Is the Pacific Ocean big enough for both China and the US?

In recent years, China has been expanding its presence in the Pacific Ocean, exerting its sphere of influence both over its closest neighbors -- Japan, South Korea and Australia -- and the global "Pacific superpower" - the United States.

In light of the annual leaders’ summits between the US and China, the latest of which took place in late September 2015, the world media usually pay particular attention to the situation in the South China Sea, where China plans to take control of "what is possibly the most important sea trade route in modern geopolitics and the world economy". However, little is made of another important issue: the reinforcement of China's presence in another Pacific region that is strategically important for the US - Micronesia.

Despite the fact that at all high-level summits with US representatives since 2013, Beijing has been saying that there is enough space in the vast Pacific Ocean to accommodate both China and the US, China's capital incursion into the key US possession of Micronesia began in the mid-2000s and has intensified ever since.

Micronesia is a vast area in the Pacific Ocean with a population of about half a million people, located between Australia, Taiwan and Hawaii. Micronesia includes five independent countries: the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru and Palau; as well as three U.S. territories: Guam, the Northern Mariana Islands and Wake Island. American air and naval bases have been stationed here since the Second World War, the largest of which is on Guam. In the 1950s and 1960s, the US conducted nuclear tests on the Wake atoll. The United States also placed other strategic installations on the islands of Micronesia, thereby turning Micronesia into its most important outpost in the Pacific.

The US dollar allows the US to maintain its strong position in Micronesia. It is the official currency in the Federated States of Micronesia, the Marshall Islands, Palau, the Northern Mariana Islands and Guam. Nauru uses the Australian dollar, and the Kiribati dollar is pegged to Australian dollar at a 1:1 ratio.

Significant dollar subsidies play a key role in the US maintaining its position in Micronesia. However, after the crisis of 2008, Washington cut the annual funding to Micronesian territories by almost a third. And Chinese capital began to fill the void.

Moreover, shortly after coming to power in November 2012, Chinese President Xi Jinping set a new foreign policy in China. In particular, he declared that security in Asia should be provided by Asians. In other words, it's high time to reduce the US military influence in the field of Chinese interests.

This concept also applies to the countries of Oceania, of which Micronesia is the closest to the United States. Chinese capital has gradually taken hold in all 23 countries and dependent territories in this vast region. As a result, Chinese investment has exceeded that of France in the French territories, especially in Tahiti (French Polynesia). This could lead to the imminent secession of Tahiti from France, with the territory becoming directly dependent on
China. Since 2014, China has been planning to install its first military base in the central Pacific Ocean in Tonga, which can’t pay its debts to China. Investments by China there already exceed 40 percent of the Tongan budget. Other potential locations for the installation of Chinese bases are Samoa and Papua New Guinea, which also are in deep with China.

Finally, Micronesia appeared on the map of Chinese expansion in the Pacific in 2015.

For example, the Federated States of Micronesia, which are linked to the US by the Compact of Free Association signed in 1986 and extended in 2003 till 2023, are on the receiving end of Beijing investments, sometimes in excess of capital injections from the US. Additionally, part of the Chinese subsidies go into a trust fund established with the aim of supporting the economy of the Federated States of Micronesia following its independence in 2023 (i.e., after the funding from the United States dries up).

Palau is the most "Americanised" country in the group in terms of lifestyle, and it is Micronesia’s preferred destination for Chinese tourists. Brochures sometimes refer to it as the "America of the Pacific." Given that travel to mainland America presents the Chinese with financial and bureaucratic difficulties, Palau is much less of a hassle for them. The volume of tourists from China to Palau makes up about 70 percent of the total tourist influx. This is of particular note because the budget of the Palau is 85% dependent on tourism. Chinese business success in Palau is connected with the tourist industry. In turn, the Chinese diaspora could soon attain economic as well as political influence on the island. The establishment of the Palau-China United Association in November 2015 to assist new arrivals of Chinese who want to do business in Palau can be regarded as a prerequisite for this. This organisation also promises direct financial assistance to Palau’s educational institutions to "promote its development and prosperity."

Thanks to Washington’s efforts, Guam alone is steadfastly holding the Chinese tourist “tsunami” at bay. The influx of tourists from China accounts for only 1% of Guam’s annual total. However, Beijing is making huge investments via banks in Guam, and this is increasing every year. Moreover, in the past few years, China and Guam have been trying to agree on a visa-free regime but so far without success. Due to the complexity of the situation in the South China Sea, not far from Guam, a troop increase is expected at the American military base on the island. Consequently, while curtailing its funding for other Micronesian territories in its control, Washington is holding steady in its support for Guam in order to prevent the growth of Chinese influence.

As a result, China and the US are doomed to compete in the Asia-Pacific region. Many experts tend to conclude that the world is on the threshold of a new era: a US-China cold war.

Lastly, I would like to point out that the rise of Chinese influence in the regions and spheres formerly controlled by the United States has been so significant in recent years that scientific conferences are being held at universities all over the world on this acute issue. In particular, one such conference will be held at the Institute of Oriental Studies of the Russian Academy of Sciences in late November. The author hopes that the results will demonstrate the full reach of Chinese expansion in the "American" territories.

Sophia Pale, PhD, Research Fellow of the Center for South-East Asia, Australia and Oceania of the Institute of Oriental Studies of the Russian Academy of Sciences, exclusively for the online magazine "New Eastern Outlook."