



Asia Pacific Bulletin

EastWestCenter.org/APB

Number 366 | January 4, 2017

Putting the Pacific on China's Radar

BY TRISTAN KENDERDINE

As China's foreign direct investment strategy is increasingly formalized into international capacity cooperation funds, Pacific Island economies are struggling to engage China's broader Belt and Road policies. While Beijing's investment and trade strategy continues to transform the ocean corridor west from Southern China to Southeast India, the South Pacific looks to be orphaned through yet another period of history. However, the Pacific Islands Forum economies have a huge opportunity to align with China's global geostrategy through the new capacity cooperation financing mechanisms.

In 2016, China embarked on a massive capacity cooperation funding campaign to develop a parallel trading system which bypasses international capital infrastructure and allows China to invest abroad while maintaining a closed capital account. This campaign forms the vanguard of a state trade strategy with a transformative power over the macro Asian region. Targeted economies include Central Asia, West Asia, Southeast Asia, Africa, Latin America and most recently Central and Eastern Europe.

Both the People's Republic and the Republic of China have long engaged in aid-for-diplomacy strategies in Pacific Island states. However Beijing now sees a crossroads emerging between South America and China through the Pacific, and has a new strategic interest which goes beyond the Taiwan issue.

China's slowing industrial economy has also seen a growing desperation from Beijing to offshore industrial growth. Foreign direct investment from Chinese state-driven infrastructure projects has increasingly found its way to states recognizing the People's Republic: Papua New Guinea, Fiji, Tonga, Samoa, Vanuatu, and the Federated States of Micronesia. Despite this, no specific capacity cooperation funds — the finance mechanism for Belt and Road offshoring industrial capacity — have yet been earmarked for Pacific Island states.

China's wider ocean strategy includes industrial and agribusiness offshore investment. Its Pacific Island trade and investment strategy is run through Guangdong Province and provincial level cities there which coordinate investment in Pacific Island fisheries, agriculture, and infrastructure.

The more specific Belt and Road strategy links China's eastern and southern port cities with Europe via the Indian Ocean port system. Designated trading routes pass through the South China Sea and the Malacca Straits, then through Myanmar and Sri Lanka on the way past India, and the Middle East toward European sea terminals in Greece, Turkey and Italy.

Pacific Island countries sit at a different crossroads, between South America and China's East Coast. The development of China's rail and canal projects is opening logistics infrastructure hubs in South and Central America. This means that a new South Pacific shipping corridor is likely to open up.

A deep-water container port at a half-way point could replicate Dubai's air strategy on the sea. Fiji becoming a maritime Dubai would bring investment to the region and facilitate trans-Pacific trade logistics. As Papua New Guinea has benefited from liquefied natural gas exports to Taiwan, China and Japan, so too can other Polynesian, Melanesian, and Micronesian island economies find new trade avenues into the Asian mainland.

Tristan Kenderdine, Research Director at Future Risk, explains that “The Pacific Islands Forum economies have a huge opportunity to align with China’s global geostrategy through the new capacity cooperation financing mechanisms.”

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

Containerized intermodal shipping logistics and refrigerated shipping will see huge demand as China's domestic cold-chain logistics system develops. Chinese demand for a variety of commodities from South and Central America will see increased demand for both soft and hard commodities shipping. A global downturn in shipping paired with an oversupply of ships creates opportunity for Pacific Island countries to develop trade routes while infrastructure is affordable.

South Pacific fisheries and food industrialization present an opportunity to feed China's huge and growing demand for fish protein that neither global wild catch nor industrial aquaculture can currently service. Mariculture, landing stations and harbor infrastructure, fish processing facilities, and aquaculture development all hold potential for Pacific Island economies. Fish processing facilities could leverage Chinese investment in infrastructure, build aquaculture employment bases and export clean fish products to the Chinese mainland. China's distant water fleets already exploit wild-catch in both the Pacific and Southern Oceans and China has a huge demand for high-quality, safe, standardized food.

Gene industrialization and gene research is a key strategic industry for China. Legal and organizational developments in seed and animal genetics are laying the groundwork for China to become a world leader in genetics. Interest in biodiversity in the Pacific and the seabed are clear. Negotiations on Biological Diversity Beyond Areas of National Jurisdiction demonstrate China's interest in marine biodiversity.

China is also at the forefront of international seabed mining, taking a leading role in the International Seabed Authority. Chinese state owned enterprise, China Ocean Mineral Resource Research and Development Association currently has 15-year exploratory rights over areas in the Clarion-Clipperton fracture zone, searching for ferromanganese, cobalt and polymetallic nodules. As more industrialized nations engage in the 21st century submarine land-grab, the Pacific Island economies are sitting on more land than most continental countries that, if leveraged well, could bring huge benefit to their populations.

Aerospace technologies, satellite communications and space policy are also rapidly being developed by China, which has signaled a desire to create a network of floating satellite ground stations. Given an increasing constellation of satellites and more sophisticated use, China needs reliable communications surface stations in the South Pacific.

China also faces a dependency on US controlled submarine internet communications lines. The global internet infrastructure is dependent on cables lying across the ocean floor such as Blue Sky — the proposed line from New Zealand to the US. China has already laid its own cables between South America and Africa, and faces bottlenecks to both service and security in the Hawaiian dominated north Pacific. A South Pacific communications route to South America would be invaluable to China, and access to this cable infrastructure would be equally valuable to Pacific Island economies.

Thinking of China as a net exporter of capital goods, and importer of consumer goods, means small economies plugged into China need pay attention to consumer sentiment and behavior in the country. China's wider geopolitical and marine strategies will bring investment and infrastructure to Pacific Island economies. This capital of course comes with state mercantilist strategies attached. However, access to these consumer markets will allow Pacific Island exports to feed China's demand for fish protein, hydrocarbons, minerals, biopharmaceuticals and marine energy.

Outside analysis of economic development in the Pacific has too long focused on tourism, remittance and aid, ignoring the export potential of the island economies. As the Pacific Island economies increasingly engage with global trade, capital investment from China can help to develop industrial infrastructure for further regional economic integration. While both Chinese capital and construction projects present sustainability and quality problems, an impending wave of investment should be harnessed by the Pacific Islands Forum as an opportunity for capital, infrastructure and economic development for the region as a contiguous whole. Let commerce with China build the Pacific Islands into a genuine trade bloc and let us banish dependency economics once and for all.

Tristan Kenderdine is Research Director at Future Risk and Assistant Professor at Dalian Maritime University. He can be contacted at Tristan.Kenderdine@anu.edu.au.

“Commerce with China [could] build the Pacific Islands into a genuine trade bloc.”

The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington.

APB Series Editor: Dr. Satu Limaye
APB Series Coordinator: Peter Valente

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