

Scott Morrison seized the opportunity of his Jakarta weekend visit for Indonesian President Joko Widodo's inauguration to obtain a meeting with Chinese Vice President Wang Qishan.

Morrison told a news conference he had come out of the discussion "pleased that there is, I think, a very clear understanding of where Australia is coming from, our commitment to the relationship".

"It was a chat that we had very much in the spirit of the partnership that we have, and very much inoculated from all of the assessments that are made about the relationship," he said.

The meeting comes after Morrison's description, while in the United States, of China as a "developed" economy, which China rejects. More generally, the relationship between the two countries has been very cool, with tensions on several fronts including Australia's strong legislative stand against Chinese interference.

The discussion with Wang did not see an invitation for Morrison to visit China. The Prime Minister said Wang was an envoy of President Xi Jinping and not in a position to issue any invitation.

Wang, speaking at the start of their discussion, made it clear Australia had sought the meeting and Xi had given his approval for it. The discussion went for almost double the half hour scheduled.

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Morrison told reporters he'd made the point "which was well received, that Australia is an independent, sovereign nation.

"Yes, we are very much proud of our Western liberal democratic tradition, our open economy and our engagement with the rest of the world and that gives us a set of eyes that look into the world very much from our perspective."

But he had also stressed "that we will never feel corralled into any sort of binary assessment of these relationships" - assessments that said "pro-United States or pro-China".

Meanwhile a Lowy Institute report, released Monday, warns that without an increase in its total aid budget Australia could be increasingly at a strategic disadvantage in the Pacific.

The research, which focuses on China's expanding role there, concludes that so far "China has not been engaged in such problematic debt practices in the Pacific as to justify accusations of debt trap diplomacy". But the scale of its lending and recipient countries' lack of strong mechanisms to protect their debt sustainability mean there are clear risks, the paper says.

In contrast, Australia's infrastructure lending plans contain rules to protect the sustainability of borrowing countries.

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Making a strong call for a rethink of the overall Australian aid budget, the paper argues: "Today, Australia's strategic goal of doing more in the Pacific is boxed in by a limited aid budget, the desire to avoid cutting back on other important development priorities (such as health and education, or aid to countries outside the Pacific), and the need to avoid causing debt sustainability problems by relying too heavily on non-concessional lending.

"If Australia want to do more, one of these constraints needs to be relaxed. Increasing the overall aid budget would be the most desirable option," the paper says.

Also, "China might itself begin providing substantially more grant financing in the Pacific. In that case, a stagnant aid budget would increasingly place Australia at a geostrategic disadvantage".

The paper, titled "Ocean of debt? Belt and Road and debt diplomacy in the Pacific", has been prepared by Roland Rajah, the head of the Institute's international economy program, Alexandre Dayant, and Jonathan Pryke, the head of Lowy's Pacific Islands program.

The work draws on data from the Institute's Pacific Aid Map, the International Monetary Fund and the Asian Development Bank to examine China's development finance in the Pacific.

It says China is the single largest creditor in Tonga, Samoa and Vanuatu, although only in Tonga does it account for more than half outstanding debt. "With the important exception of Tonga, China is currently not a dominant creditor in the Pacific."

But the analysis finds: "there are significant risks of future debt sustainability problems under a business-as-usual scenario for bilateral Chinese lending", pointing in particular to the situations of Vanuatu, Samoa, Tonga, and Fiji and Papua New Guinea.

"China will therefore need to reconfigure its approach significantly if it wants to disprove the debt trap accusations made by its critics," the paper says, while noting it has taken some steps in this direction.

"Protecting debt sustainability in Pacific countries will also require Australian loans to be as concessional as possible, given elevated debt risks and the often limited economic viability of many infrastructure projects in the Pacific," the paper says.

The competition among major powers gives Pacific countries an opportunity to press for

Morrison says China knows 'where Australia is coming from', after meeting Chinese vice-president

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advantageous financing and better project management, it says.

For their part external players should avoid “geopolitically-driven” assistance aimed at “short-term wins” at the expense of the reforms and improved governance the countries need.

Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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