



Chinese development assistance in the Pacific

Matthew Dornan* and Philippa Brant



17 June 2014
Pacific Update, ANU

Existing Academic Literature

- Security literature: alarmist
 - Pacific island countries portrayed as “‘vulnerable to manipulation’ (Windybank, 2005)”
- Pacific scholars: more balanced
 - Highlight choice provided to PICs by Chinese assistance, and active role of PICs in negotiating geopolitical tensions
- There is limited analysis in the literature of:
 - Aid modalities or effectiveness
 - The way in which PICs negotiate, oversee and implement Chinese-funded projects

What is Chinese aid?

- Total foreign aid budget now approx. US\$6.4 billion.
- Bilateral aid provided in three main forms:
 - Grants
 - Interest-free loans
 - Concessional loans



What is Chinese aid?

- Conditions
 - ‘One China’ – must recognise PRC not ROC
 - Tied to Chinese companies and contractors
 - Concessional loans must (in principle) procure 50% of materials from China
 - Reflects links between aid, investment and development
- No official country-level data published
- More than 120 countries
- Pacific not a priority

Size of Chinese aid in the Pacific

- US\$850 million disbursed between 2006-2011
- Australian aid over same period totalled US\$4.8 billion
- 2006 concessional loan package RMB 3 billion
- New US\$1 billion concessional loan pledge in November 2013



Key Actors

- Department of Foreign Aid (within Ministry of Commerce) – manages program; Ministry of Finance – approves budget
- Chinese state owned enterprises
 - Implement projects
 - Commercially driven
 - The ‘face’ of China
 - Initiate projects
- Chinese Embassies
 - Responsibility/oversight in country
 - Manage political relationship

Cook Islands

- Total aid US\$34m over past decade
- New 3-year strategy for utilisation of grant money developed by Cook Islands government
- ‘World first’ trilateral project funded through existing concessional loan from China + NZ grant



Tonga

- Since 2008, assistance to Tonga has been dominated by two large China Eximbank concessional loans, worth US\$120 million (28% of GDP)
- Repayment has been deferred, although not the maturity of the loan
- The loans were negotiated and decided on at the political level, with limited input from the civil service



Samoa

- China Eximbank loans are valued at 16% of GDP, and have funded construction of key government buildings
- Decision-making processes have helped to safeguard the role of the civil service
- Oversight of construction is generally robust, with the government outsourcing supervision to engineering/construction firms.



Vanuatu

- The way in which China Eximbank loans have been agreed is contentious, reflecting the political culture in Vanuatu, where political leaders are expected to channel state resources to constituents
- Contracting companies approach ministers with proposals and offers of Eximbank financing
- The Vanuatu Government has lobbied for grants and loans to cover project management costs, without success



Findings

1. Political dynamics and the role of the civil service play an important role in determining the effectiveness of Chinese assistance.
2. Institutional arrangements designed to improve aid effectiveness, such as national planning and donor coordination mechanisms, have had effect where used (i.e., where they enjoy domestic political support).

Findings

3. Transparency of aid projects is important, and can be enhanced by Pacific island governments
4. Central agencies should be involved in negotiating and overseeing assistance



Thank you

Paper available in the May edition of Asia and the Pacific Policy Studies ('early view' on the webpage)

Acknowledgements:

Financial support for this research was provided by Asia and the Pacific Policy Studies, and the ANU College of Asia and the Pacific

Matthew Dornan
Development Policy Centre
Australian National University
E: matthew.dornan@anu.edu.au

Philippa Brant
Lowy Institute for International Policy
E: pbrant@lowyinstitute.org