

REVIEW ESSAY:

**The Political Economy of China's Incursion into the Caribbean and Pacific**

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**Abstract:** This paper examines the recent incursion by China (meaning both Beijing and Taipei) into the Caribbean and Pacific. The general contours of Chinese trade and investment are discussed to provide a background context for a more specific exploration of Chinese aid, especially to small islands across the two regions. A review of recent literature primarily from Western sources reveals that the main strategic use of aid by Beijing (People's Republic of China – PRC) has been to support the demands of its growing economy but secondarily to isolate Taiwan (Republic of China – ROC) diplomatically. This conclusion, illustrated with several case vignettes, is based on the focus of Chinese aid on those islands retaining diplomatic links with Taipei as well as on the political manoeuvring this Cross-Strait rivalry has spawned. The paper further suggests that the types of projects Beijing and Taipei have funded, like those of their Western counterparts before them (Australia, Japan, United States), yield limited long-term island development gains.

*Keywords:* aid, Caribbean, chequebook diplomacy, China, islands, Pacific, People's Republic of China (PRC), Republic of China (ROC), Taiwan

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**Introduction**

“The current China-Taiwan competition is reminiscent of the 1800s, when France and Britain struggled for influence over the Loyalty and Leeward Islands; Britain and Germany tussled over Samoa, Tonga, Solomons and PNG; and the USA fought Spain for control of Micronesia” (Crocombe, 2007: 255).

It is difficult to overestimate the surging importance of the People's Republic of China (PRC) across all strata of the global economy. Presently PRC boasts the second largest

GDP (measured in PPP terms), the world's second largest defence budget (Brookes, 2005), and the most rapid sustained growth rate (United Nations, 2005: 145). The PRC is the second largest global exporter after Germany and maintains the third largest share of world trade behind the United States (US) and Germany. Presently exports represent over 70% of GDP although recent growth has slowed because of rising labour and material costs, the slowdown in the global economy and the appreciation of the yuan (Aredy, 2008). In addition, PRC represents the fastest growing source of outbound tourism in the world (Li, 2007: 847). As an importer, PRC is the largest worldwide consumer of major metals like aluminum, copper, petroleum, tin and zinc as well as soy (Lederman *et al.*, 2007). Its balance of payments straddles the global crossroads from East to West: in deficit with Asia (mainly Japan and Korea), its main source of intermediate goods and capital equipment; and in surplus with the US and Europe, its primary export markets. Finally, within the next five years, PRC is projected to be "the fifth largest global foreign investing nation behind the United States, Britain, Germany and Japan" (Brainard & Fenby, 2007: A17).

Ripples of the Sino juggernaut, driven by exports and capital formation, are visible in the south as well as the north. For example, PRC has become a major magnet of foreign direct investment (FDI). In 2004, PRC garnered "26% of the FDI received by developing countries, 11% of worldwide FDI flows and more than the sum received by the United States" (United Nations, 2005: 148). Moreover, the sheer thrust of PRC's trading activity has affected the international terms of trade. The PRC's exponential demand for raw materials and foodstuffs has altered these prices upwards while its export sales of toys, textiles and light manufactures has driven those prices down (Caldentey & Vernengo, 2007). These changes in terms of trade have tended to favour, among others, relatively large resource-rich island suppliers like Cuba (sugar), Jamaica (bauxite) and Trinidad-Tobago (oil) in the Caribbean as well as Papua New Guinea (copper) and Solomon Islands (timber) in the Pacific. However, such trends have perhaps worsened the international environment for relatively small island commodity importers and manufacturing exporters like the Dominican Republic and Mauritius.

## **Scope**

Thus it comes as no surprise that China's overall impressive advance has caused palpable spillovers across the island world. This paper discusses the general contours of Chinese trade and investment in the Caribbean and Pacific to provide a context for a more specific examination of PRC and Taiwanese aid, especially to small island jurisdictions across the two regions. It seeks to accomplish two things. The first and foremost is to identify from a review of recent literature (and primarily from Western sources) common patterns in the types of islands selected for PRC and Taiwanese largesse and in the kinds of projects funded. On the basis of this information, the second is to provisionally assess how well such aid addresses the development imperatives of islanders versus the commercial and foreign policy objectives of the donors. The emphasis will be on Beijing's initiatives since the expansion of its activity across the two oceanic basins has been the most dramatic in the past decade.

At the outset, three observations are warranted. First, since the PRC does not publish official aid statistics, quantitative estimates are only indicative, proximate and incomplete. No effort is made to present an aggregate picture. In addition, the reported figures available actually understate the extent of aid since much of PRC outward bound direct investment overseas is conducted by state-owned enterprises that are heavily subsidized by the central government (Buckley *et al.*, 2007). According to US Senate testimony in February 2005:

“Chinese firms, pursuing market and strategic [political] objectives rather than commercial ones, make uneconomic bids using generous lines of credit from PRC government and financial institutions” (Dreyer, 2006: 92).

Thus, no exhaustive accounting is possible; but significant examples drawn from selected island countries will be presented to demonstrate the extent, direction, and character of PRC aid.

Second, like all industrial powers the strategic use of aid for diplomatic purposes has been a traditional hallmark of the PRC's foreign policy, from support of the Castro revolution through Allende's socialist Chile to Hugo Chavez's Venezuela (Li, 2005). Today, some would also argue that no issue is more important to the PRC than securing the return of the “renegade province” of Taiwan. This is because of the PRC's “passionate attachment to the goal of national unification ...” (Wu, 2004: 180), the place of Taiwan in China's historical identity and self-understanding (Dittmer, 2006), and the “domino-effect” fear of Taiwan's potential independence push on China's outlying areas in Tibet, Mongolia and Xinjiang (Van Fossen, 2007). As a result, China's aid cannot be examined without explicit discussion of Taiwan's (amorphous) political status - what Bartmann (2008: 114) calls “perhaps the most glaring anomaly in the international system” - as well as Taiwan's own competitive diplomatic and aid initiatives across the two island regions. The Beijing-Taipei aid rivalry is a frequent theme of recent commentators. In the Caribbean:

“China appears to be using its economic might as a means to achieve the patently political objective of stripping Taiwan of its democratic allies in the Western Hemisphere” (Erikson & Chen, 2007: 75-76).

In the Pacific, the rivalry between China and Taiwan “is conducted with an intensity - for Taiwan a desperate intensity - that goes far beyond normal standards of diplomacy or international aid” (Dobell, 2007: 16).

Third, one dominant fact that has altered the political economy of island microstates has been the postwar march to independence by dozens of former colonial dependencies including many in the Caribbean and Pacific. Their emergence as full voting members of the United Nations invested them with political power on the international stage, made their allegiance attractive to former patrons and other nations with strategic interests, and in the process created a market for sovereignty rights.

Crocombe (2007:10) summarizes the phenomenon thus:

“Once a government was accepted as independent, it had equal voting rights in most international forums, and from the 1950s the number of international forums multiplied. It created a market for sovereignty rights, giving relatively more values per person the smaller the nation. Island governments ... were the greatest beneficiaries from this new market - though their people did not necessarily benefit.”

## **The Caribbean**

The PRC's recent economic incursion into Latin America and the Caribbean (LAC) is due to at least three forces. First, the major motivation is economic. In South America, the key interest is access to raw materials: primarily iron ore and steel from Brazil; copper from Chile; and petroleum from both Argentina and Venezuela (Dumbaugh & Sullivan, 2005). In Mexico, on the other hand, the purpose is to invest in manufacturing assembly, telecommunications and textiles to establish an export beachhead to the US through NAFTA. These five countries account for 75% of total China-LAC trade (Dreyer, 2006). Since 2000, PRC's trade with LAC has accelerated nearly 40% per year, and in 2005 the region became the largest recipient of Chinese FDI (Li, 2007: 842-844).

As an indicator of its presence in the area, the PRC is now the third largest user of the Panama Canal behind the US and Japan. While this activity has been clearly beneficial for the South American giants in terms of rising commodity export prices, cheaper intermediate inputs and expanding capital inflows (Feinberg, 2007), the PRC has replaced Mexico as America's second largest source of imports (Lederman *et al.*, 2007). In the early 2000s, some 300 manufacturing plants and over 200,000 jobs relocated from Mexico to the PRC to take advantage of the PRC's low labour costs (one fourth of Mexico's) (Lall *et al.*, 2005). Likewise, as the world's largest exporter of manufactures to LDCs, Beijing represents a similar competitive threat to nascent light industrialization in Central America and the Caribbean.

By Latin American standards, the PRC's trade with the island Caribbean is modest, accounting for less than 10% of the LAC total with the lion's share going to the large mineral exporters, Trinidad, Jamaica and Cuba, which supply half of PRC sugar and a third of PRC nickel imports (Erickson & Minson, 2005). Yet total trade (including Central America) rose over fourteen-fold between 1991 and 2004 (Cheng, 2006), suggesting to many observers a second rationale for PRC's LAC incursion: “to win its diplomatic duel with Taiwan” (Paz, 2006: 102).

This conclusion is based on two facts. First, except for Costa Rica (which jumped ship to Beijing in 2007 for a PRC promise of US\$430 million), the six Central American republics plus five Caribbean islands - Dominican Republic, Haiti, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines - comprise roughly half of the two dozen nations with

whom Taiwan maintains formal diplomatic relations around the globe. Given the PRC's quest to recover its renegade province:

“Beijing is determined to contain Taiwan in every corner of the world, especially in Central America and the Caribbean, the stronghold of Taiwan” (Li, 2007: 840).

Second, these same countries have witnessed intense Taiwanese economic and diplomatic attention over the same time period. Between 1991 and 2004, Taiwanese trade with the region roughly doubled while outward foreign investment into select member countries rose four-fold (Cheng, 2006). As a result, perhaps no other geographic region outside the Taiwan Straits has received so much recent Sino-Taiwanese economic and strategic attention.

A third factor behind PRC's presence is the vacuum created by the economic neglect and post-Soviet-era diplomatic downgrading by the region's traditional allies. European market consolidation and WTO regulations have caused the loss of preferences for Caribbean sugar and bananas and resulted in reduced trade and employment. The withdrawal of Britain's development aid hastened by the post 9/11 emphasis on security, the rapid spread of the cocaine narco-economy (McElroy, 2006), and the policy shift towards sub-Saharan Africa to better achieve Millennium Development goals, all have damaged what was once considered a “special relationship” (Clegg, 2006: 422).

Finally, severe dislocations have also been created by the drastic decline in aid from and engagement with the US, the largest donor (Sanders, 2008). The general acceptance of PRC throughout the Hemisphere, most analysts would agree, “is intimately linked to its perception of neglect and disinterest from the United States” (Erikson & Chen, 2007: 75). As a result:

“Many Caribbean governments have become increasingly frustrated with the perceived lack of attention and interest from Washington, Brussels and other European capitals ... Faced with the need to prop up their flagging economies, [they] have turned to China and Venezuela for economic cooperation” (Erikson & Minson, 2005: 168-169).

US-Caribbean malaise has been further compounded by diplomatic friction stemming from two events: (1) the perceived US Marines' kidnapping of Haitian President Jean-Bertrand Aristide in 2004; and (2) the attempt by the US (recently rescinded) since 2003 to force Caribbean countries to sign bilateral immunity agreements “under which US soldiers and officials could not be subject to prosecution by the International Criminal Court” (Paz, 2006: 107) or risk losing US military assistance. Islanders' resentment of these so-called heavy-handed interventions has “... opened even more space for the Chinese” (Thorburn, 2006: 29).

Finally, the economic model of state-directed capitalism, the so-called “Beijing Consensus,” provides an attractive alternative to the Washington Consensus of free-market orthodoxy. Although most islands “generally do not wish to emulate PRC's political

system, its combination of high-speed economic growth and apparent political stability is a development path that appeals to many” (Li, 2007: 850).

### **Beijing-Taipei Rivalry**

Today, the most significant feature of Asian aid activity in the region is the dominant role of the Beijing-Taipei rivalry. Both countries aggressively distribute their largesse to achieve their respective strategic objectives. Such efforts are reminiscent of similar aid competition in the early postwar era between the US and the USSR, particularly in the Pacific. Along with aid, the PRC “rigorously promotes its ‘One China Policy’ which means that non-recognition of the Taiwanese government is a prerequisite for conducting formal diplomatic relations with the PRC ...” (Erikson & Chen, 2007: 71). Recipient countries are also required to oppose UN resolutions either supporting Taiwan’s claim for sovereign status or criticizing Beijing’s human rights record. In return for aid, Taiwan demands diplomatic support endorsing its membership in international organizations and particularly its annual United Nations bid for *de jure* sovereignty (Lum & Vaughn, 2007). Its aid and diplomatic activity are focused almost exclusively on Central America and the islands that retain recognition of its *de facto* statehood, with just one exception. Taiwan is the largest bilateral creditor to Paraguay, the lone South American country to withhold diplomatic recognition from Beijing. The PRC’s aid is promoted more broadly to support its substantial extractive and manufacturing interests in the islands. In addition, Beijing has recently granted Approved Destination Status to allow Chinese tourists to visit some dozen Caribbean islands, in part to soften the projected employment fallout caused by the recent termination of the international quota system, known as the Multifibre Agreement. This system used to guarantee regional exporters a share of the US clothing market. Bruce (2005) estimates that cheaper Chinese imports could jeopardize up to one third of the textile jobs in the Dominican Republic.

The diplomatic and aid competition for island allegiance has a long and storied history. This review highlights some of the most important manoeuvres in part chronological and in part geographical order. Historically, the South American bandwagon to recognize the PRC took off in 1970 with the socialist government of Allende in Chile. All other countries except Paraguay followed suit in the next two decades while Taiwan, the early bird in Central America and the Caribbean, was establishing development contacts and informal relationships there through a variety of low-profile assistance efforts in selected countries. In addition to disaster relief, these included agricultural extension services, fishery management and pest control programs, training civil servants and providing student scholarships for engineering and other forms of technical education (Caribbean Net News, 2008). Part of Taiwan’s appeal across the island chain was its attraction as an “Asian Tiger,” “an enviable model for fomenting rapid economic, industrial and technological development” (Erikson & Chen, 2007: 73). Moreover, Taipei’s stock was also bolstered by the damage done to the PRC’s international prestige by the 1989 Tiananmen massacre. As a consequence, both Grenada and Belize shifted to Taiwan in 1989 and Nicaragua in 1990 (Li, 2005: 81).

However, cracks began to appear in Taipei's hold on the archipelago in the late 1990s with the entry of the PRC's heavy economic and diplomatic footprint and the lure of its largesse. For example, the Bahamas changed allegiance in 1997 when Hutchison Whampoa, a Beijing-allied Hong Kong company, opened a US\$114 million container port in Freeport and purchased three resorts in Nassau. In the same year, St. Lucia recognized the PRC in exchange for promised aid that included a US\$15 million cricket stadium and more recently a US\$10 million 104-bed mental hospital (Wilkinson, 2005). In addition, the PRC has provided a number of micro-community grants for park beautification, water restoration, and resurfacing and lighting athletic courts. Despite this support, and after a ten-year hiatus:

“[I]n May 2007, the newly elected administration of conservative Sir John Compton in St. Lucia reversed the prior government's 1997 decision and resumed ties with Taiwan” (Erikson & Chen, 2007: 84).

As a result, Beijing closed its St. Lucian embassy and work on the new hospital was stopped “with all orders for further imports of cement cancelled” (Seon, 2007).

Much of the PRC's recent activity across the Caribbean followed upon presidential visits in 2001 (Jiang Zemin) and 2004 (Hu Jintao) that produced the setting up of embassies, a flurry of reciprocal visits by island leaders to the PRC, expanded trade and investment, and an explosion of targeted aid. This dynamic has been partly to counteract Taiwan's longer-term presence in the region as well as the diplomatic offensive of President Chen Shiu-bian utilizing:

“... frequent and highly publicized exchanges of official visits, with either the president or vice president traveling to the region approximately twice per year while a core roster of Central American and Caribbean heads of state stream steadily through Taipei” (Erikson & Chen, 2007:76).

Taiwan has complemented this so-called “visit diplomacy” with aggressive pursuit of bilateral free-trade agreements and the institutionalization of diplomatic interaction through participation in regional and sub-regional organizations. In reaction, to build its own broader base of support, Beijing has intensified its exchanges with major island labour, military and political players and in 2004 achieved official observer status in the Organization of American States (Dreyer, 2006).

Despite its own efforts, and partly as a result of Beijing's expanded activity, Taiwan's diplomatic losses have continued. To illustrate, in 2004 Dominica's request for US\$58 million in Taipei aid was turned down. Then, two weeks after Taiwan did pledge US\$9 million, the PRC stepped in with a promise of over US\$100 million over six years “beginning with US\$11 million instantly” (Li, 2005: 88). Dominica subsequently changed allegiance to the PRC. In the same year, Grenada switched to Beijing largely because of “the relatively lukewarm response for reconstruction money from Taiwan in the aftermath of Hurricane Ivan” (Wilkinson, 2004: 14) which damaged or destroyed close to 90% of the island's housing stock. This diplomatic reversal of its 15-year relationship with Taiwan

followed on the heels of the prime minister's visit to the PRC where a package of assistance was successfully negotiated "to help lure Grenada away from Taiwan": for housing and hospital reconstruction, expanding its national cricket stadium and general agricultural support (Wilkinson, 2004: 14). Subsequently, Taiwan sued the Grenada government for principal and interest on loans exceeding US\$21 million made before the island's defection to Beijing (Sanders, 2008).

Beijing's competitive pressures on Taipei are also heating up on the northern island of Hispaniola. Although Taiwan has remained steadfast in its financial and diplomatic support of Haiti, the PRC established a foothold in 2004 by sending a small deployment of troops to augment the UN peacekeeping force to help maintain security in the aftermath of President Aristide's departure (Gertz, 2004). Subsequently, in 2005, the PRC used its clout in the UN Security Council:

"... pressing Haiti [unsuccessfully] to cut diplomatic ties with Taiwan as a condition for approving a lengthy extension of the UN peacekeeping force ..." (The Washington Times, 2005).

Then, in 2006, the PRC employed the same leverage to prevent Taipei's premier from attending the inauguration of the new Haitian president, René Preval. Erikson and Chen (2007: 82) tend to over-dramatize the island's plight; but they do point out the potential dangers of external interference:

"Haiti, the poorest and most vulnerable nation in the Western Hemisphere, is thus caught in a war of attrition between China and Taiwan that threatens to undermine international efforts to bring the country back from the brink of state failure."

In the neighbouring Dominican Republic, Taiwan's long-term assistance culminated in 2006 with a US\$50 million grant to build a science park over a four-year period to establish state-of-the-art manufacturing capability and advance the island's competitiveness. However, the current administration under President Leonel Fernandez is intensifying contacts with Beijing (Erikson & Chen, 2007) because of the slow pace of progress due to relatively high labour and utility costs and rising violent crime. This last is a regional menace damaging the investment climate in many of the larger islands and includes kidnappings (Trinidad and Tobago), murder (Jamaica) and drugs and arms smuggling (Bahamas, Barbados, and Haiti) (Erikson & Minson, 2005).

In the Lesser Antilles, many of Taiwan's grants, soft loans and technical assistance have focused on its two diplomatically affiliated partners, St. Kitts and Nevis and St. Vincent and the Grenadines. In fact, Taipei is reportedly the single largest aid donor to the two islands (Erikson & Chen, 2007: 73). In both cases, the relationship extends roughly two and a half decades. Most recently St. Vincent received a US\$15 million loan in 2006 for airport construction. In St. Kitts, after a long history of financing agricultural diversification and telecommunications, Taiwan contributed US\$14 million in 2005 to the expansion of the Robert Bradshaw International Airport and funded US\$8 million for the new Warner Park Cricket Stadium in 2006. This last was in part to counteract the so-called

“stadium diplomacy” mounted by Beijing ahead of the Cricket World Cup held in the Caribbean in 2007. The PRC assistance and partnering included construction of the US\$21 million Vivian Richards Stadium in Antigua, the US\$40 million rebuilding of the Queen’s Park Stadium in Grenada after its destruction by Hurricane Ivan in 2004, and the US\$30 million Trelawny Multi-Purpose Stadium in Jamaica (Gaskin, 2007). For other affiliated islands like Barbados and Antigua, the PRC has also provided significant resources for local defence forces including military training, computers and power generation equipment (Caribbean Net News, 2004).

Two final examples highlight the intensity of the Beijing-Taipei rivalry in the Caribbean Basin. In the first case, in October 2005, two officials from the Antigua Public Utilities Authority (APUA) were scheduled to visit Taiwan to purchase two generators. Even this simple commercial transaction sparked controversy and resulted in a face-saving apology on local TV and a letter to the PRC ambassador by the former premier, Lester Bird, who as Foreign Minister in 1981 had effectuated diplomatic recognition of Beijing. At that time, the letter indicates:

“We embraced with you, your declared policy of ONE CHINA and eschewed the many blandishments made to us by Taiwan to reverse our decision ... we remain resolute in our recognition of the People’s Republic of China and its ONE CHINA policy ... We hope this will not affect your decision to finance and build the Cricket Stadium for World Cup 200 ...” (Hadeed, 2005, *emphasis in original*).

Subsequently, the trip of the two APUA emissaries was cancelled. In the second case, Taiwan’s liberal use of ‘chequebook diplomacy’ vividly demonstrates the rising cost and international fallout from buying influence to retain political affiliation in Central America. In 2004 and 2005 local media uncovered that the presidents of Panama and Guatemala had received Taiwanese funds without full accounting of US\$1 million and US\$1.5 million respectively. However, the most celebrated scandal was in Costa Rica. According to Erikson and Chen, 2007: 79):

“In October 2004, former Costa Rican President Miguel Angel Rodriguez was forced to resign as secretary-general of the Organization of American States after less than one month in office when both he and then-President Abel Pacheco came under intense judicial scrutiny for allegedly receiving ... funds totaling hundreds of thousands of dollars from the Taiwanese government for unexplained purposes, unleashing a firestorm of domestic criticism for [President] Chen’s government, to say nothing of the considerable international embarrassment.”

Despite the apparent payoffs, Costa Rica switched from Taipei to Beijing in 2007 after China agreed to a large US\$430 million aid package (US\$108 per resident) reportedly including US\$300 million for buying up Costa Rica’s national debt. .

## **The Pacific**

According to Poirine (1995), aid to islands is a type of trade for “geostrategic services” including use as military bases or missile launching/testing sites, for denying air and sea access to donors’ enemies or for voting donor preferences in international fora. Aid in the Pacific is dominated by the traditional donors, the US in the north and Australia, Japan and Europe in the south. Such flows expanded in the postwar era to counteract the Soviet threat but fell sharply after 1991 with the USSR’s disintegration only to rise significantly in recent years to contain Beijing and Taipei (Jayaraman, 1995). For example, in the late 1990s “the USA paid an average of US\$800 per person per year direct, plus indirect payments, to the Federated States of Micronesia, Marshall Islands and Palau ... Aid from France to French Polynesia in 2006 was US\$7,326 per person per year ...” (Crocombe, 2008: 354).

Because of its strategic location, historical and cultural ties and security interests, the PRC’s trade, investment, and aid activity in the Pacific Basin dwarfs its activity in the Caribbean. As a suggestive measure of its rising importance, in the northeast it has replaced the US as the major trading partner for Japan, South Korea and Taiwan (Nanto & Chanlett-Avery, 2006). Over the past two decades PRC has also made significant military and commercial investments through its state-owned enterprises in several large Southeast Asian countries (Thailand, Cambodia, Singapore, Indonesia, Vietnam, Malaysia, Burma) to extend its maritime reach from the South China Sea through the Straits of Malacca to the Persian Gulf. In addition to maintaining its security interests, this so-called “string of pearls” strategy of naval bases and diplomatic ties is in part meant to protect its oil imports of over 1.5 million barrels per day (Windybank, 2005). Some even argue “Beijing is also strengthening its navy to secure the position of a hegemonic maritime nation over the Asia-Pacific region” (Jae-Hyung, 2002).

The Pacific Island region is made up of some two dozen independent countries and territories with a total land area (excluding Australia and New Zealand) of 120,000 km<sup>2</sup> - somewhat larger than Cuba - and a population of roughly 9 million. This area referred to as Oceania has witnessed major growth in Chinese commerce, aid and investment over the past two decades. According to Wesley-Smith (2007: 9), these island states “play a small but increasingly significant role in the PRC’s effort to further its economic and strategic interests.” For example, Beijing is fast becoming the third largest island trader behind Australia and Japan (Lum & Vaughn, 2007). Moreover, it is also reported to be the islands’ third largest aid donor after Australia/New Zealand and Japan. In fact, on a global basis, per capita aid to Oceania from all countries in 2002 was US\$183, exceeding levels in Africa (US\$27), LAC (US\$10) and Asia (US\$6) (OECD, 2004: 14). Across the region there are an estimated 3,000 state and private Chinese companies with close to “US\$1 billion invested in hotels, plantations, garment factories, and fishing and logging operations” (Windybank, 2005: 32). Like the Caribbean, the PRC imports mainly raw materials (minerals, fishery and forestry products) from the Pacific and exports light industrials, appliances and textiles. The bulk of this activity is in the larger islands of Fiji, the Solomons and Papua New Guinea, the site of major mining investments in copper, cobalt and gold with liquefied natural gas under consideration (MacDonald-Smith, 2005).

The PRC has also constructed large fish processing plants in the Cook Islands and the Marshall Islands. Beijing companies have also renovated or built luxury hotels in Tonga and Fiji, and Beijing has granted Approved Destination Status to these two islands plus a number of others including Cook Islands, French Polynesia and Vanuatu.

The PRC has also fostered an aggressive political presence in the Pacific. Beijing's efforts have included the usual portfolio of diplomatic manoeuvres. According to Keith-Reid and Pareti (2008):

“There's hardly a Pacific islands leader who hasn't been invited on one or more junket trips to China or Taiwan ...”

Beijing has also established embassies in Papua New Guinea, Vanuatu, Fiji, and the Federated States of Micronesia and plans to open a consulate in French Polynesia. As a result, “China is now thought to have more diplomats in the region than any other country” (Windybank, 2005: 31). Similar to the Caribbean, much of this Chinese activity has taken place when the US, a major area player distracted by changes in the global security environment, has pursued a policy of “benign neglect” at worst or transient engagement at best (Lum & Vaughn, 2007). The rapid emergence of China has even prompted some commentators to see in Beijing's Pacific strategy a long-run thrust for hegemony:

“Through a combination of trade, aid and skillful diplomacy, Beijing is laying the foundation for a new regional order with China as the natural leader and the United States as the outsider” (Windybank, 2005: 28).

In the short run, what is clear is that the PRC's aid policy in Oceania, as in the Caribbean, is at least in part to contest the political position of Taiwan. According to Stringer (2006: 551):

“In the diplomatic war between the two countries, the Pacific Islands area is one of the most hotly contested battlegrounds because of its relative proximity to the rivals and lack of development across the region.”

It is likewise true, as the history of aid competition in the islands attests, that jockeying for position by affluent outsiders is nothing new. According to Crocombe (2007: 467):

“The stronger the competition for allegiance, the deeper the protagonists dig in to local politics to achieve their goals. It is most blatant in the China-Taiwan feud, but much more persuasive with the USA in Micronesia and Australia in Melanesia.”

### **Diplomatic Gamesmanship**

Both the PRC and Taiwan have substantial economic interests in Oceania, especially logging and mining for the former and fishing for the latter. Particularly during the past decade, the PRC has employed a two-pronged strategy: lavishing aid on those islands that

recognize Beijing; but also dispensing aid to contest the six countries maintaining diplomatic relations with Taipei: Solomon Islands, Palau, Marshall Islands, Nauru, Kiribati and Tuvalu. A brief review below of their competitive gamesmanship from west to east across the region is illustrative.

As a preamble, it is useful to make two related points. First, Japan's competition with the PRC for access to Pacific timber, minerals and votes includes whales. Since the moratorium on hunting whales was imposed by the International Whaling Commission (IWC) in 1982, Japan, the country with the most to lose commercially from the ban, and the second largest donor in the region, has repeatedly distributed its aid with some intent to reverse the ban. Second, the recipient countries, except for the Marshall Islands, are the same islands that recognize Taiwan. In a recent meeting of the IWC, Japan's proposal to renew commercial whaling was defeated with Palau, Tuvalu and Solomon Islands voting to lift the ban. Most observers argue this was payback for substantial aid (Springer, 2006: 569). The grants included funds for maritime infrastructure, upgrading power plants, costs associated with IWC membership and annual meeting attendance.

To retain the allegiance of its island state neighbours, the PRC has provided a variety of public infrastructure projects. These include: conference centres and justice ministries in Tonga and Samoa, a parliamentary complex and courthouse in Vanuatu; sports stadia in Fiji, Micronesia, and Samoa; and a courthouse and police station in the Cook Islands. In addition to public buildings, since 2006, PRC has built four governor's mansions in Micronesia and spent US\$7.5 million on the governor's residence in Papua New Guinea. Even in the contested islands, despite Taiwan's long and sustained presence, PRC has been making recent inroads. For example in Palau, in 2005, PRC proposed a mega-resort cum retirement complex with an initial investment of US\$400 million (Van Fossen, 2007: 133):

“So large that it would dominate the area around the country's new capital [city] in Melekeok, create opportunities for immigration of large numbers of settlers from the PRC, and provide employment for over 10% of Palau's workforce. So far, Palau retains diplomatic ties with the ROC”.

This allegiance to Taiwan is not surprising since Taipei has provided agricultural aid as well as technical assistance in marine ecology and aquaculture for the past two decades. Taiwan has also offered generous scholarships as well as computer hardware and software (Vltchek, 2008). To advance diversification, Taipei businesspersons have also funded four five-star hotels, and in 2003 Taiwan displaced Japan as Palau's main source of international tourists (Stringer, 2006: 558). Presently, Taiwanese investment represents one third of Palau's total. The government has also funded a US\$3 million conference centre and a US\$2 million National Museum that purports to show genetic links between Taiwan's indigenous people and Micronesians. In addition, Taipei has provided US\$23 million in soft loans to help finance construction of the island's new capital on the largest island of Babeldaob. As a reasonable *quid pro quo* for its long-time donor and economic partner, Palau has repeatedly but unsuccessfully sought ROC membership in international organizations like the World Health Organization, UNESCO and UNDP.

In the early 20<sup>th</sup> century, traditional Chinese minorities played an integral role in establishing a modern cash economy in the Solomon Islands by exchanging essential imports for rural food surpluses. They became an indispensable and appreciated component of village and island life. In recent decades, however, this Chinese diaspora has been swollen with new immigrants from PRC (some illegal) and elsewhere to operate resource-based, enclave-type export companies with little attachment to the local community (Choong, 2007). In some cases, legitimate businesses have used bribes to secure mining and logging concessions. In the past decade, anti-Asian resentment has surfaced at least on two occasions as a result of these changes. The first relates to the loss of valuable natural resources for external benefit. According to Dobell (2007: 20-21):

“The over-logging of the Solomons is close to completion. Within the next five to ten years, the natural forests of the Solomon Islands will be cleared, with the Asian loggers leaving behind immense economic and environmental costs. The Solomons have lost a vital resource, central to its budget, which would have lasted another 50 years if properly harvested”.

The second relates to the chequebook diplomacy and destabilizing political meddling of Taiwan, the nation's third largest aid donor. In 2001, Taipei provided the island with a US\$25 million loan to compensate victims of ethnic warfare. However, locally it was considered a bribe to retain diplomatic recognition and led unintentionally to a chaotic national scramble for cash. In one case of crude banditry, thugs forced a cabinet minister at gun point to sign a check for “unpaid salaries” of about US\$750,000 (Dobell, 2007: 17). Then, in 2006, Taipei officials paid thousands of dollars to select parliamentary members in order to elect Taiwan's prime minister of choice. That vote sparked widespread riots that looted and burned down Chinatown in the capital of Honiara. The Chinese were targeted because it was believed that Asian bribes had bought the election and had scarred the landscape with illegal logging.

In other Pacific islands, the battle for diplomatic recognition has persisted. To illustrate, Nauru is “a good example of an island microstate that has switched sides in the Two-China game in a bid for greater aid and benefits” (Springer, 2006: 562). A traditional ally of Taiwan, in mid-2002 Nauru unexpectedly switched allegiance to the PRC allegedly in return for US\$137 million in aid, which included US\$60 million in economic development grants and loans and a promise to help resolve the island's US\$77 million debt problem. However, in 2005 the island abruptly returned allegiance to Taipei with the benefit package unknown.

In a similar diplomatic defeat for the PRC, Kiribati switched to Taipei in 2003. According to Stringer (2006: 561), the decision was “made by the Kiribati Cabinet after a lengthy comprehensive debate based on their national interest.” In this the world's largest coral reef nation where fishing and related activity account for 80% of GDP, political recognition was more a cementing of long-term economic ties with Taiwan whose deep-sea vessels have paid substantial licensing fees over the years. On the other hand, the snubbed Chinese quickly closed their local embassy and dismantled the satellite tracking

station they had established in 1997, “the only one of its kind outside China ...” (Springer, 2006: 561).

In this sea change of political manoeuvring, Taiwan’s relationship with Tuvalu has been stable and enduring since 1979. It has established an embassy and is reportedly the island’s second largest aid donor behind the European Union. Taipei has rescued the government from budget crises, funded many ministers’ travel abroad, and “recently underwrote a new fleet of Tuvalu government vehicles for each cabinet minister” (Stringer, 2006: 556). Taiwan also has assisted in the construction of Tuvalu’s only 16-room hotel, paid for the repatriation of some 400 émigrés and their families recruited and stranded by the now bankrupt Nauru Phosphate Corporation, and donated an US\$8 million three-storey government complex “which towers over the rest of Funafuti Island” (Taafaki, 2007: 279). In exchange, Taiwan’s deep-sea fleets have open access to Tuvalu’s fishery, and the island annually presses for Taipei’s membership in international organizations. Finally, with the Marshall Islands, Taiwan established relations in 1998 and maintains an embassy in the capital of Majuro. Island benefits have included the construction of a US\$20 million floating dry-dock to service foreign and local fleets and roughly US\$10 million in annual development assistance (Stringer, 2006). However, the new president, Litokwa Tomeing, has stated that “his country’s links with Taiwan are not paying off and that he wants to switch diplomatic recognition to China” (The Economist, 2008). In summary, given the fragile political economy illustrated by these contested cases, with few exceptions, one cannot easily dismiss Van Fossen’s (2007: 138) conclusion:

“Taiwan and China are sometimes accused of buying friends in Oceania. In fact, Taipei and Beijing may only be renting them.”

### **Development versus Diplomacy**

It is difficult to definitively assess from this brief and incomplete review to what extent the PRC’s aid programs have fostered the development potential of the islands. However, a few broad generalizations are warranted.

First, it is clear that all aid from whatever sources disbursed to small, highly open island economies characterized by high leakage rates and low income multipliers yields structurally real development impacts. Commenting on the recent Pacific experience, Crocombe’s (2007:12) perhaps somewhat exaggerated viewpoint contains the substance of truth for all postwar assistance efforts across the oceanic world:

“Few people are aware that even more ‘aid’ flows in the opposite direction - from the Islands to Asia - through remittances by Asian workers (mainly to the Philippines and China), company profits (mainly to Japan, Taiwan, Korea and Malaysia), patents and franchises (the USA gains most of these but Japan gets some) and other legal sources in the Islands, not to mention enormous illegal exploitation by Asian loggers and fishermen, under-reporting and transfer pricing”.

Second, in recent years, Chinese aid has expanded to the types typical of traditional donors, with increased attention paid to such sectors as agriculture, education, fisheries and forestry. Both Beijing and Taipei have supplied several Pacific islands with alternative energy initiatives but these remain minor compared to the high profile building projects with greater political and public relations leverage (Crocombe, 2007: 255).

Third, given that all aid has a diplomatic component, and that poor, capital-scarce and often remote island countries welcome any financial infusions, there is no simple calculus to argue that China's incursion into the Caribbean and Pacific is any more or less effective in furthering island development than efforts by the other major donors in the region: Australia/New Zealand, Japan, and the US.

Nevertheless, the record gets mixed marks based on the types, patterns and distribution of aid discussed above and on the summary views of several commentators.

First, although the PRC's trade and investment activity has contributed to the growth of island economies, Beijing's aid has focused primarily on large construction projects like roads, government buildings and sports venues "in capital cities that directly benefit the governments in power rather than local communities" (Lum & Vaughn, 2007:10). Commenting on the Beijing-Taiwan rivalry in the Pacific in particular, Windybank (2005: 32) argues that such aid "mostly funds prestige projects designed for maximum public relations impact rather than economic development." In support she lists, in addition to the embassies established, junkets funded and fleets of Chinese-made VIP cars, the many government buildings reviewed above constructed in Vanuatu, Samoa, and Micronesia, training of security forces and equipment in Papua New Guinea, Fiji and Tonga, and new sports stadia in Fiji, Samoa, Micronesia and Kiribati. This is similar to the many sports arenas China has funded in the Caribbean. All such showpieces in Dobell's view (2007: 12-13) represent examples of "key" aid whereby:

"... the donor builds the project, hands over the key and leaves after the opening ceremony, with no responsibility for future maintenance or operation of the facility."

Commenting on the Caribbean, Dreyer (2006: 95) emphasizes the complaints:

"... that the Chinese bring their own labour rather than hire local people, and that the projects are undertaken without regard for the environment."

Second, a disproportionate share of the PRC aid attention has focused on those island states in both oceanic basins that retain diplomatic relations with Taiwan. Moreover, the strings attached to Beijing's largesse clearly involve the recipients' fully supporting the 'One China' policy, severing contacts with Taipei and opposing UN resolutions criticizing China's human rights record. This orientation suggests the greater significance of diplomatic objectives in aid distribution over island development priorities, and does not easily reconcile with the many official avowals to the contrary. For example, at the China-

Pacific Forum in April of 2006 in Fiji, Premier Wen Jiabao emphasized PRC's long-term commitment to the region (Jiabao, 2006):

“As far as China is concerned, to foster friendship and cooperation with the Pacific island countries is not a diplomatic expediency. Rather it is a strategic decision. China has proved itself to be a sincere, trustworthy and reliable friend and partner of the Pacific island countries forever.”

More to the point, PRC's Director General of North American and Oceanian Affairs, He Yafei, stated (Norris, 2005: 1):

“China's aid to the Pacific islands does not have any political preconditions and its purpose is to support the development of those economies and help improve the livelihoods of the people. The aid projects are chosen based on the receiving countries' national economy and people's needs.”

However, the intensity, timing and direction of the Sino-Taiwanese chequebook diplomacy recounted above and the emphasis on showpiece construction tend to undercut the force of these public statements. In sum, they exemplify Crocombe's (2007: 353) conclusion about all traditional aid to islands:

“Donors cover their mixed motives with rhetoric of selfless generosity. All accuse their competitors of ‘cheque-book diplomacy’ while portraying their own ... as altruistic.”

A third and more damaging criticism is that the buying of influence characteristic of the diplomatic rivalry between PRC and Taiwan, particularly in the Pacific, not only “does not work in the best interests of the region in terms of long-term development” (Pendray, 2007); it also “further destabilizes already weak and unstable governments and feeds the endemic corruption throughout the region” (Windybank, 2005: 31). In addition to the reversals in Kiribati and Nauru reviewed above, there are several other examples of aid-induced political instability in the region.

Henderson (2001) emphasizes the role that aid rivalry played in the ethnic violence between the rival provinces of Guadalcanal (Beijing) and Malaita (Taipei) in the Solomons. In their catalogue of switchovers, Keith-Reid and Pareti (2006) recount the case of Vanuatu:

“Former Vanuatu prime minister, Serge Vohor, made a bad mistake in 2004 when, after junkets to Taiwan and China, he switched Vanuatu's loyalties to Taiwan without consulting his cabinet ministers. Apparently got at by Chinese diplomats, the ministers rebelled and Vohor lost office”.

Such diplomatic changeovers are perhaps less dramatic but nonetheless just as frequent and recent in the Caribbean and include the switch of Dominica (2004), Grenada (2004) and Costa Rica (2007) to the PRC, and the reversal of St. Lucia (2007) to the ROC. Not only

do such manoeuvrings deepen dependency, fuel corruption and, in some few cases, inflame social conflict, they also diminish democratic accountability, divert attention from the islanders' long-term development needs, and weaken the government's ability to address those needs with any semblance of consistent policy.

## **Conclusion**

Because of its meteoric rise in the global marketplace especially in the past decade, "few countries have a greater stake than the PRC in preserving the current world order, rooted in a globalized economy, with its free flows of goods, services, and capital" (Li, 2007: 838). The same cannot be said for the island microstates scattered across the Caribbean and Pacific. They face the loss of preferential exports, the post-cold-war and 9/11 cuts in aid, and shrinking markets in an intensely competitive and sagging world economy.

In this climate of constraints, Chinese aid has been, by and large, a welcome boon despite the political trappings attached and its modest development potential. The primary purpose of the PRC's island incursions has been to strengthen Beijing's trade and investment interests overseas; that is, to secure strategic raw material imports for its expanding factories and stable markets for its manufacturing exports. However, its secondary purpose - particularly in the smaller islands - has been in the short run to diplomatically isolate Taipei, and in the longer run eventually achieve by attrition the return of its renegade province.

Some observers of the cross-strait island aid rivalry speculate about the grand strategy of Beijing's global political economy: challenging the US in the Asia Pacific (Windybank, 2005), creating a multi-polar (Paz, 2006) or bipolar world (Li, 2007) or even "replacing the United States as the world's most powerful nation" (Brookes, 2005). Yet, the following seems clear from this review:

"In confronting the competing crosswinds from PRC and Taiwan, the nations at the centre of this diplomatic end game will almost certainly face choppy waters ahead" (Erikson & Chen, 2007: 86).

At the global scale, China's impact on the island world represents another ripple in the sea change of Asia's twenty-first century emergence.

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