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The Pacific's New Market: Trading Aid for Votes

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One should not be surprised when Nauru, a nation of less than 10,000, is offered \$50 million from Russia. Nor should the opening of diplomatic missions from Georgia, Iran, and the United Arab Emirates in the South Pacific be remarkable when considering what is at stake. An economist might say that a market has emerged for purchasing votes at the United Nations.

As an unintended consequence of the UN system, at least 11 independent Pacific Island nations have found themselves in a unique position: they each have a vote at the United Nations and yet, because of their isolation, have little or no national interests in many of the distant disputes that fill the UN's agenda. With what is effectively a surplus of 'unused' votes, a market has been created where the service of voting at the UN is exchanged for monetary assistance.

For these island nations of the Pacific, their isolation and relatively small size have created developmental challenges. In response, aid has become big business. In 2009, these Pacific countries received one of the highest regional levels of per-capita aid, totaling \$184 per person. Although the more resource-rich Pacific nations like Papua New Guinea and Fiji depend on aid for less than 5 percent of their gross national income, other states such as Tuvalu and the Solomon Islands depend on foreign assistance for upwards of 40 percent of their national income.

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With such high levels of dependence on foreign aid, Pacific Island nations have sought to diversify their income sources away from traditional donors such as Australia, New Zealand, and the United States in the name of increased sovereignty. The result is that, over the past four decades, the island nations have actively encouraged the formation of an “aid market.”

The China-Taiwan rivalry is one of the best examples of this “market for votes” China and Taiwan have competed for diplomatic recognition in the South Pacific since the mid-1970s. Although there has been a “truce” between the two governments since 2008, the competition has retained much of its former character, with both states maintaining a strong aid presence. In 2009, it was estimated that Beijing’s aid in the South Pacific, including both grants and concessionary loans, totaled \$209.9 million, while Taiwan’s was \$60-\$90 million. Currently, China is the third-largest donor in the South Pacific, trailing only Australia and the United States.

The China-Taiwan rivalry highlights several unintended consequences of the competition for aid and influence in the South Pacific. First, these aid transactions have not been transparent. This has less to do with undermining Western development efforts and influence and more to do with market-based incentives. By not disclosing the details of their aid donations, both China and Taiwan hope to create a situation of imperfect information and pay below market price for the countries’ UN votes. Unfortunately, the lack of transparency means that the aid money is at risk of being embezzled, or used to corrupt domestic political systems in favor of incumbents, or even to fund violence.

Second, China’s growing emphasis on concessionary loans should be viewed with some concern. An estimated \$183.2 million of China’s \$209.9 million in aid in 2009 was in the form of soft loans. Particularly worrisome is that some states have overextended themselves with soft-loan debt—for instance, the Kingdom of Tonga holds debt equal to 32 percent of its GDP. The most prominent example is probably that of the Cook Islands, which took a Chinese loan to host the South Pacific “Mini Games,” only to have its credit rating downgraded in 2009 as a result.

One reason China may be using this soft-loan strategy instead of simply issuing grants could be to use the debt as leverage in the future, either when the truce with Taiwan is called off or any time



An unpaved road in the Solomon Islands. The need for infrastructure investment is a major factor driving Pacific Island countries to sell their UN votes for foreign aid. <http://www.flickr.com/photos/asiandevlopmentbank/5670098674/>

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China decides to call in a favor. Although many of these island nations believe that their debt will be forgiven, such leniency seems unlikely given the leverage it provides China. Instead, it seems that these loans, taken in the name of greater autonomy, may actually be causing Pacific Island countries to give up sovereignty to their creditors.



An Australian Army engineer sits with ni-Vanuatu children during an engineering project for Pacific Partnership 2011. Australia is the South Pacific's largest aid donor, spending approximately \$1.3 billion each year. http://www.flickr.com/photos/aus_defence_force/5734740689/

For traditional regional leaders Australia and New Zealand, this market for votes clearly poses a security threat. Both have pushed for greater transparency in the provision of aid, and these efforts have resulted in signs of a diminishing emphasis on checkbook diplomacy and a greater emphasis on infrastructure projects in the region. Nevertheless, the potential for instability remains. The lack of transparency in grant-giving has too often resulted in money being funneled to violence, as happened in 2000, when a \$25 million Taiwan grant was used to fuel violence in the Solomon Islands, and again in 2006, when Chinese aid likely supported the coup in Fiji.

Although the creation of a market for UN votes corrupts the international system to some extent, it is difficult to begrudge the small, isolated Pacific states for selling one of their most highly valued assets for aid. However, it is in the long-term interests of the United States,

Australia, New Zealand, and the peoples of the Pacific to ensure that aid and loans are used to their full potential—to fund development projects rather than fuel corruption, violence, and unsustainable economic burdens. As one of the traditional regional leaders, the United States has a great deal of soft power in the South Pacific and it would be in all parties' interests for it to use this political and social clout to press the islands' donors to be more responsible with their assistance. ▲

The Week That Was



A uranium mine in Kakadu National Park, Northern Territory. Northern Australia's mining boom has led the Australian Defence Force to recommend that troops be repositioned to protect the area. <http://www.flickr.com/photos/raquy/4184488588/>

AUSTRALIA

Australian Defence Force posture reviewed. The Australian Defence Force released its first posture review since the Vietnam War January 30 in recognition of the shifting power dynamic in the Asia Pacific. The review follows an economic study by Deloitte, released November 24, 2011, which forecasts that the mining boom in northern Australia will increase the area's strategic importance. Consequently, the posture review recommends a repositioning of defense capabilities to protect these key national assets.

17 asylum seekers feared trafficked. Seventeen Vietnamese boys vanished from low-security transit centers in Australia between June 2010 and May 2011, with authorities admitting they have not been searching for them. It is feared the boys, all younger than 15, have been trafficked. The revelation is the latest embarrassment for Australia as the country continues to struggle with government policy toward asylum seekers, most of whom arrive by boat from Southeast Asia.

Gillard faces controversy over Australia Day protests. Australian prime minister Julia Gillard and opposition leader Tony Abbot had to be ushered out of a Canberra restaurant by police on Australia Day, January 26, after an indigenous Australian protest turned violent. It was discovered the following day that Abbot's whereabouts were leaked to protestors by a member of Gillard's staff. The protests are part of a nationwide debate about whether Australia's constitution should be amended to give special recognition to indigenous Australians.

Flooding in eastern Australia sparks fears of wider disaster. Heavy rains in eastern Australia are sparking fears of a repeat of the flooding that devastated Queensland state from December 2010 to January 2011. The Queensland government evacuated 3,000 people from the hardest-hit town, St. George, which was engulfed by the Balonne River February 6. The 2011 flood caused approximately \$21.4 billion in damage as water inundated 70 percent of the state, including vital farmland and open-cut coal mines.

NEW ZEALAND

New Zealand announces formal "China Strategy." New Zealand prime minister John Key announced February 3 a formal strategy to improve economic ties with China. Key aims to attract investments in state-owned assets, including government debt securities and natural

resources. The announcement closely followed the January 27 purchase of 16 dairy farms by China-owned Shanghai Pengxin Group. Less than 1 percent of New Zealand farmland is owned by foreign investors and the purchase has sparked anxiety in some nationalist circles.

Residency laws reviewed after arrest of online piracy magnate.

New Zealand prime minister John Key announced January 29 an investigation into his country's residency laws following the January 21 decision to extradite megaupload.com founder Kim Dotcom to the United States to face online piracy charges. Dotcom, originally from Germany, was given residency in New Zealand under the "Investor Plus" program on the condition that he invest \$8.3 million in the country over three years. The review will investigate why Dotcom was given residency despite being refused permission to purchase a luxury mansion due to previous criminal convictions.

New Zealand and Australia launch study to deepen economic ties.

The New Zealand and Australian Productivity Commissions announced on January 30 that they will explore ways in which the two neighbors can strengthen their economic relations. The commissions will focus on steps to integrate the two countries' markets and will present their findings ahead of the 30th anniversary of the Trans-Tasman Closer Economic Relationship agreement in 2013.

PACIFIC ISLANDS

Attempted coup in Papua New Guinea fails.

Retired Colonel Yaura Sasa led 30 men in an unsuccessful coup attempt January 26 to reinstate Sir Michael Somare as prime minister of Papua New Guinea. The mutiny was the latest development in a struggle for power between Somare and Prime Minister Peter O'Neill that had appeared to end on December 19 when Governor General Michael Ogio recognized O'Neill as the country's legitimate prime minister. The coup failed when the military, police, and parliament backed O'Neill. All those involved in the coup except Sasa have been granted amnesty.

Russian diplomacy to expand into the Pacific.

Russian foreign minister Sergey Lavrov visited Fiji for the first time February 1 with the intention of expanding Russia's influence in the South Pacific. Australia and New Zealand expressed concern that the visit is an indication Russia intends to engage in "checkbook diplomacy" in the region by using aid money to buy votes in the UN. Such diplomacy was evident in a previous Russian push to



New Zealand hopes to attract Chinese investment in the country's natural resources, including farmland, under its new "China Strategy." <http://www.flickr.com/photos/quosi/3845167650/in/photostream/>

get South Pacific nations to recognize South Ossetia and Abkhazia. That initiative succeeded in gaining recognition of the two countries from Nauru, Tuvalu, and Vanuatu between December 2009 and September 2011.

South Pacific Tuna Treaty sees concessions for Pacific Islands. Pacific Island nations won key concessions from the United States during January negotiations in Nadi, Fiji, to amend the 24-year-old South Pacific Tuna Treaty. Most importantly, the United States agreed to pay a premium to access the 16 Pacific Island countries' exclusive economic zones and to compromise on which days U.S. vessels will be allowed to fish, addressing many of the grievances that caused Papua New Guinea to threaten to withdraw from the agreement last year. A final agreement now seems likely during the next round of negotiations in Honolulu later this month. ▲



Pacific Island nations seek to amend the Tuna Treaty to bring the number of days that U.S. tuna vessels are allowed to fish under scrutiny. <http://www.flickr.com/photos/lizardwisdom/2463546206/in/photostream/>

Georgetown hosts lecture on the legal impacts of the Christchurch quake. Georgetown University's Center for Australian and New Zealand Studies will host a lecture by John Hopkins on the political and legal impacts of New Zealand's response to the earthquake that devastated Christchurch on February 22, 2011. The lecture, entitled "Democracy and Disasters: A Canterbury Tale by John Hopkins," will be held at Georgetown's **Edward B. Bunn, S. J. Intercultural Center**, Room 462 on February 28 from 12:00 to 1:00 p.m. Dr. Hopkins is an associate professor at the Law School, University of Canterbury, Christchurch. Please RSVP [here](#).

ANZAC Day on April 25. ANZAC (Australia New Zealand Army Corps) Day will be celebrated in Australia, New Zealand, and Tonga on April 25. ANZAC Day was originally established to commemorate Australian and New Zealand troops that fought at Gallipoli during World War One, but is now celebrated in honor of all Australian and New Zealand soldiers, sailors, and airmen and women. The Australian and New Zealand Embassies in Washington, D.C., hold ceremonies each year to commemorate the holiday. For more information, visit the Australian Embassy's [ANZAC webpage](#).

New Zealand-U.S. Council 10th Anniversary Conference on May 4. The New Zealand United States Council will host its 10th Anniversary Conference on May 4 at the Sky City Convention Centre in Auckland. The theme of the conference will be "Growing Beyond the Crisis: The Trans Pacific Partnership—Prospects and Opportunities for Business." For more information, please visit the Council's website at www.nzuscouncil.com.

Australian American Leadership Dialogue July 15-18. The American Australian Education Leadership Foundations in Washington, D.C., and Melbourne will host the annual Australian American Leadership Dialogue (AALD) July 15-18 in Washington. AALD is a private bipartisan diplomatic initiative that brings together leaders from both countries to explore ways to strengthen the bilateral relationship. For more information, please visit www.aald.org. ▲

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