China's Economic Impact on Oceania[1]

Peter Enderwick, AUT University, New Zealand

China has a strong economic presence in the South Pacific, a region sometimes termed Oceania. This region is defined to include islands of the tropical Pacific Ocean, which lie south of the tropic of Cancer, including Australia and New Zealand.

Oceania is a region of significant diversity in terms of both population and land size. Populations range from just 10,000 in the islands of Nauru and Tuvalu to the comparatively much larger populations found in New Zealand, Papua New Guinea (PNG) and Australia. Similarly, there is significant variation in land areas. Nauru and Tuvalu are two of the smallest nations in the world with total land areas of less than 30 square kilometres. In contrast, Australia, a continental scale country, comprises more than 7.5 million square kilometres. There are also marked differences in per capita income levels within Oceania. Many of the Pacific Islands such as the Solomon Islands, Papua New Guinea and Tuvalu are poor, with average incomes less than US$5,000 in purchasing power parity terms in 2012. This can be contrasted with the much larger and more prosperous nations of Australia and New Zealand, which form part of the OECD group.

There is greater similarity among the Oceania nations in the nature of their economic structures. All are resource-based economies with strengths in mineral extraction, agriculture, forestry and fishing, and to a lesser extent, tourism. None would be classified as major manufacturing centres, while only Australia and New Zealand have well-developed service sectors. From China's perspective these economies do not offer large or particularly affluent markets, but they are attractive as suppliers of key resources, particularly iron ore, copper, coal and a range of foodstuffs. They are also a part of the world that has historically attracted Chinese migrants.

Trade with China

Trade with China is extremely important for almost all economies in Oceania. This is not surprising given the fact that in 2012 China surpassed the United States to become the world's largest trading nation in terms of total imports and exports. Furthermore, since 2011, China has become the world's leading trade partner: China is the biggest trading partner for 124 countries. That pattern is strongly reflected among South Pacific countries.

China is Australia's leading trading partner for both exports and imports. In 2011 China accounted for 29.1 percent of Australian exports and is one of its fastest growing markets. Trade between Australia and China has grown more than a thousand-fold since 1973, shortly after the establishment of diplomatic relations between the two countries. One recent report estimated that trade with China was worth US$13,650 to every Australian household (Allen Consulting, 2012).

Australia's major exports to China are iron ores and concentrates, coal, gold and crude petroleum. Together these minerals account for three-quarters of all Australian merchandise trade with China. Trade in services is also highly concentrated, with export education accounting for more than 80 percent of all service export recipients. China was the largest contributor to Australia's higher education sector in 2011 with 160,000 enrollments, 40 percent of all foreign students.

In contrast, Australia's principal imports from China are manufactures: telecommunications equipment and parts, computing equipment and clothing. Because of high mineral prices in recent years, Australia enjoys a sizeable trade surplus with China. Australia is engaged in developing a free trade agreement with China; this is currently in its seventh year and follows 18 rounds of negotiation.

In 2012 China was New Zealand's second largest trading partner, after Australia, accounting for 13.1 percent of total New Zealand merchandise exports and 16.1 percent of imports. As in the case of Australia, New Zealand's trade with China has grown strongly in recent years, faster than with any other partner nation.

New Zealand's main exports to China are food products and wood logs. Primary products account for 91percent of all New Zealand exports to China. Of these, almost half (48 percent) are unprocessed. Like Australia, New Zealand's major imports from China are manufactured products, particularly electrical goods and clothing.

Services trade with China is also important for New Zealand and, like Australia, is heavily dependent on export education and tourism. China is New Zealand's largest source of foreign students and its fourth biggest tourist market.

The trade pattern between China and both Australia and New Zealand suggests strong complementarities between the partners. While China is a major exporter of manufactured products it also has a voracious appetite for imports, often in the form of raw materials and agricultural products to maintain its economic and social system. Such complementarities help to explain the strong and growing economic linkages within the region.

China's trading relationship with the island economies of the South Pacific is characterised by considerable unevenness, with a marked focus on a small number of resource rich island economies — most notably the Solomon Islands, Samoa, Vanuatu and PNG. As in the case of Australia and New Zealand, China's trade with the region is primarily resource seeking.

Several economies, most notably the Solomon Islands and Samoa, are heavily dependent on trading with China. Indeed, export dependence on China is extremely high in some cases: for the Solomon Islands China accounted for 52.4 percent of exports in 2011, for Vanuatu the figure was 26.8 percent. China's trade with the Pacific Islands has grown rapidly in recent years. There is a concern that China's trade preferences encourage Pacific Island economies to restrict themselves to producing a narrow range of primary commodity exports. Such a strategy can inhibit economic diversification, may limit foreign exchange earnings if prices are low (or exchange is unequal) and can lead to depletion, as was the case with former phosphate mining in both Nauru and Kiribati.

Pacific Island economies may also struggle to develop labour-intensive manufacturing industries in the face of overwhelming competition from China, a fear in a number of developing countries (*Financial Times*, 2012). Interestingly, a recent study comparing the performance of the Pacific Islands with the Caribbean during the global financial crisis concludes that the superior performance of Pacific Island economies was due to their dependence on commodities and, most notably, the strong demand for these commodities from China (Bedamu et al., 2010).

Investment and China

Economic relations between Oceania and China extend well beyond just trade. One of the most controversial linkages is through foreign direct investment (FDI), and in particular, the rapid rise in outward Chinese investment. While China is still a relatively minor investor in the world, accounting for just 1.5 percent of the total stock of OFDI in 2010, it has grown rapidly. In 2006 China accounted for just 1.6 percent of OFDI flows; by 2010 this had reached 5 percent (United Nations, 2011).

Both Australia and New Zealand have long depended on foreign investment and are increasingly targeted by Chinese investors. Both countries share a number of similarities with regard to Chinese investment. First, in both cases the level of inward investment is low, in absolute and relative terms, but it has grown rapidly in recent years. It was really after 2005 that Chinese international investment took off, and the desire for resources explains China's strong interest in Oceania. Second, Chinese FDI has distinctive features, some of which appear to be shared by both countries, including sectoral concentration, a preference for mergers and acquisitions and the importance of state-owned enterprises (SOEs). In the case of Australia, sectoral concentration is extreme, with almost 80 percent of Chinese investment in the period 2006-2012 going into mining and a further 12 percent into oil and gas (KPMG, 2012). In both countries Chinese investors appear to display a preference for entry through mergers and acquisitions (KPMG, 2012). SOEs dominate Chinese investment in Australia. Of the 116 completed deals undertaken by Chinese investors between 2006 and 2012, 92 (80 percent) were undertaken by 45 SOEs. SOEs were involved in more than 95 percent of transactions based on value (KPMG, 2012).

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Australia and New Zealand also display other similarities with regard to Chinese investment. For example, in both cases there has been considerable media and public disquiet with such investment. A 2012 Lowry Institute poll found that 56 percent of Australians felt that the government was allowing too much Chinese investment, and a much higher level (81 percent) were opposed to any foreign investment in farmland (Laurenceson, 2012). There has also been considerable media and public opposition to FDI in New Zealand, despite the country's reliance on such funds.

Within Australia attitudes towards Chinese investment have been influenced by a number of poor experiences. In 2009 several major Chinese mineral investments including the Chinalco/Rio, Lynas/China Non-Ferrous Metal Mining Group and Oz Minerals/China Minmetals deals were either blocked or subjected to significant amendment. An Australian government decision in 2011 to exclude Huawei from tendering for the National Broadband Network project because of suspected links to the Chinese military, a position held by the U.S. authorities (U.S. House of Representatives, 2012), added to uncertainty.

China has a strong interest in the resources of the Pacific region, and its investments have tended to follow this resource-seeking pattern. This results in Chinese investment focusing on those states that possess valuable resources such as PNG, Fiji and Samoa. However, in recent years there appears to have been some diversification, with more Chinese investment targeting infrastructure, agriculture and tourism.

Chinese investment has been strongest in Papua New Guinea with its wealth of minerals, forests and natural gas. China's investment stock in PNG quadrupled between 2005 and 2009 (Brindal, 2012). One feature of Chinese mineral investment is an apparent willingness to take on risky projects. For example, Chinese businesses have visited mines in Bougainville Island which were closed in 1989 at the start of a decade-long civil war.

In recent years Chinese investments in the region have begun to focus on infrastructure and retailing. Chinese involvement in PNG's retailing sector has been controversial. Local entrepreneurs believe that Chinese businesses attempt to exclude them. The result has been a US$57 million campaign to support local retail businesses (Smith, 2012). Resentment over Chinese monopolisation of retailing has been the trigger for anti-Chinese riots on a number of occasions. A number of island states have expressed concerns regarding the terms of assistance provided by China, in particular the requirements that lead contractors must be Chinese and at least half of the project materials sourced from China (Brant, 2009).

China and migration

China has a long history of migration to Oceania which continues today. The Chinese communities in Australia and New Zealand are the largest in the Pacific region. There were more than 1.1 million Chinese in Australia in 2011, 4 percent of the total population. The New Zealand situation is similar, albeit at a lower level. Chinese New Zealanders are the fifth largest ethnic group in New Zealand, comprising approximately 3 percent of the population at the last census. With high levels of upward academic and socioeconomic mobility, Chinese Australians and New Zealanders are among the best educated groups and comprise a large percentage of the educated class in both countries.

The experience with Chinese migration to the Pacific Islands is more troublesome. Estimates suggest that there were around 80,000 overseas Chinese in the Pacific Islands in 2006 with the heaviest concentrations in Fiji (20,000), Papua New Guinea (20,000) and Tonga (4,000). While overall Chinese make up less than 1 percent of the total Island population, their presence in more evident in places like Tonga, where they constitute 4 percent of the population and represent the main ethnic minority group.

It is worth noting that the Chinese community in the Pacific Islands is not well integrated. Communities tend to be distinct and are internally differentiated by a range of factors including place of origin, education levels and time of arrival. While business and professional connections may be developed, inter-marriage is unusual and family loyalty prevails.

The combination of poor integration and domination of small-scale business by Chinese migrants has contributed to considerable resentment and a violent backlash. The aptitude of Chinese retailers and stifled initiative that results from Island culture which dictates that profits be shared with both church and extended family has seen strong anti-Chinese discrimination and feelings.

China and crime in Oceania

China's influence on Oceania is both positive and negative. Offsetting the positive economic and strategic benefits of trade, investment and migration is the concern that closer integration with China brings undesirable activities, particularly crime.

The establishment of Chinese criminal networks in Oceania can be dated back to the 1970s when Singapore and Malaysia enacted a series of laws to control crime at the same time that Australia liberalised its immigration policy, facilitating Asian migration. In both Australia and New Zealand, Chinese gangs have been linked to human trafficking, extortion and credit card fraud.

There is growing concern about Chinese criminal activity within the Pacific Islands. Features of the Pacific Islands make them vulnerable to international crime. Economic weakness and instability make them attractive locations for criminal activity. In addition, their cultural and social diversity, sparse populations, geographical remoteness, pervasive corruption and poor governance are valuable for illegal activities (McCusker, 2006).

Chinese have been implicated in a number of areas of crime including people trafficking, drug smuggling, illegal gambling, extortion and prostitution.

There are also disturbing links between trade opportunities with China and illegal or environmentally damaging activities. In the case of PNG, which is China's foremost trading partner among the Pacific Islands, Greenpeace believes that up to 90 percent of logging in PNG is illegal, primarily because of a lack of consent from traditional landowners and poor enforcement of forestry regulations (Greenpeace, 2008). The Solomon Islands faces similar problems with its forestry industry. The strong demand for timber also encourages illegal land grabs (Winn, 2012).

Conclusions

The rise of China within the world economy has had a significant impact on the Oceania region. For many nations in the region China is now the leading trading partner, a key source of investment and a major source of migration. The economic benefits to the region of exchange with China appear substantial. This is largely the result of the considerable economic complementarities between China and Oceania. China's demand for resources – both mineral and agricultural – have sustained the region during the recent global financial crisis. Increasingly, China provides a massively important market for the products of the region. Unlike other areas of the world, much of local manufacturing does not find itself facing a Chinese competitive onslaught.

China's role in the region is evolving. The strategic and political maneuvering with regard to Taiwan and willingness to support marginal states may be a worry for the more developed powers in the region. However, there is little evidence to date that China is attempting to challenge the political situation in the region or to assume a leadership role traditionally held by the United States, Australia and New Zealand.

There is potential for broader mutually beneficial exchanges, for example in science and technology. China has expertise in infrastructure development,, which would be useful in the region; Australia has mining experience that would be useful to China while New Zealand is keen to share its agricultural technology and food quality capability. The future is likely to bring closer economic relations between China and Oceania.

Peter Enderwick, peter.enderwick@aut.ac.nz, is Professor of International Business at Auckland University of Technology, Auckland, New Zealand and Visiting Professor of International Business at University of Leeds, UK. His teaching and research interests include the growth of emerging markets, international labour issues and quality in global supply chains. He is the author of a number of papers and books including 'Understanding Emerging Markets: China and India' (Routledge, 2007). He is a member of the Academy of International Business and a founding member of the Australia New Zealand International Business Association.

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Endnote

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