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Crossroads of Competition: China in Southeast Asia and the Pacific Islands
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Questions for you to address in your testimony:

What are the strategic and economic goals behind China's development finance to the Pacific Islands? What are the main economic priorities for Pacific Islands host countries in negotiating for development finance from China?

China's strategic aims in the Pacific Islands revolve around several key objectives. First, China seeks to expand its political influence among Pacific Island leaders, providing an avenue to secure strategic resources and establish a foothold beyond the "first island chain," a maritime barrier stretching from Japan and Taiwan through the Philippines to Indonesia. While resources in the Pacific Islands are limited—aside from notable exceptions such as Papua New Guinea—their strategic geographic location offers China opportunities to enhance its military and strategic footprint. By developing naval access points, logistical hubs, and dual-use infrastructure, China can project power further into the Pacific, potentially circumventing constraints imposed by the United States and its regional allies. Should Pacific Island nations actively invite Chinese military bases or strategic port development, there would be few legal avenues for the U.S. or Australia to counteract, as these sovereign states have the right to independently choose their strategic partners.

Second, China's growing influence in the Pacific Islands directly affects the United States' capability to maintain freedom of navigation, protect vital maritime routes, and uphold regional security alliances. If China successfully establishes strategic ports or dual-use facilities, the Chinese navy could significantly expand its operational range, monitor U.S. naval activity, and challenge American maritime dominance. Such developments would be especially consequential in a potential crisis involving Taiwan, complicating U.S. naval deployments, disrupting critical access routes, and hindering the American military's ability to respond effectively to threats affecting Taiwan, Japan, the Philippines, and other regional allies.

Finally, China is actively encouraging Pacific Island states to shift diplomatic recognition from Taiwan (the Republic of China) to the People's Republic of China. As of March 2025, most Pacific Island countries—including Papua New Guinea, Fiji, Samoa, Solomon Islands, Vanuatu, Tonga, the Federated States of Micronesia, Kiribati, and the Cook Islands—officially recognize the PRC. Currently, only three Pacific Island nations—Palau, Tuvalu, and the Marshall Islands—continue formal diplomatic relations with Taiwan, highlighting China's significant diplomatic achievements in the region.

What are the costs and benefits of Chinese development finance for Pacific Islands economies? How does Chinese development finance to the Pacific Islands differ from other traditional financing partners including Japan, Australia, and the United States? What gaps exist between the perception by host countries of Chinese development finance and the actual impact on economic development in Southeast Asia and the Pacific Islands?

The benefits and costs for Pacific Island economies associated with Chinese development finance are as follows. Chinese development finance allows Pacific Island elites to legitimize their rule through infrastructure projects, reinforcing their authority in the eyes of Pacific Islanders. Infrastructure projects often come with a sense of grandeur and are strategically leveraged by politicians linked to these developments. Practically, such projects empower elites by allowing them to distribute benefits to allies—for instance, choosing project locations, suppliers, and service providers. Consequently, Chinese development finance becomes a source of external patronage that incumbents exploit to solidify their power. Examples include the $13 million Stinson Parade Bridge in Fiji, benefiting local supporters of the Fijian government, and the $71 million National Stadium in the Solomon Islands, which Prime Minister Manasseh Sogavare used as justification to postpone national elections from May 2023 to April 2024, seeking to host the games prior to elections. The costs associated with Chinese development finance in the Pacific are primarily political, rather than economic, as the amounts involved are relatively small compared to China's spending elsewhere.

Comparatively, these projects in the Pacific are less expensive than China's expenditures in other regions. Notable projects include the $66 million Huawei Mobile Towers project in the Solomon Islands aimed at enhancing telecommunications, the $26 million Vatuwaqa Bridge and $117,446 for equipment at Navua Hospital in Fiji, and Samoa's $20 million National Broadband Highway fiber-optic network. Additionally, China funded the $5 million FSM-China Friendship Sports Center, the $19 million Apia Park Stadium renovation, Kiribati's $5.5 million Betio Sports Complex providing modern facilities, and the $4 million Cook Islands-China Strategic Partnership strengthening bilateral cooperation in infrastructure, trade, and investment.

Compared to initiatives by the US, Japan, and Australia, Chinese projects predominantly focus on physical infrastructure leveraged politically rather than aimed at genuine developmental advancement. Essentially, Chinese projects often become 'white elephants' with minimal developmental impacts. In contrast, Australia's investments include financial services support such as the $1.2 billion loan to ANZ Bank to enhance financial connectivity and $89 million allocated to security and policing. The US invested $37 million in undersea cable projects for telecommunications enhancement, while Japan, together with the US International Development Finance and Australia's Export Finance Australia, provided a $50 million credit guarantee assisting Australian telecommunications company Telstra in acquiring Digicel Pacific, serving Papua New Guinea, Fiji, Nauru, Tonga, Samoa, and Vanuatu.

The key exception is Papua New Guinea, where China has invested substantially, including a $414 million Port Moresby Infrastructure Development, a $1.3 billion loan supporting the liquefied natural gas sector, and the acquisition of the Frieda River Mining Project. Projects in Papua New Guinea typically focus on mining, are extremely large-scale, and cost hundreds of millions to billions of dollars.

What are the main Chinese banks, companies, and government organizations involved in development finance in the Pacific Islands? To what extent is are these entities implementing the Chinese government's priorities as opposed to pursuing commercial or other incentives?

The largest Chinese banks involved in the Pacific Islands include the China Export-Import Bank, the China Development Bank, and the major state-owned "Big Five" banks. Prominent Chinese firms active in the region include China Communications Construction Company (CCCC), China Harbour Engineering Company (CHEC), China Railway Construction Corporation (CRCC), and China Civil Engineering Construction Corporation (CCECC), alongside major telecommunications firms such as Huawei and ZTE. Additionally, hundreds of smaller private Chinese enterprises operate independently in the retail and wholesale sectors. Beyond these commercial actors, several organizations affiliated with the Chinese Communist Party (CCP) are also involved. These include the International Department of the CCP Central Committee, the Chinese People's Association for Friendship with Foreign Countries, and the United Front

Work Department, which engage extensively with local Chinese communities, build business networks, disseminate information, and expand China's overall influence in the region. All these entities operate through a blend of strategic and commercial motivations. Investments and development projects help expand China’s geopolitical footprint and manage domestic industrial overcapacity. In Papua New Guinea specifically, large-scale infrastructure projects strategically provide Chinese firms with greater access to valuable natural resources, including gold, copper, nickel, cobalt, chromite, and significant reserves of liquefied natural gas.

In the context of the Belt and Road Initiative (BRI), what strategies do host countries employ to extract concessions from Chinese investors? How has the balance of power between China and recipient countries in Southeast Asia and the Pacific Islands shifted over the past few years?

There are two common strategies host country elites employ to extract concessions from China under the Belt and Road Initiative (BRI). First, host country leaders cooperate closely with Chinese state officials, policy banks, and firms, often by providing political concessions. At a minimum, these concessions include switching diplomatic recognition from Taiwan to China, conducting state visits to China, and hosting Chinese leaders. Such political gestures are critical because the BRI's funding model depends largely on Chinese policy banks and major state-owned or private firms, whose investment decisions require approval and backing from the Chinese state. To gain this support, host country elites often portray themselves as cooperative, friendly, and politically accommodating partners by avoiding criticism of China's sensitive domestic issues, including policies related to Xinjiang, Hong Kong, Taiwan, or disputes in the South China Sea.

For example, in the Philippines, former presidents Gloria Macapagal Arroyo and Rodrigo Duterte accommodated Chinese interests in the South China Sea, enabling China's Coast Guard and maritime militia to assert de facto control over the Philippines' exclusive economic zones, leading to increased militarization. This political alignment made Chinese policy banks more willing to finance projects politically beneficial for both Arroyo and Duterte. Similar dynamics occurred during Najib Razak's tenure in Malaysia and Joko Widodo’s administration in Indonesia, where close economic ties with China constrained these leaders from openly confronting China, leading them instead to renegotiate projects quietly or maintain cordial diplomatic relations. Conversely, when incumbents, such as Benigno Aquino III and Ferdinand Marcos Jr. of the Philippines, resisted China’s actions in disputed territories, Chinese state actors and policy banks withdrew their previous financing commitments.

Second, incumbents sometimes strategically leverage competition among foreign investors to extract better terms from China. An example is Indonesia's Jakarta-Bandung high-speed railway. Initially, Japan offered a loan-based model, but Indonesia preferred foreign direct investment to facilitate technology transfer and reduce budgetary impact. When China presented a competing offer aligned with these preferences, President Joko Widodo’s government successfully secured a more favorable deal.

Incumbents may also exploit their strategic value to China to achieve concessions even in controversial areas. A notable case involved online gambling operations in the Philippines under Duterte’s presidency. Although China viewed these operations as criminal enterprises and wanted to halt their activities, Duterte protected them due to their financial contributions to his political campaign. Given Duterte's strategic alignment with Beijing at that time, China chose not to aggressively pursue these operations.

In recent years, the balance of power between China and Southeast Asian and Pacific Island nations has become more symmetric. Between 2014 and 2019, China emerged as a dominant regional actor, fueled by optimism around the BRI. However, controversies surrounding Chinese-funded projects, growing local backlash, and recent economic challenges in China have led to a reduction in Chinese investments and a shift toward greater caution among recipient nations. Host countries and their domestic opposition parties have become increasingly aware of the political risks associated with heavy reliance on Chinese financing, reducing China's dominance. Exceptions remain in more autocratic or junta-led states such as Cambodia, Myanmar, and Laos, where China's influence continues to hold significant sway.

Do local constituencies in the region perceive a difference between investments by smaller, ostensibly private Chinese firms compared with large state-led BRI projects? Does this have implications for U.S. investment in the region?

Local constituencies sometimes perceive a difference between smaller Chinese investments and large-scale, state-led Belt and Road Initiative (BRI) projects, although this distinction is not always evident. Often, smaller Chinese investments take the form of joint ventures with local companies, making it less apparent that they have Chinese backing. These firms typically adapt to local business practices, employ local labor extensively, and actively downplay their Chinese identities to avoid controversy. In the Philippines, for instance, there are more than 9,000 registered Filipino companies with some Chinese investment. Most feature majority Philippine ownership, while the Chinese investors hold smaller stakes, significantly reducing their visibility as "Chinese" enterprises. This contrasts sharply with large, state-backed projects, which frequently involve substantial publicity from host-country governments and often rely on imported Chinese workers, generating more local controversy. Smaller-scale Chinese projects, especially those related to education or agricultural research, generally do not provoke similar skepticism or concern among local communities. Initiatives such as Chinese-funded language education grants in the Philippines or Chinese disaster-relief support in Indonesia are typically viewed positively, without the suspicion often attached to large infrastructure investments. For the United States, this differentiation in local perceptions suggests that the strategic focus should not be on scrutinizing small-scale Chinese investments. Instead, U.S. investors should emphasize transparency, good governance, local job creation, and adherence to local regulatory standards. By doing so, the U.S. can effectively build a positive local image and differentiate itself from large, controversial Chinese state-led projects.

What is the role of host governments in Southeast Asia and the Pacific Islands in attracting Chinese BRI investment? What domestic economic and political considerations do they take into account when choosing to work with Chinese banks and construction firms?

As discussed above, host-country governments often provide political concessions to China, subsequently allowing them to secure economic projects beneficial to the Chinese state. However, the nature of these arrangements varies by sector. In Indonesia, for example, substantial nickel reserves in Sulawesi and President Joko Widodo's policy of banning nickel ore exports encouraged Tsingshan, a leading Chinese conglomerate, to relocate smelters and refineries to Indonesia. This provided Tsingshan with a comparative advantage in accessing both raw and refined nickel products over competitors operating within the country.

In other instances, Chinese policy banks and firms seek assurances that host-country governments will protect their investments from domestic political opposition. For example, Indonesia's Jakarta-Bandung High-Speed Railway (also known as Whoosh) was structured as a joint venture between Indonesian and Chinese firms, ensuring the involvement of Indonesian state interests and thus reducing political risk. Similarly, in the Philippines, China's telecommunications investments took the form of Dito Telecommunity, a joint venture with the Philippine firm Dito CME Holdings Corporation, a subsidiary of Udenna Corporation owned by Dennis Uy, a major financier and supporter of then-President Rodrigo Duterte. Uy's close connection to Duterte provided China assurance that the incumbent administration would safeguard the project against potential local opposition. However, such assurances do not always guarantee success: despite Malaysian Prime Minister Najib Razak's initial strong support and political backing, Chinese EXIM Bank's loan to Malaysia's East Coast Rail Link faced significant domestic opposition, forcing renegotiation.

For host-country elites, interactions with Chinese investors typically yield a combination of political and economic advantages. Political benefits frequently hold greater immediate importance, as Chinese-funded projects enable leaders to legitimize their rule, reward political allies through project-related contracts, or demonstrate their ability to deliver tangible development. Nevertheless, development impact remains crucial. Host-country governments also carefully consider potential domestic backlash, especially if Chinese firms exert significant control over key benefits such as employment or if the projects carry sensitive geopolitical implications, as is often the case with infrastructure investments in sectors such as telecommunications and ports.

To what extent have Chinese companies provided equipment and investment in critical infrastructure in the region? Please touch on:

In Southeast Asia and the Pacific Islands, Chinese companies have significantly influenced infrastructure development across multiple sectors. Between 2010 and 2019, Chinese firms invested around $11 billion into port infrastructure in Southeast Asia, driven largely by state-owned enterprises (SOEs) such as COSCO Shipping Ports and China Merchants Ports. Other notable enterprises like China Communications Construction Company (CCCC) and its subsidiary, China Harbour Engineering Company (CHEC), along with China Railway Engineering Corporation (CREC) and China Railway Construction Corporation (CRCC), have also provided considerable expertise and financial resources for developing port terminals, roads, and railways. Prominent examples include Malaysia's Kuantan Port, Cambodia's Sihanoukville Port, Myanmar's Kyaukphyu Deep Sea Port, and Papua New Guinea's substantial Port Moresby Infrastructure Development Project.

In the energy sector, Chinese involvement has been extensive, especially in hydropower, oil, and gas. By 2017, Chinese companies had participated in approximately 41% of all foreign hydropower projects in Southeast Asia. Key energy companies include China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC), which lead major oil and gas exploration, refining, and pipeline initiatives. Additionally, Power Construction Corporation of China (PowerChina), China Three Gorges Corporation (CTG), China General Nuclear Power Group (CGN), and State Grid Corporation of China (SGCC) have played central roles in renewable energy, hydropower, nuclear power, and electricity transmission. Notable projects include Laos's Nam Ou River Cascade Dams developed by PowerChina, Myanmar's Shwe Gas Project spearheaded by CNPC, and electricity grid investments by SGCC in the Philippines.

In telecommunications, Chinese companies, particularly Huawei Technologies and ZTE Corporation, have established extensive digital infrastructure, including fiber-optic networks and advanced 5G systems across Southeast Asia and the Pacific Islands. China Mobile and China Telecom further expanded telecom services and data center capacities, reinforcing China's digital presence under the Digital Silk Road initiative. Notable telecommunications projects include Dito Telecommunity's network in the Philippines, Huawei's extensive telecommunications infrastructure across Southeast Asia, and submarine fiber-optic cable projects linking Papua New Guinea and Vanuatu.

In contrast, Chinese investments in the Pacific Islands have been comparatively modest, totaling approximately $1.17 billion in construction contracts in 2023, primarily targeting infrastructure projects in port and energy sectors, with fewer direct investment engagements compared to Southeast Asia.

How has China’s desire to lock in natural resource inputs impacted Chinese BRI and other forms of investment in the region?

China’s acquisition of natural resources in Southeast Asia and the Pacific Islands directly influences its Belt and Road Initiative (BRI) and other development finance strategies in three ways. First, China’s acquisition of natural resources in Southeast Asia and the Pacific Islands significantly shapes the Belt and Road Initiative (BRI) and other forms of development finance. A key strategy involves targeting the auxiliary physical and digital infrastructure projects, including roads, railways, sea lanes, internet connectivity, and telecommunications. These projects are designed to increase economies of scale and lower transaction costs for companies operating in resource-rich areas. Well-developed infrastructure, such as bridges, highways, and ports, facilitates the efficient transportation of raw materials, making extraction more cost-effective. For example, when robust road and port systems link mining operations to distribution centers and export hubs, companies can streamline logistics, reduce transportation expenses, and improve overall efficiency. Furthermore, securing control over the auxiliary infrastructure surrounding large-scale physical projects effectively excludes competing actors and forces them to operate within the Chinese economic ecosystem. In Indonesia, for example, U.S. and European investments in industrial parks ultimately grant them access to China’s dominance over nickel resources. This dynamic creates a spillover effect, where Western investments inadvertently reinforce Chinese firms' control over supply chains. By structuring these industrial zones to favor Chinese companies, China gains the ability to dictate terms, limit competition, and potentially exclude rival investors from direct resource access.

Second, Chinese investments in the region are characterized by vertical and horizontal integration, particularly in the natural resource sector. Specific Chinese firms dominate different resources within CHina, ensuring control over entire supply chains. Zijin Mining, which operates over 60 subsidiaries within China, leads copper extraction. Tianqi Lithium holds major lithium investments in Chile and Australia, while Tsingshan Holding Group dominates nickel production. This domination extends outside China, affecting their investment pattern elsewhere. These companies also extend beyond extraction, investing across various industries and infrastructure projects to consolidate their market position.

A prime example of this strategy is Tsingshan’s joint venture with Bintang Delapan, an Indonesian mining company, which led to the creation of a massively integrated industrial park. This park includes ports, an airport, a five-star hotel, refineries, smelters, and processing plants, employing over 100,000 workers, primarily Indonesians. The industrial ecosystem surrounding the park consists of Tsingshan-linked companies that control construction, port operations, mining, and logistics, ensuring that every aspect of production remains within the company's network. A similar pattern can be observed with Tianqi Lithium’s investments in Chile and Australia, which span mining, construction, distribution, and shipping, reinforcing Chinese firms’ dominance over critical mineral supply chains.

Third, when faced with domestic opposition or regulatory barriers, Chinese companies often resort to informal extraction methods to maintain access to resources. In the Philippines, for example, Chinese firms have been blocked by both domestic and Western mining companies. In response, they have bypassed regulations by partnering with local elites, including mayors, governors, and warlords, to facilitate illicit extraction through artisanal and small-scale mining (ASM). This practice exacerbates informal economies, strengthens warlordism, and contributes to unregulated grey-sector activities. Similar patterns have been observed in Indonesia, Peru, Ghana, and the Democratic Republic of Congo, where Chinese firms have taken advantage of legal loopholes and informal networks to maintain their hold over valuable resources.

In sum, China’s development finance and BRI investments in Southeast Asia and the Pacific Islands are closely tied to resource extraction strategies that integrate infrastructure, logistics, and processing under

Chinese state and private control. While these projects enhance China's supply chain efficiency and resource security, they also raise concerns regarding debt sustainability, environmental degradation, and political instability in host countries. The ability of local governments to regulate these investments and balance foreign influence will play a crucial role in shaping the long-term economic and geopolitical impact of Chinese development finance in the region.

The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?

I propose the following recommendations. First, the U.S. should substantially increase funding for the U.S. International Development Finance Corporation (IDFC). Over the past decade, a key challenge has been the inability of the U.S. to compete effectively with China in economic projects, largely because the U.S. model relies heavily on private-sector-driven investments without direct government involvement. Typically, the U.S. government tries to incentivize private firms by pairing them with host-country partners and providing limited IDFC support, often through feasibility studies or small grants, to reduce transaction costs. However, U.S. companies invest only when significant returns (ROI) and bankability are evident. In contrast, Chinese firms often benefit from extensive state support, including substantial upfront subsidies and long-term financing guarantees. By increasing the IDFC's budget from its current $7 billion to approximately $100 billion, U.S. firms would have far stronger incentives to invest abroad. This dramatic increase in funding would reshape the investment landscape, empowering U.S. companies to more effectively compete with Chinese enterprises.

Second, the U.S. should incorporate American businesses into diplomatic dialogues, specifically through platforms facilitated by the State Department. Historically, the U.S. has engaged primarily with NGOs or civil society groups through diplomatic channels, which, while valuable, often prioritize agendas that might not align directly with enhancing economic development or increasing capital inflows. Including U.S. businesses in these diplomatic processes would substantially lower their transaction costs by helping them establish partnerships and navigate local business environments at an early stage, thereby promoting greater investment opportunities.

Finally, it remains crucial for the U.S. to prioritize collaboration with civil society organizations and NGOs to ensure that development projects meaningfully address local needs. Actively involving civil society groups in consultation, planning, and implementation will enhance project legitimacy, help ensure projects align with local needs, and build deeper, sustainable ties with communities across Southeast Asia and the Pacific Islands.