



## **New Geopolitical Developments in the South Pacific: The Cases of Australia and New Zealand**

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### **Abstract**

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Since last year we have witnessed intense discussions about the geopolitical situation in the Asia-Pacific region. Doubts about the US long term strategic commitment to the region have gained ground and China has shown a growing assertiveness. Asian Governments are currently very aware of the importance of treading the political waters carefully.

This paper focuses on the South Pacific middle power, Australia, and its smaller neighbouring country, New Zealand. These two countries are a microcosm of the balance of power in the larger Asia-Pacific region. For a century Australia and New Zealand have, since their independence, been the regional powers in the South Pacific.

Both countries are trying to carefully navigate a path between the US and China. The present conservative Australian government continues to be strongly allied with the US politically. The new coalition government in New Zealand is still defining its foreign policy. However, the recent New Zealand vote on the UN resolution criticizing the US decision to recognize Jerusalem as the capital of Israel could possibly be an indicator of New Zealand's foreign policy direction. Together with 128 nations, New Zealand voted for the resolution whereas Australia abstained.

The author analyzes who is gaining and who is losing influence in this part of the world. The focus will be on security and defence trends in Australia and New Zealand as well as on their economic ties with the US and China. The author will also discuss their ties with the South Pacific Island Countries.

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## Analysis

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### 1. Security and Defence trends in Australia and New Zealand

#### 1.1 Security and Defense relations with the US

Australia and New Zealand are both aligned with the US in defence and intelligence.

The two countries cooperate closely with the USA under the Five Eyes Intelligence Sharing Agreement (as well as with Canada and the UK). The origins of this alliance date back to the post WW II and cold war eras. Australia is hosting a big intelligence facility in Central Australia, so is New Zealand on the South Island. There has been a division of labour for a long time: New Zealand is gathering intelligence throughout the Pacific Island countries while Australia focuses mainly on its neighbours in South Asia and East Asia.

In the defence area, the 1951 ANZUS treaty between the US, Australia and New Zealand is the foundation for the US military presence in the Pacific Ocean. The three countries fought side by side in the various wars since WW I and WWII in Europe, the Pacific, Korea, Afghanistan and in the Middle East.

Australia has always had very close US strategic and military ties and has long been the vital US ally in the Pacific. In 2014 the two countries signed a Force Posture Agreement, which paved the way for 1,200 US Marines to be permanently deployed in Darwin and for increased US aircraft rotations. In 2015 a Joint Statement on Defence Cooperation was issued outlining their future cooperation. Since 2005 they have held joint biennial military exercises. The last one in June 2017 in Australia involved over 33,000 US and Australian military personnel. The special ties have been reaffirmed in last year's bilateral meeting between President Trump and Prime Minister Turnbull. The American Government stuck to a previous deal brokered by President Obama and resettled refugees into the US who were detained by the Australian government in the Pacific island country Nauru, part of Papua New Guinea.

However, the recently published Australian White Paper on its Foreign policy in the next ten years reflects its worries about a growing instability in the region. It lays open Australia's new dilemma: balancing Australia's interests between its major security partner, the United States, and the growing assertiveness of China, its major economic partner. The alliance with the US continues to be a central pillar of Australia's security net. And Australia urges the US to remain involved in the region and claims: "The web of US alliances in the Indo-Pacific, especially with Japan, the South Korea and Australia makes an essential contribution to regional security."

The White Paper includes the Indian and the Pacific Oceans in Australia's security shield (previously only Asia Pacific without India), a notion, which was echoed by President Trump. Australia seems to assume that the US strategic dominance in the region can no longer be taken for granted with China challenging the US position in South East Asia. The White Paper warns of growing instability in the region and calls for closer ties with its regional partners Japan, India, South Korea and Indonesia. There seems to be a renaissance of the decade-old idea of the Quad, quadrilateral alliance in the India-Pacific region as an additional security net. At a meeting in January, the Japanese and Australian Prime Ministers agreed on a Visiting Forces Agreement to strengthen their military cooperation. Australia also plans to raise its defence spending from A\$ 34 billion in the next few years to to approximately A\$ 58 billion, which amounts to about 2% of its GDP. Australia recently purchased a substantial amount of US military equipment.

New Zealand has always been a more distant ally of the US. After New Zealand's ban on US nuclear warships in its waters in 1985, the military relationship between New Zealand and the US was frozen for almost 30 years.



The relations improved because New Zealand played a supportive role in various international conflicts and assisted the US in the fight against terrorism after September 11, especially in Afghanistan. This rapprochement continued during the Obama administration with Obama's so called "rebalancing towards Asia" or "tilt towards Asia". This tilt was proclaimed by the then Secretary of State, Hillary Clinton, at the Pacific Island Forum in the Cook Islands in 2012. With hindsight, that American "pivot to Asia" had been more focused on South East Asia, Australia, Japan and South Korea, than on the South Pacific. The 2012 Washington Declaration signed by the American and New Zealand defence ministers was the official icebreaker. In the same year New Zealand ground troops took part for the first time since 1984 in the biannual US led Rim of the Pacific exercises. The reopening of their strategic cooperation culminated in the visit by a US nuclear powered naval ship to New Zealand in 2016.

Being two maritime countries in the Pacific, one would have thought that it was in the best interests of New Zealand and Australia to cooperate more closely in the defence area. However, the history and the geography of both nations as well as the attitudes on defence and security issues are different (Michael Powles). Australia was attacked by Japan during WWI, but not New Zealand. Australia's closest neighbour is an ASEAN country, Indonesia, and a Pacific island country, Papua New Guinea. New Zealand is much further removed from any of these countries, Australia being its biggest and closest neighbour, followed by the South Pacific island countries and the Antarctic.

The new Australian focus on the Indo-Pacific is so far not shared by New Zealand. The maritime strategies of both countries thus have a slightly different geographic focus. The main common denominator is their interest in stability at their doorsteps in the South Pacific. New Zealand's maritime strategy is primarily focused on the protection of its own vast Exclusive Economic Zone (EEZ) and as a second priority on the South Pacific Ocean and the Antarctic. As a result, New Zealand is investing mainly on surveillance ships for its EEZ as well as ships for aid and disaster-related support for the South Pacific. Australia however, has more "combat oriented capabilities driven by needs in its northern maritime approaches" (Robert Ayson). At his Shangri-la speech in Singapore in June 2017, PM Turnbull pointed out that his government is investing in the largest naval expansion in peacetime. In line with Australia's new Indo-Pacific strategy the biggest Australian military purchase was an A\$ 50 bill contract for 12 long range submarines from France with advanced US weapon systems in 2017.

Both countries have been collaborating in the South Pacific on humanitarian missions with their navies and armies, most recently in Fiji in 2016 after cyclone Winston. The upcoming increase in Australian defence spending will not be matched by New Zealand as the New Zealand electorate and the past and present governments were more concerned about the need for social welfare and infrastructure spending.

## **1.2 Defense relations with China**

Australia and New Zealand both have a Strategic Defence Dialogue with China. But this cooperation is limited to senior level dialogue, hosting visits of Chinese naval vessels and to humanitarian relief drills in the South Pacific. Both Australia and New Zealand respectively, have regular exchanges and exercises with the People's Liberation Army (PLA). Australia is committed to strong and constructive ties with China; but it is critical of China's actions in the South China Sea and considers it a major fault line.

Australia has been among the most fervent opponents of China's territorial claims to the South China Sea. Its recent White Paper underlines that Australia is committed to strong and constructive ties to China but it also states: "We encourage China to exercise its power in a way that enhances stability, reinforces international law



and respects the interests of smaller countries and their right to pursue them peacefully". New Zealand, being a small state with a strong trade dependence on China, has been much more cautious in its response. Australia recently identified China's Liberation Army as a threat to Australia's sovereignty.

There have also been strong rebukes by the present Australian government against alleged recent Chinese interference in Australia's internal politics.

### **Security and Defence relations: Conclusion**

The US remains the dominant defence and intelligence power in the Pacific. The US-Australia Defence Alliance, the ANZUS triangular alliance as well as the American alliances with Japan and South Korea continue to be the anchor of American dominated security in that part of the Pacific region. Australia is hedging its bets by reviving the Quad partnerships. China, having only a weak military relationship with both countries, has not yet seriously challenged the status quo in that part of the Pacific.

## **2. Chinese and American economic ties with Australia and New Zealand**

### **2.1 Australia**

Strong trade bonds characterize China-Australia relations. China is Australia's biggest trading partner. Australian exports are mainly driven by China's massive demand for coal, iron ore, minerals such as rare earths and LNG. The Australian mining boom, however, has cooled off due to reduced demand from China and falling international commodity prices. Still, 33% of Australia's exports went to China (A\$ 95 billion) in 2016. The conclusion of a Foreign Trade Agreement in 2015 was useful for both sides, resulting in a 15% trade increase in 2016.

In terms of investment, China ranks only in 7<sup>th</sup> place with A\$ 87 billion contrary to public opinion. This is only 1/10<sup>th</sup> of what the US invests.

The Chinese tourism market into Australia is booming with a massive increase to 1,2 million visitors in 2017. The same is true for the Chinese students studying in Australia making up 30% of Australia's international students. The education market has become an A\$ 20 billion business in Australia.

The US is only the 6th largest export country for Australia (exports to US: A\$ 12 billion) with a drop in exports to the US of almost 10% in 2016. It has become, however, the third largest trading partner with A\$ 42 billion. And the US has been the number one investor in Australia for a long time (A\$ 860 billion in accumulated investment = almost 27% of all investments, mainly in finance and insurance). FDI in 2016: A\$ 193 billion

### **2.2 New Zealand**

New Zealand was the very first country with which China had an FTA in 2008. Since then, exports quadrupled and bilateral trade has tripled to NZ\$ 24 billion in 2016. China became New Zealand's biggest export trading partner with dairy products, especially baby milk formula and untreated logs. Australia is neck to neck as a bilateral trading partner. In fact, half of China's dairy imports derive from New Zealand. The bilateral FTA is in the process of being upgraded. Chinese overall total investment in New Zealand, NZ\$ 5 billion, amounts to only about 2% of total foreign investment in New Zealand. Chinese Foreign Direct Investment in 2016 amounted to NZ\$ 1 million. A record of 34,000 Chinese students study at New Zealand's universities. Thanks to special New



Zealand visa regulations granted to China, a record number of 400,000 Chinese tourists visited New Zealand last year.

There is no FTA between New Zealand and the US in place. The US and New Zealand have a trade volume of NZ\$ 16 billion. The US is New Zealand's 3<sup>rd</sup> largest trading partner. American companies, however, have much higher overall investments in New Zealand than China. (NZ\$ 36 billion, Rank 2) FDI in 2016: NZ\$ 600 million.

### **Economic Ties: Conclusion**

The US continues to have a very strong investment presence in Australia and New Zealand but China is the front-runner in the area of trade.

We see a similar pattern in both countries: Australia and New Zealand are valuable sources of raw materials for China's industrial production and for feeding its population. Concluding Foreign Trade Agreements had helped China to secure a pole position. It has been less interested in investing in these two countries. The dependence on China of main sectors of the Australian and New Zealand economies has increased (dairy, coal and iron exports but also tourism and universities). They are highly dependent on trends in the Chinese economy and risk being subjected to Chinese import restrictions or policy changes.

Australia and New Zealand saw the withdrawal of the Trump Administration from the Transpacific Partnership negotiations (TPP) as a massive setback to Pacific economic integration. However, both countries have since continued successful negotiations with the remaining nine countries – without the US. In November 2017 a revised agreement with the core elements of the "Comprehensive and Progressive TPP" (CPTPP) was reached in Vietnam with 20 provisions of the old agreement suspended. It was announced two weeks ago in Tokyo that the TPP 11 will be signed in March.

At the same time the Regional Comprehensive Economic Partnership (RCEP), the Chinese "counterproposal" to the TPP, is being negotiated with a number of countries including Australia and New Zealand. There are expectations that it can be finalised by the end of 2018.

Australia is reluctant to join the "Belt and Road Initiative" (BRI or OBOR) by the Chinese Government. BRI is a "game changer" (Australian Senator Penny Wong) as China is using its economic power for strategic aims. There is some reservation within the present Australian Government, as it has concerns about the security implications of China's involvement in large-scale Australian infrastructure projects.

New Zealand, on the other hand, has in 2017 signed a bilateral BRI Memorandum with China and has already identified infrastructure projects in the north of New Zealand. It was also the first country to become a member of the China led "Infrastructure Investment Bank (AIIB).

China is making good use of the economic void created by the US economic multilateral disengagement. And the eleven TPP members do likewise.

### **3. Ties with the South Pacific Island countries**

Australia, New Zealand and the US are the traditional development partners of the South Pacific Island Countries, 14 independent or semi-independent states and 22 territories administered by New Zealand, the US, France, the UK and Australia.



Australia is by far the biggest donor having contributed a total US\$ 6.8 billion since 2006, followed by the US (US\$ 1.7 billion), Japan (US\$ 1.2 billion), New Zealand (US\$ 1.1 billion) and the EU and its individual member states (appr. US\$ 1 billion 2014-2020).

Two-thirds of the total aid to the Pacific countries comes from Australia.

New Zealand, for a country its size, has made a considerable contribution of US\$ 1.1 billion since 2006. Both countries have strong economic, historic and cultural ties with their Pacific “hinterland”. This applies especially to New Zealand which has a large immigrant Pacific population comprising 11% of the country’s total population. Both countries have long been the biggest regional donors. However, they have lost some political clout during their economic and political sanctions against the then military regime of Fiji. The sanctions were initiated after a military coup in Fiji in 2006 and lasted until 2014.

China stepped into that vacuum and supported Fiji. It also financially helped Fiji create a new regional organisation, the Pacific Island Development Forum (PIDF) in 2013. PIDF was originally considered a rival to the Pacific Island Forum (PIF) The PIF, the foremost regional inter-governmental body, was created in 1971. Australia and New Zealand were founding members. The US and China, along with 16 other nations, are dialogue partners. In 2008 the PIF members suspended Fiji’s membership because of the military coup until Fiji’s democratic elections in 2014.

The USA considers the South Pacific as an important strategic area to safeguard its sea lanes in the whole of the Pacific. It has a substantial aid commitment to the Pacific which is spread over numerous programmes. The trade relationship is rather weak, altogether only approximately \$ 29 million exports to the US (2014, over 62% of all Pacific countries exports coming from the US protectorate Marshall Islands) The US Missile Defense base in the Marshall Islands in Micronesia is a vital link in its strategic Pacific defence strategy. The base on the Marshall Islands has become even more important since the recent North Korean threats of launching missiles towards the US mainland.

China has become the second most important trading partner for the South Pacific island countries. China’s real estate investment in a number of these countries has considerably increased, especially in Papua New Guinea.

China has also become the third biggest donor country in this region. It is hard to get concrete figures about China’s aid but it is estimated that from 2006-2014, China’s 218 projects in the region amounted to almost US\$ 1.7 billion. (*Philippa Brant, Lowy Institute*)

In Fiji, China already became the biggest donor; in Cook, Samoa, Tonga and PNG the second biggest donor. China’s aid often lacks transparency. Chinese assistance comes mainly in the form of large infrastructure projects with few or no strings attached (so called “hard aid”). Aid has mainly been given to countries that adhere to the One-China policy. 80% of China’s aid now comes as concessional loans which give an interest-free period followed by a period up to 20 years with interest rates that can be quite high (Prior to 2006 grants or interest free loans were given by China.). This can become a heavy burden for the smaller economies. Since the 1980s development assistance by Western donors had moved away from support for infrastructure projects towards sustainable cooperation projects: capacity building, poverty reduction strategies, good governance, budget assistance and climate change adaptation programmes. China has moved into the gap of necessary infrastructure projects.



It is also unfortunate that China is using mainly China sourced materials for its infrastructure projects. And its policy of migrating Chinese project workers to the Pacific countries has led to local unrest and considerable unease among the island communities (such as in Samoa).

The strategic aims of China in the South Pacific seem to be

1. an increase in political influence on these countries (the countries exercise their votes in the UN and other international bodies);
2. potential access to Pacific ports for its fishing fleets as well as access to maritime territories;
3. potential access to seabed mining.

Recently the Australian Minister for International Development raised the ire of China and some Pacific countries with her rather blunt criticism of Chinese aid to the South Pacific. It was a criticism that might have been better avoided by a major partner of the Pacific countries. However, it was the IMF and other institutions that earlier have raised concern over the sustainability of Chinese projects and the growing level of debt burden to China.

#### **4. New Geopolitical Developments in the South Pacific – A Conclusion**

We see a growing divergence between strategic-military and economic power distribution in the region. There are signs of China's increasing assertiveness and of US inclination to take on fewer responsibilities in the region. The middle power Australia and its neighbour New Zealand are trying to navigate these new waters.

The US maintains a strong investment and intelligence presence in Australia and New Zealand. It still has very close security and military ties with Australia and a strong presence in the Marshall Islands and as of lately military ties with New Zealand.

The withdrawal of the new US government from the TPP negotiations leaves a vacuum which has been quickly filled by the other eleven TPP partners and facilitates Chinese initiatives (RCEP, AIIB and BRI). China already is or will be the dominant trading partner in Oceania.

The US is the second biggest donor to the South Pacific islands after Australia, but China is increasing its footprint in the South Pacific.

Australia and New Zealand are in danger of losing their traditional political and strategic influence in the South Pacific due to four factors: the growing activities of China, a recent cut in Australia's development budget and previous economic and political sanctions by Australia and New Zealand (and many other countries) towards Fiji until 2014. The ambivalent positions of Australia and New Zealand regarding climate change issues have also been seen critically by the South Pacific island countries which are seriously threatened by climate change.

Fiji and other Pacific Countries have become more assertive in the last decade. There is a positive trend towards stronger cooperation among South Pacific island countries within the framework of the Pacific Island Forum and other Pacific institutions. South Pacific leaders basically welcome increased Chinese aid and investment as it helps them with infrastructure projects that the Pacific governments want. But it also poses a risk of political dependence and unsustainable debt for some of these small countries. In future, it might enable China



to exert significant political leverage over Pacific countries, especially on international issues affecting China's core national interests.

The South Pacific remains a region where geopolitical power is being redistributed. The winner of this ongoing power game is not yet clear but the scales seem to tip in favour of a more assertive China.

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**Remarks:** Opinions expressed in this contribution are those of the author.

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Dr. Schleich has also served in Singapore, Bangkok, Islamabad and London. From 1998 to 2001 she was the Deputy Head of the Asia Pacific, Africa and Latin America Department, Foreign Affairs Directorate, Office of the German Chancellor, Berlin. In 2001 she was appointed Head of the Department for International Environmental Policies at the German Foreign Office.

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