

Australia's belt and road dilemma in the Pacific: is China a partner or competitor?

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A fraught debate in [Australia](#) surrounds the country's response to the [Belt and Road Initiative](#). Some suggest Canberra wishes to stand apart from [Chinese President Xi Jinping's](#) ambitious global trade strategy, but the reality is more complicated. Australia can actually point to a long and consistent position that has emphasised a willingness to engage.

Since May 2017 Australian leaders have publicly offered support for efforts to improve infrastructure and other development opportunities in the Asia-Pacific region, and have said Beijing and Canberra should explore the possibility of collaborating.

In November last year incoming Prime Minister Scott Morrison told [China's Caixin](#) magazine that his country was 'keen to strengthen engagement with China in regional trade and infrastructure developments that align with international standards of governance and transparency'.

Yet this positivity has come with limits and some apparent contradictions.

Australia has resisted signing a memorandum of understanding with Beijing on the belt and road, stating it preferred not to engage in generalities. But there was little hesitation in signing one with the [United States](#) to 'support infrastructure investment' in the Indo-Pacific region. The US document contained no specifics, no projects and no investments.

It is clear the Australian government wants to champion what it sees as basic standards for belt and road projects. The challenge it faces is how best to do this without taking an excessively competitive approach that also fails to support Australian businesses participating in the belt and road, as many companies are in favour of doing.

There are ways forward for greater cooperation. Jeff Wilson, research director at the Perth USAsia Centre, argues the most straightforward approach would be for Australia to actively engage with the Belt and Road Initiative by using the [Asian Infrastructure Investment Bank](#) as a guarantor of standards.

Another option would be to sign a general memorandum of understanding on cooperation with China that includes a clear statement of the standards with which Australia's engagement would proceed.

The Pacific – Australia’s front line

Nowhere is formulating an effective Australian response more important than in the Pacific. But indicative of an increasingly competitive approach, Canberra has established a A\$2 billion (US\$1.38 billion) Australian Infrastructure Financing Facility. In April Australia’s Export Finance and Insurance Corporation was also given a name change and granted more resources and power to support investment in the region, including through a new Trilateral Infrastructure Partnership between Australia, the US and [Japan](#). In June it was reported that an initial project for this partnership would likely be a \$1 billion LNG project in Papua New Guinea.

One motivation underpinning the infrastructure focus has been widespread allegations that Beijing is using ‘debt-trap diplomacy’ to gain leverage over smaller countries. This has been asserted by Australian ministers but also by the new US ambassador to Australia Arthur Culvahouse, who in March, less than an hour after being welcomed to Canberra by the nation’s governor general, warned of China’s ‘pay day loan’ diplomacy.

These claims don’t stack up. From [Africa](#) to Latin America, and most importantly for Australia, in the Pacific, academic research published in the last year has shown that unsustainable levels of debt are the exception rather than the rule, and that China is rarely to blame. In November last year the Australian National University’s Matthew Doran and Rohan Fox concluded: ‘Our analysis of debt in the Pacific strongly suggests the ‘debt-trap diplomacy’ argument is without foundation.’

But neither is the Belt and Road Initiative problem-free. A report released in June by the Asia Society Policy Institute, titled Navigating the Belt and Road Initiative, details an array of issues facing projects across [Southeast Asia](#). These range from agreements being pushed through too quickly and without proper assessments of the environmental and social impacts, to financing and debt problems, a lack of local stakeholder engagement, limited local employment opportunities, a lack of transparency, and corruption.

As the report makes clear, most of these issues can be traced to weak governance, poor oversight, graft and a lack of technical and financial capacity in host countries, rather than directly back to Beijing. Among numerous sensible policy recommendations, the report says developed nations should do more to build capacity in these countries, enabling them to ‘safeguard their communities, environment, economy and other national interests throughout the life cycle of their Belt and Road Initiative projects’.

Working cooperatively in this way with both China and the host countries would seem a logical step and a valuable contribution that Australia could make to promoting positive outcomes.

Collaborate, compete or challenge?

The Pacific region suffers from a readily recognised infrastructure gap. In some instances, competition for projects could bring economic benefits in the form of lower prices and higher quality assets.

A growing number of Pacific countries have signed formal belt and road agreements with Beijing – including the Cook Islands, Fiji, Papua New Guinea, Niue, Samoa, Tonga and Vanuatu – while the number recognising [Taiwan](#) over the People’s Republic is dwindling. The Solomon Islands is one of the latter, and is being actively courted by Beijing to join the Belt and Road Initiative. If maintaining the status quo in the region with regard to Taiwan is what matters most to Canberra, then its decision to compete on infrastructure in the Solomons may be warranted – on strategic, if not economic, grounds.

There could also be specific projects where an outright challenge is called for. The decision by the Australian government to install a A\$144 million, 4,700km fibre optic submarine cable system, linking Sydney to Honiara and Port Moresby, followed warnings by Australia’s national security agency of the risks that would be incurred were Chinese firm [Huawei](#) to provide it. The project was initially backed by the Asian Development Bank with a British-American company emerging as the favoured contractor, before allegations surfaced in mid-2017 that Huawei had promised then Solomons prime minister Manasseh Sogavare A\$6.5 million in political donations to secure the deal.

Both Huawei and Sogavare denied the allegations, and the Australian public were not privy to the details of the security agency's warnings, so observers were left with no choice but to trust the Australian government's judgment on the case.

In other instances, however, there should be little desire for Australia to launch headfirst into an infrastructure competition.

By the middle of last year Beijing had already spent an estimated A\$400 billion on belt and road projects. Australia's A\$2 billion in the Pacific pales in comparison. Of course, Canberra does not have to compete alone, and leveraging partnerships with countries such as Japan may help – in Southeast Asia, Japan has pending infrastructure projects worth more than China does.

But for Australia, there are alternative areas in which it can compete. Take education – some 9,300 students from across the region have in the last decade studied under the Australia Awards, a system of scholarships and fellowships. China is playing an increasingly prominent role in the global market for education, with more foreign students flowing in and Chinese students heading out. Expanding educational opportunities for Australia's neighbours builds on one of Canberra's comparative advantages, and is a competition with China that Australia is far more likely to win.

Similarly, in the workforce and cultural exchange, the expansion of the Pacific Labour Scheme, which allows people from Pacific island countries to work in low- and semi-skilled jobs in rural and regional Australia for up to three years, is another useful tool.

These alternatives to Australian-financed infrastructure projects may bring the country far more influence in the Pacific while at the same time making the region more resilient and self-sufficient.

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