At the Guangzhou China-Pacific development forum in 2013, eight Pacific Island leaders were told they could access $1 billion in concessional loans and a further $1 billion in commercial loans for development projects. The temptation is obvious. Politicians and governments will want to accept Chinese financing in order to secure fast-track economic development that, at least in the immediate future, will bolster their political legitimacy. Chinese contractors are keen to secure infrastructural development projects. In the Pacific, as elsewhere, Chinese contractors have been making direct approaches to government ministers. Dornan concluded that the demands made Chinese contractors are ‘managed in some countries to a certain degree’, but in other Pacific Island countries ‘it has been more problematic’. Dornan’s work is supported by studies undertaken in other developing countries where China’s exotic mix of finance and companies seeking infrastructural projects has been evident and will increase under the Belt and Road Initiative (Dornan 2014; Dollar 2015).

China has adopted international norms in its design of the AIIB, which will have routinized standards and governance in line with current global expectations. In other words, the more routinized approach of the AIIB will mean not only that countries such as Tonga cannot expect special treatment due to their straitened economic circumstances, but also that Beijing’s policy priorities (political, strategic, and economic) that have been reflected in funding for overseas projects can be expected to be diluted. The routinized and more economically predictable example set by the AIIB will promote the adoption of the same regulatory approach by banks such as China’s Exim Bank and the China Development Bank (Dollar 2015).

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