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The Great Game in the Pacific Islands

DATA SNAPSHOT

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August 2024



LOWY INSTITUTE



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Cover image: HMAS Adelaide passes Papua New Guinea police officers patrolling the foreshore (James D. Morgan/Getty)

This Data Snapshot is published under the Geopolitics in the Pacific project, part of the Lowy Institute's Pacific Islands Program, supported by the Department of Foreign Affairs and Trade. The views expressed in this publication are the authors' alone and are not necessarily the views of the Australian government.

Published 22 August 2024

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Version 2024-08-22.8F6F654

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Key findings

- **The Pacific’s geopolitical landscape is increasingly competitive and dynamic.** The previous dominance of Australia, the United States, and New Zealand as political and development partners is being directly challenged by China. All recognise the geographic, diplomatic, and natural resource attributes of the region, and want to maximise their own stake while frustrating the ambitions of their competitors.
- **The Pacific is poised for more geopolitical shocks** that could disrupt its political, economic, and security landscapes, and strain regional cohesion. Climate change risks are also increasing, impacting territorial integrity, economic stability, and human security. Economic hardships and political instability will continue to cause intermittent disruptions.
- **Pacific Island countries are asserting their needs more boldly in international engagements,** asking for better deals on trade, labour mobility, digital connectivity, and climate resilience. They are pushing traditional partners such as Australia and the United States to move beyond donor–recipient relationships towards more balanced partnerships that reduce aid dependency and promote economic development.

Introduction

Pacific Islanders have found their region, previously undervalued by larger powers, now a focal point for strategic competition.

Geopolitical competition in the Pacific Islands region is intensifying. From deals on policing in Solomon Islands to building parliamentary complexes in Vanuatu, China’s outreach and activities in the region appear indefatigable. In the words of Australia’s Foreign Minister Penny Wong, Canberra and its partners are locked in a “state of permanent contest” with Beijing over influence in the region.¹

Pacific Island leaders used to complain that Australia and its Western partners paid too little attention to the region. No longer. Hardly a week goes by without a new initiative by Australia and others — involving more aid, more loans, or more defence cooperation — to counterbalance China’s deepening reach into key sectors such as policing and telecommunications.

Faced with this new “great game”, Pacific Island countries have become diplomatic price-setters and are leveraging increased competition to maximise development benefits. But unbridled strategic rivalry also presents challenges to good governance and transparency in the region, with opportunities for local political actors to advance narrow political interests over national interests.

At the same time, the region is grappling with a human-made calamity like no other in the form of climate change and rising sea levels, a lost decade of development following the Covid pandemic, and the persistent challenges associated with geographic remoteness and dispersal.

What makes the region so strategic?

The interests of great powers in the Pacific are driven by a combination of rivalry, geography, resource access, diplomatic advantage, and historical legacy.

The weighting and hierarchy of these interests vary between great powers.

The proximity of Pacific Island countries to key maritime routes has historically attracted the attention of global powers. In addition, the region's vast Exclusive Economic Zones (EEZs) encompass globally valuable assets, from fisheries to seabed minerals.



Maritime domain awareness is critical in this region because of its location between Asia, North America, and Australia. Who exercises control over transport routes, telecommunications assets, critical infrastructure, and the region's bountiful resources is of strategic importance to the major powers, as are the governance norms that underpin the associated transnational institutions, such as the Pacific Islands Forum.² The region will remain significant in the defence strategies of major powers. The location of Pacific

Island countries provides advantages for monitoring and controlling naval movements across the Pacific.

In addition, there are numerous existing or potential deep-water ports in Pacific countries, including in Solomon Islands, which have value for both commercial and defence purposes, allowing ship servicing and resupply. The importance of robust supply chains and critical facility access for the Pacific Island countries and their partners has been demonstrated during economic, health, and environmental crises.

The Pacific is also criss-crossed by undersea cables that are vital for global communications networks.³ The strategic vulnerabilities and opportunities for influence lie in which actor builds and controls the undersea infrastructure, and where the connecting nodes and landing stations are situated. As technological “de-risking” between China and the West progresses, trusted communications networks become more valuable.

Finally, the diplomatic value of strong relations with Pacific Island nations can enhance a country’s standing in regional and international political arenas, providing influence in multilateral settings, given the 14 United Nations votes they command.

China’s growing reach

The geopolitical landscape in the Pacific is becoming more contested and dynamic.

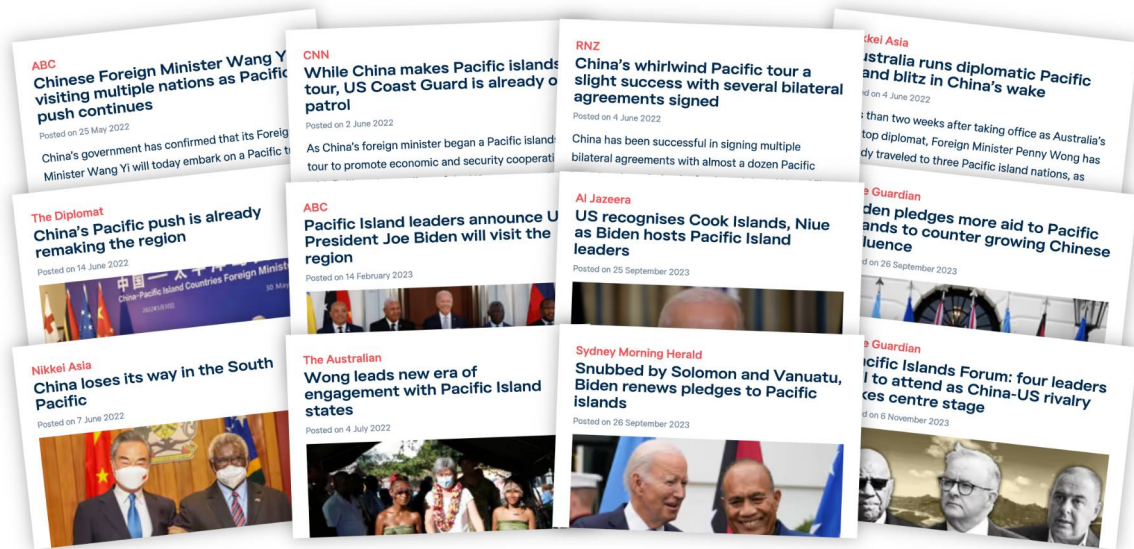
For decades, Australia, the United States, and New Zealand have been the dominant development and security partners in the region, while China focused mostly on winning support for its “One China” policy, steadily stripping Taiwan of diplomatic partners, and increasing its access to Pacific resources for economic gain.⁴

But China’s diplomatic reach is expanding and targeting strategically important countries and sectors, relentlessly cultivating regional political elites with offers of assistance that meet local political imperatives and provide China with inroads and access.⁵ For example, the 2022 China-Solomon Islands security pact boosts Solomon Islands security capacity, equipment and training while allowing Chinese naval vessels port access for servicing, and includes provisions for deployment of Chinese security forces to protect Beijing’s interests and the ethnic Chinese diaspora in Solomon Islands.⁶

China has become a major player in development finance, diplomatic outreach, and critical infrastructure such as ports, airports, and telecommunications.⁷

Working both bilaterally and regionally, China is pushing to play a greater role in key sectors such as the military, policing, digital connectivity, and media.⁸

Traditional partners such as Australia and the United States worry that the regional balance of power is changing and their influence is waning.⁹



Diplomatic activity ramps up

As the strategic stakes rise, bilateral and multilateral diplomatic engagements have intensified for Pacific countries.

The frenetic tempo of global diplomatic outreach to the Pacific underscores the intensity of competition between the powers.

But this sustained engagement can quickly overwhelm local systems, creating a bandwidth problem that impacts local governance and development priorities.

Pacific Island countries are sometimes left wondering about the tangible benefits of more frequent and diverse high-level interactions.

Playing for diplomatic advantage

Major players are scaling up their regional presence and diplomacy to build connections and win diplomatic advantage.

Eighteen new embassies have been established in the Pacific since 2017, and four posts have closed. Australia has opened six new Pacific posts since 2017, making it the only country in the world with a resident diplomatic presence in every sovereign Pacific Island country.

China and the United States are playing catch-up, seeking to establish or expand their local presence in countries of strategic value to them: Solomon Islands, Papua New Guinea, Kiribati, Tonga, and Vanuatu.

As China's presence grows, Taiwan's diminishes. Taiwan has three diplomatic partners left in the Pacific — Palau, Tuvalu, and Marshall Islands — after losing three to China since 2019.

Coordinated action among likeminded players can enhance the impact of diplomatic efforts for Pacific Island countries. However, external partners often prefer to conduct their outreach through bilateral engagement as this is seen to deliver the greatest direct influence and can provide opportunities to exclude or frustrate rivals.

Security ties and regional power dynamics

Increasing offers of new or enhanced security cooperation from larger powers are driven by geopolitical competition.

China continues to look for opportunities to establish or enhance security ties with Pacific Island countries.¹⁰ In 2022, China signed a security pact with Solomon Islands, triggering widespread regional concern about its impact on the regional balance of power.¹¹

Meanwhile, Western partners are seeking to elevate existing security relationships.

In 2023, the United States and Papua New Guinea signed a defence cooperation agreement, and Australia and Papua New Guinea committed to a Framework for Closer Security Relations.¹² Later that year, Australia's groundbreaking Falepili Union with Tuvalu agreed to close security ties in exchange for a special climate mobility pathway — a world first, allowing a small number of Tuvaluans, chosen by ballot every year, to be accepted as permanent residents in Australia in recognition of the severe effects of climate change on Tuvalu — and development program uplift.¹³

China's emergence as a security actor in the Pacific region, and traditional partners' rapid elevation of bilateral ties in response, reveal the intense competition between large powers to be the main regional security providers. But the offerings are not equivalent.

A key difference is transparency. For example, the Australia–Papua New Guinea agreement is publicly available and subject to scrutiny. The China–Solomon Islands agreement is not. Canberra's agreement with Port Moresby also recognises non-traditional security issues consistent with the broader concept of security in the Boe Declaration. Australia is party to the Boe Declaration, framing the region's collective security goals, as a member of the Pacific Islands Forum.

Security partnerships can have long-term effects on regional power dynamics. Agreements with external powers, such as the China–Solomon Islands pact, can challenge regional frameworks and historical partnerships, as well as raise questions about interoperability and intelligence sharing among diverse security partners. These agreements seek to go beyond logistics and boots on the ground, incorporating access and support for “soft infrastructure” such as data management, software platforms, and training doctrine.

Larger powers seek to present agreements as mutually beneficial, emphasising local capacity-building elements and links to development objectives. But the underlying objective for large powers is often to increase their influence over regional and national security governance and values.

All see access to ocean territories as integral to their national and regional interests. In China's case, defence diplomacy is likely motivated by the prospect of enabling military power projection in the region, while in Australia's case, one of the objectives is to deny China the opportunity to project such power.¹⁴

Security rivalries among larger powers can also limit interoperability among security providers in times of crisis and often run counter to regional

approaches to emergency and security responses, as enshrined for example in the Pacific Islands Forum Biketawa Declaration.¹⁵

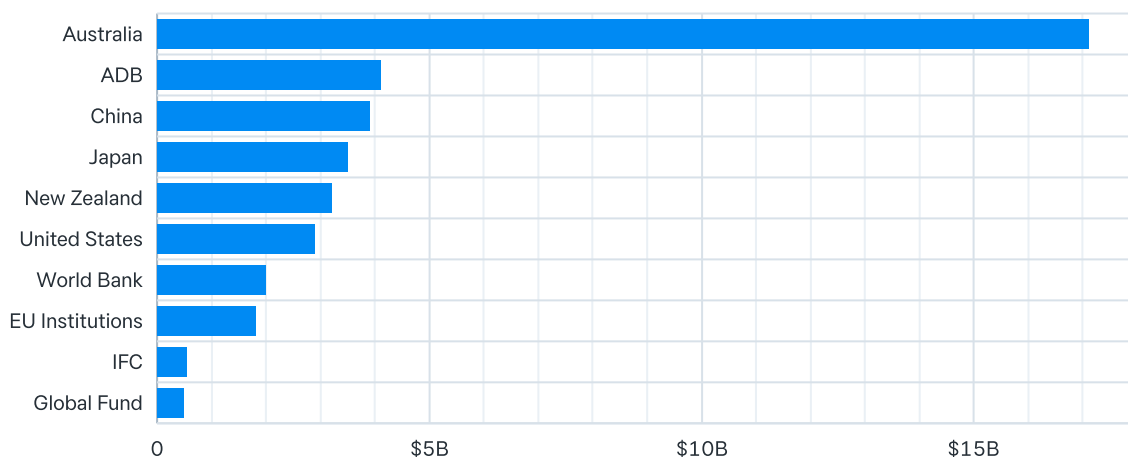
The development race

Australia is the largest provider of development assistance by far to the Pacific, but while China’s aid appears to be decreasing, its presence and sway are not.

Over the past two decades, a development race has been playing out in the region, mainly between China and traditional development partners such as Australia, the United States, and Japan. Australia is still the dominant development partner, but changes are occurring. Multilateral development banks such as the Asian Development Bank and World Bank have overtaken many other donors in the region for development finance, and their loans are making up an increasing proportion of development assistance.

China’s overall regional financing peaked in 2016. But Chinese aid is still prominent in selected Pacific countries such as Papua New Guinea, Solomon Islands, Vanuatu, and Kiribati. While the amount China invests in the region has dropped, the number of projects, albeit at lower value, has increased. China’s presence remains highly visible and valued by Pacific leaders.

Top 10 development partners since 2008, US\$



Source: Pacific Aid Map

China's success in winning many recent multilateral development bank project tenders in the Pacific also gives it high visibility in the region, even when the funding comes from other partners.¹⁶

Australia has increased aid to a record level of AU\$2 billion per year and infrastructure loans and grants to the region of AU\$4 billion through the Australian Infrastructure Financing Facility.¹⁷ Australia is also scaling up direct budget support to Pacific Island countries. Australia, the United States, and Japan have banded together to deliver high-impact projects such as undersea internet cables.¹⁸

Donor field more crowded

With increasing diplomatic, humanitarian, development, and security assistance, the donor community is getting crowded.

The number of individual donors to the Pacific increased from 31 in 2008 to 82 in 2021. Pacific counterparts are concerned about the capacity of regional architecture and national systems to manage and coordinate this activity.¹⁹

Competing interests are pulling countries in different directions as individual donor countries or agencies seek to prioritise their own offerings, which often fail to align with recipient policies or priorities.

Some donors are transient, seeking to generate support and goodwill for discrete objectives, such as winning UN votes for particular positions or bids for Security Council and other UN committee memberships. Others are entering the Pacific development sector for the first time and intend to stay but are unfamiliar with the context and culture.

All diplomatic and aid engagements need to be serviced by local bureaucracies, many of which are already swamped with domestic priorities and have limited bandwidth for new projects.

Major international engagements come with offers of new agreements and projects, with great emphasis on cultivating publicity for announcements but insufficient thought given to implementation or de-confliction with existing development priorities or programs.

Looking North for trade

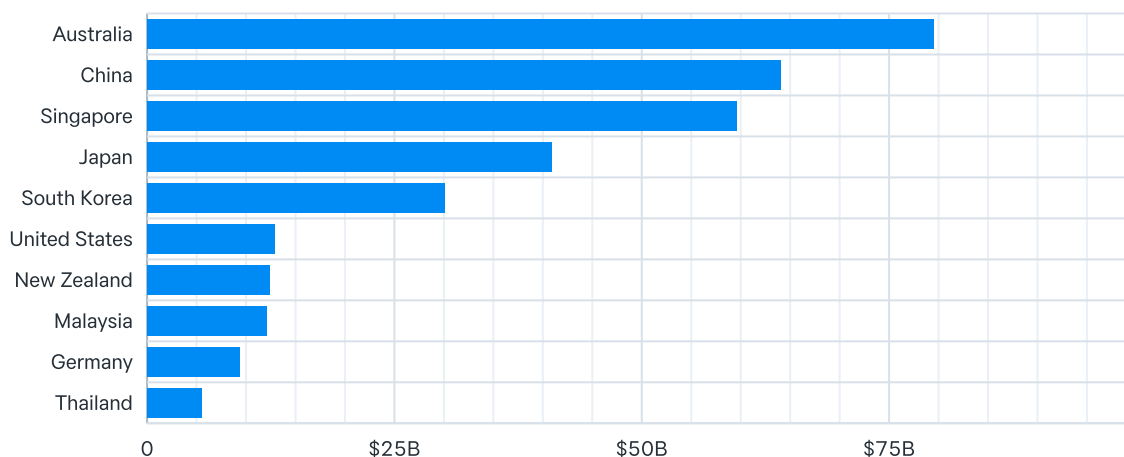
The Pacific’s “Look North” policies have led to expanded trade with China’s resource-hungry economy.

Pacific countries often say they want to be “friends to all”, predominantly to increase trade opportunities and grow their economies by tapping into burgeoning North Asian markets.²⁰ China is a principal customer for the Pacific’s natural resources, and a major supplier of consumer goods.²¹

China–Pacific trade is set to increase further, with Papua New Guinea pursuing a free trade agreement with Beijing, and Solomon Islands hoping to increase its exports of logs and minerals to the country. Most other Pacific Island countries hope to increase trade relations with China.

Across the Pacific, there is also a desire to diversify narrow economic bases by adding value to exported goods, developing local agriculture and services sectors, and expanding trade relations, particularly with growing Asian markets. But Pacific Island countries struggle with stubborn structural constraints, including small economic scale, distance from markets, high labour costs, a low skills base, and poor digital connectivity, reinforcing their dependence on resource extraction and in some cases tourism.

Top 10 trading partners since 2008, US\$



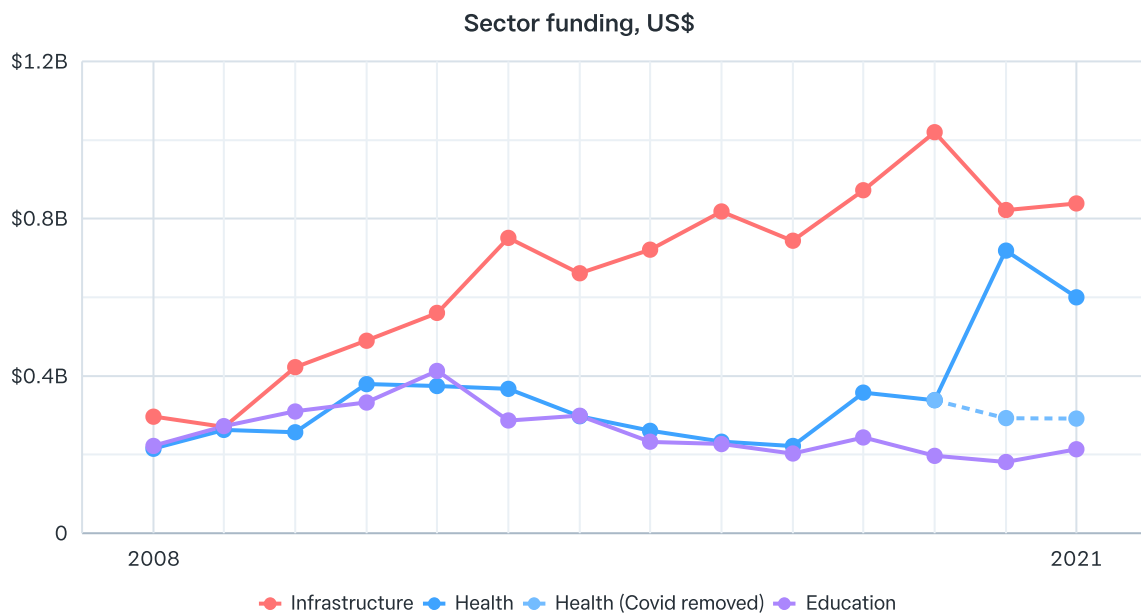
Source: Pacific Aid Map

Infrastructure increases, while health and education flatline

In response to requests from Pacific Island countries, and in reaction to China's Belt and Road Initiative, bilateral donors and multilateral development banks are realigning their aid towards infrastructure, while investments in health and education are flatlining.²²

Non-Covid related health and education funding to the Pacific has decreased from a peak in 2012. At the same time, funding gaps in these sectors have increased, with serious implications for national stability and future prosperity.

Education and health indicators are, on average, at globally low levels across the Pacific.²³ Non-communicable disease rates are some of the highest in the world and are a leading cause of mortality.²⁴



Education standards, especially in Papua New Guinea and Solomon Islands, are poor and present a barrier to increased global economic engagement for a growing youth population.

The shift towards infrastructure financing and support enhances the influence and access of development partners through highly visible and politically impactful projects. It is also an acknowledgement of the need to lay strong foundations and promote connectivity to support economic development — key priorities for all Pacific governments.

But human and economic development need to be carefully balanced. Neglect of critical social sectors, such as health and education, undermines long-term stability and progress, leaving Pacific nations more vulnerable to external pressures and less capable of sustaining economic growth or a balanced foreign policy.

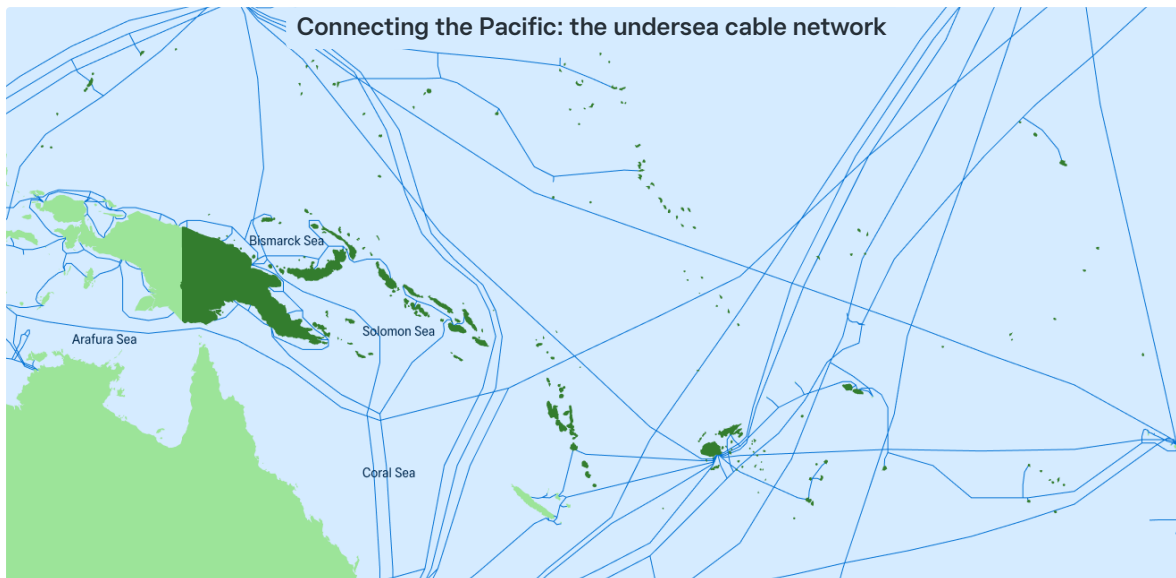
Geopolitics is shaping digital connectivity

Digital connectivity, essential for development in a modern economy, is an emerging theatre of competition.

Digital transformation is underway in the Pacific. Internet connectivity is a life-line — it opens doors to education, healthcare, digital trade, e-government services, and communication.²⁵ Global connectedness is also a key tool of empowerment for civil society actors.

But the cyber domain is as geopolitically contested as more traditional domains of competition.²⁶ Pacific countries need external partners to achieve a digital uplift. Australia, the United States, Japan, and China are vying to finance strategic infrastructure such as undersea internet cables and telecommunications networks, but are not necessarily prioritising cybersecurity and online safety.

With greater connectivity also comes new and often greater types of vulnerability. The cyber realm is a new frontier for the national security of Pacific Island countries, one fraught with threats ranging from cyber espionage to data theft and online abuse that can endanger community safety.²⁷ There is high demand, still unmet, to reduce cyber vulnerabilities and build local capacity.



Financial infrastructure needs to keep up with expanded labour mobility

Australia, New Zealand, and the United States are increasing opportunities for Pacific islanders to work in their countries as foreign labourers, but the financial infrastructure to support remittances flowing back to the region is not up to speed.

Tens of thousands of Pacific Islanders work temporarily in Australia and New Zealand under labour mobility schemes, allowing them to earn highly valuable salaries when compared with potential earnings at home.²⁸

The higher salaries allow Pacific Island workers to send regular money home (remittances) in support of households and communities. Remittances are a key source of national income for many Pacific Island countries, representing, for example, at least half of Tonga's national income.

Remittances go towards household essentials, school fees, medical treatment, emergency repairs after damaging weather events, and sometimes, capital to start new businesses.

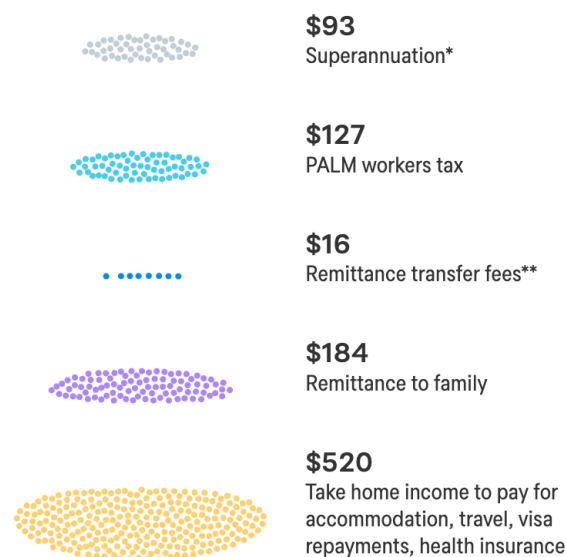
Despite concerns from Pacific Island leaders about the impact of labour mobility on domestic employment and productivity, the numbers of temporary Pacific Island workers in Australia and New Zealand continue to increase given the high value of the programs and the enormous contribution remittances make to Pacific economies and households.

But financial sector reforms are needed to maximise the economic dividends of remittance flows and labour mobility programs for Pacific communities.

The average Pacific temporary worker in Australia retains just 60 per cent of their total salary.

Remittance costs need to be reduced via a combination of competition regulation, enhanced regional coordination on banking infrastructure, and investment into digital solutions.

Salary breakdown for the average Pacific temporary worker in Australia



* Superannuation may be kept by the ATO if not recovered by the individual.

** Using average fee to Tonga (8%)

Each dot represents AU\$2 from the average weekly wage of a Pacific Islander temporarily working in Australia under the Pacific labour mobility scheme.

Part of the problem of costly banking is access to services and the alarming decline of international banking relationships that allow Pacific Island countries to receive remittances, trade internationally, pay for services abroad, and receive aid money from donors.

Over the past decade, three-fifths of these “correspondent banking relationships” between global Western banks and Pacific Island institutions have been severed. Even more concerning is that Western banks facilitating US-dollar transactions withdrew 80 per cent of all services to the region over this same period.

Global Western banks are also de-banking in the region, by rejecting or limiting financial services to businesses considered a potential risk of engaging in financial crime — such as remittance providers.

While the risk of financial crime runs high in many Pacific Island countries, so too does the cost of doing business in terms of compliance. The region is also naturally dispersed and its economies small, rendering the market thin. Trying to turn a profit in the region is therefore difficult for financial institutions, leaving the business case barely attractive enough to offset the risk.

As the de-risking crisis in the Pacific Islands picks up, it has the potential to disrupt affordable remittance services and encourage Pacific leaders to look beyond the United States and Australia for support.

The exodus of Western banks can be mitigated by reforming and coordinating on regional and domestic regulation, boosting Pacific Island countries’ performance on anti-money laundering and know-your-customer measures, and helping Pacific Island financial institutions share financial crime data.²⁹ Doing so will ensure continued access to international financial services and cheaper remittance costs right across the region.

Underlying Pacific Island vulnerabilities

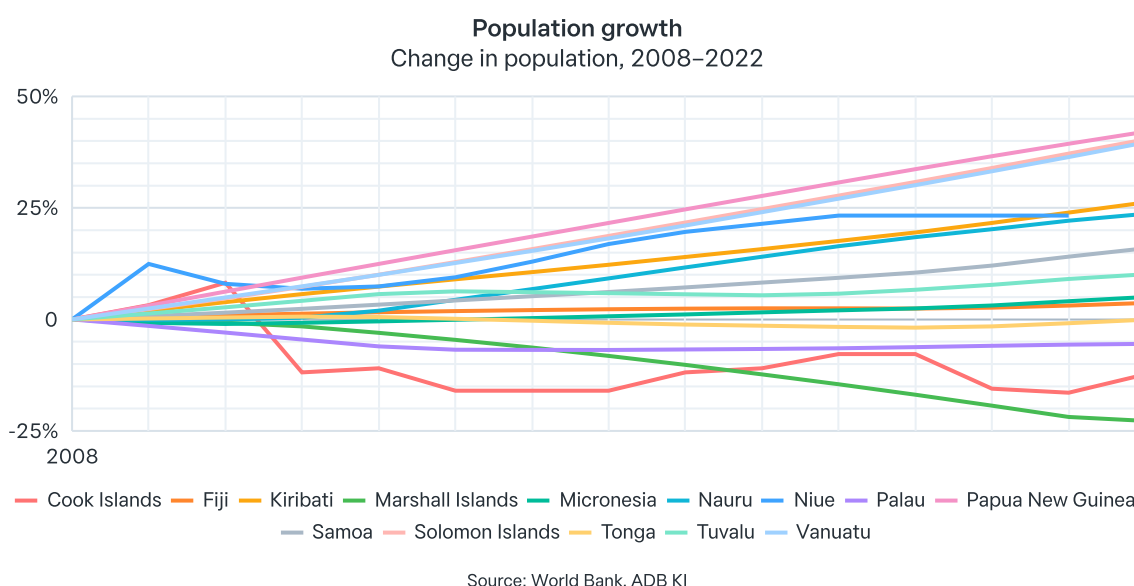
While large powers jostle for influence, Pacific Island societies face persistent and growing social, economic, political, and security pressures.

Narrow and isolated Pacific economies are increasingly challenged by rapid demographic changes, weak governance, resource insecurity, and climate change pressures.

Many of these economies are struggling to meet basic development needs, driving their search for external partners to help fill development gaps. But larger powers often prioritise projects that deliver strategic gains such as telecommunications, ports, and military facilities, or political dividends such as stadiums and convention centres, over less visibly impressive projects. Investments in less showy initiatives such as improved governance, community water supplies, and educational facilities are still needed to underpin sustainable development, and the importance and impact of these initiatives need to be publicly communicated and linked to priority Pacific policies and development goals. These include issues related to:

1. Rapid population growth

Rapid population growth and urbanisation are straining resources and services throughout the Pacific Islands. Youth populations, particularly in Papua New Guinea, Solomon Islands, Fiji and Vanuatu, are large and faced with poor employment and education prospects. Papua New Guinea's population is estimated to reach 22 million by 2050, from around 10 million currently.

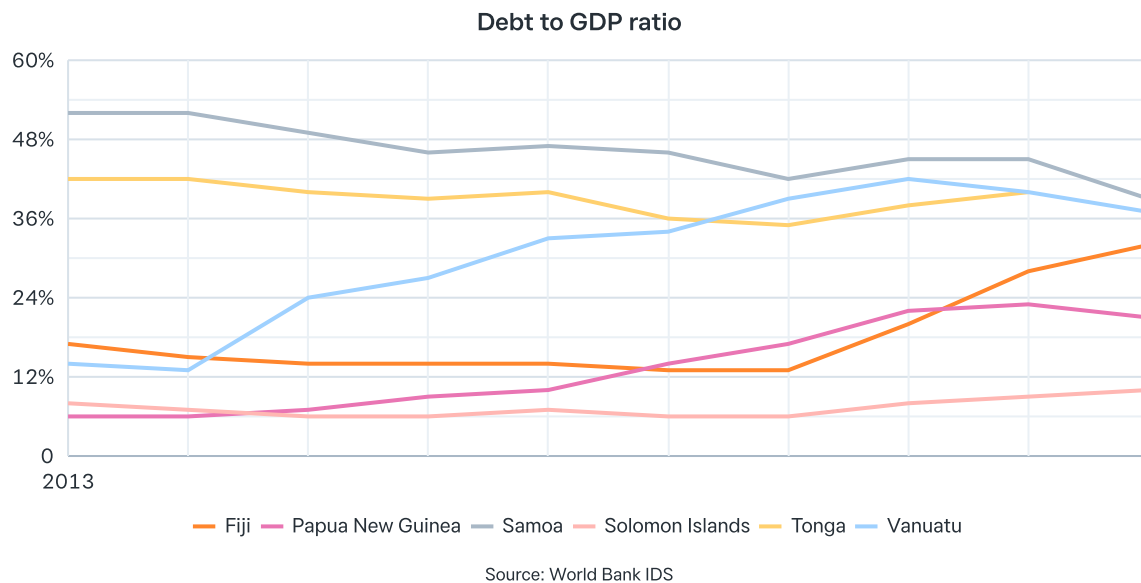


2. Debt distress

There are high levels of national debt across the region, with six Pacific countries classed as being at high risk of debt distress, including Kiribati, Vanuatu, Tonga, and Samoa.³⁰ This limits countries' ability to invest in essential services and infrastructure, which can cause political instability.

Several Pacific nations experienced recent spikes in public debt due to Covid-related border closures and trade disruptions, new loans for infrastructure, and the cost of responding to extreme weather events.

The debt outlook for Pacific Island countries may rapidly deteriorate in the near future, as servicing payments, infrastructure needs, and climate disasters hit these nations.

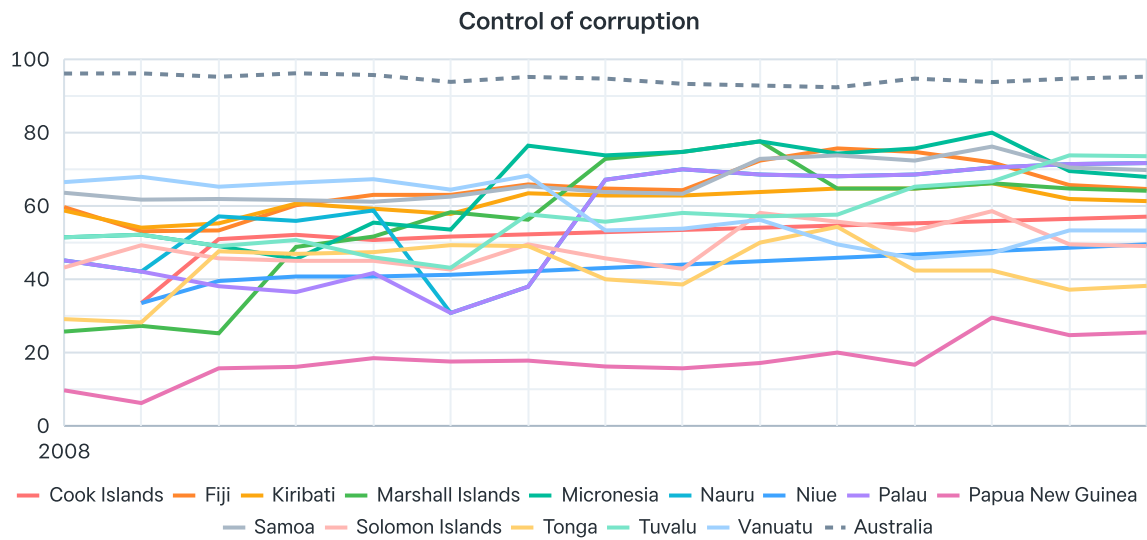
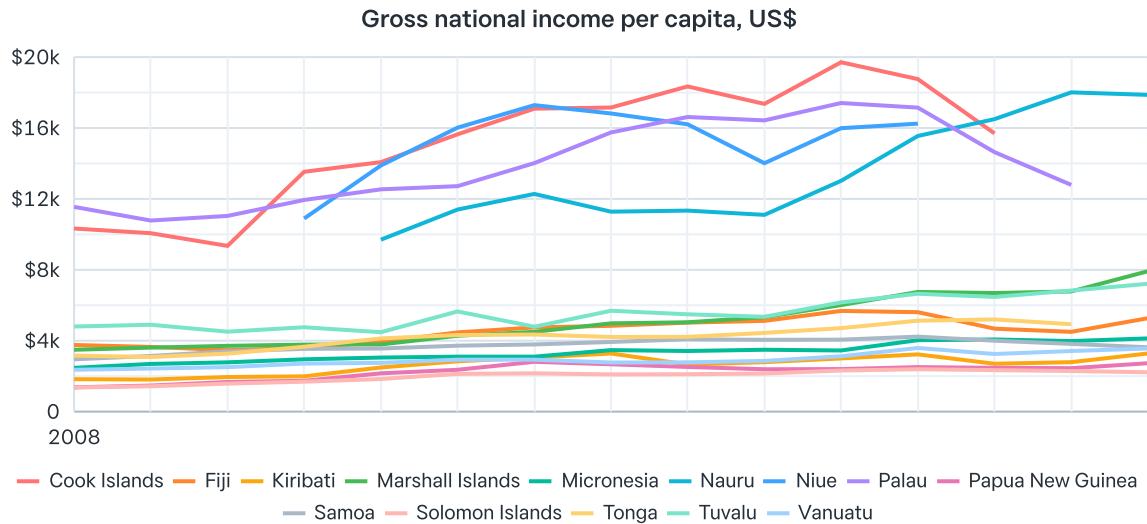


3. Challenges to development and resilience

High rates of poverty and relatively low income per capita amid skyrocketing cost-of-living in Pacific countries, particularly in urban centres, underscore the significant economic challenges in the region. Many households are struggling to meet basic needs due to limited earning opportunities and high vulnerability to external shocks such as the Covid pandemic.

Health and wellbeing indicators, as measured by the UN's Human Development Index, have flatlined for the Pacific since 2008, reinforcing the region's lack of resilience and its dependency on aid.³¹

The low rankings of Solomon Islands, Papua New Guinea, and Vanuatu on the UNDP Human Development Index (156th, 154th, and 140th out of 193 countries, respectively) reflect major challenges in health, education, and standards of living.



4. Corruption and weak rule of law

The extent of corruption in the Pacific, including “capture” of the state by elites and private interests, has seen no material improvements across the years.³² Corruption undermines governance and equitable distribution of resources, exacerbating poverty and inequality.

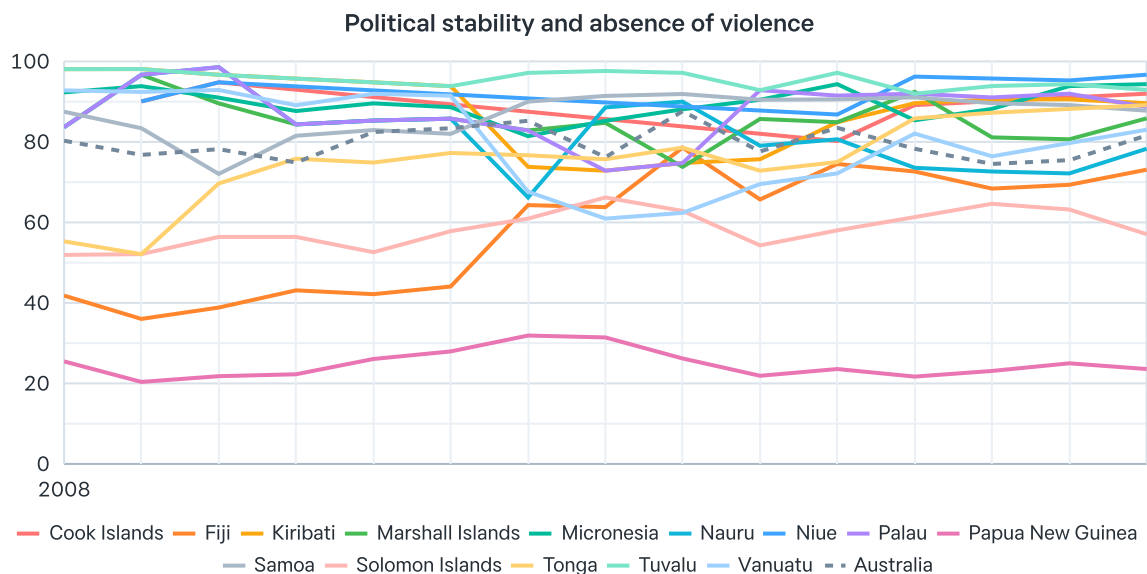
Rule of Law index scores, reflecting perceptions and quality of law and order, and the likelihood of crime and violence, show a downward trend between 2007 and 2017, with many Pacific countries scoring below the global average.³³

In recent years, the Pacific region has become a lucrative drug corridor, driven by cartels, criminal organisations, and local gangs, adding immense pressure to existing law enforcement and social cohesion challenges.³⁴

5. Political instability

In countries such as Papua New Guinea, Solomon Islands, and New Caledonia, sporadic social unrest has cost lives and millions of dollars in property damage.³⁵ Political instability disrupts governance, economic progress, and social cohesion, increasing human insecurity and undermining development prospects.

The World Bank's Political Stability aggregate indicators, measuring perceptions of the likelihood of political instability or politically motivated violence, show that the likelihood of political instability and violence in the Pacific region remains highest in Papua New Guinea, Fiji, Solomon Islands, and New Caledonia, compounding other social and economic problems in these countries.³⁶



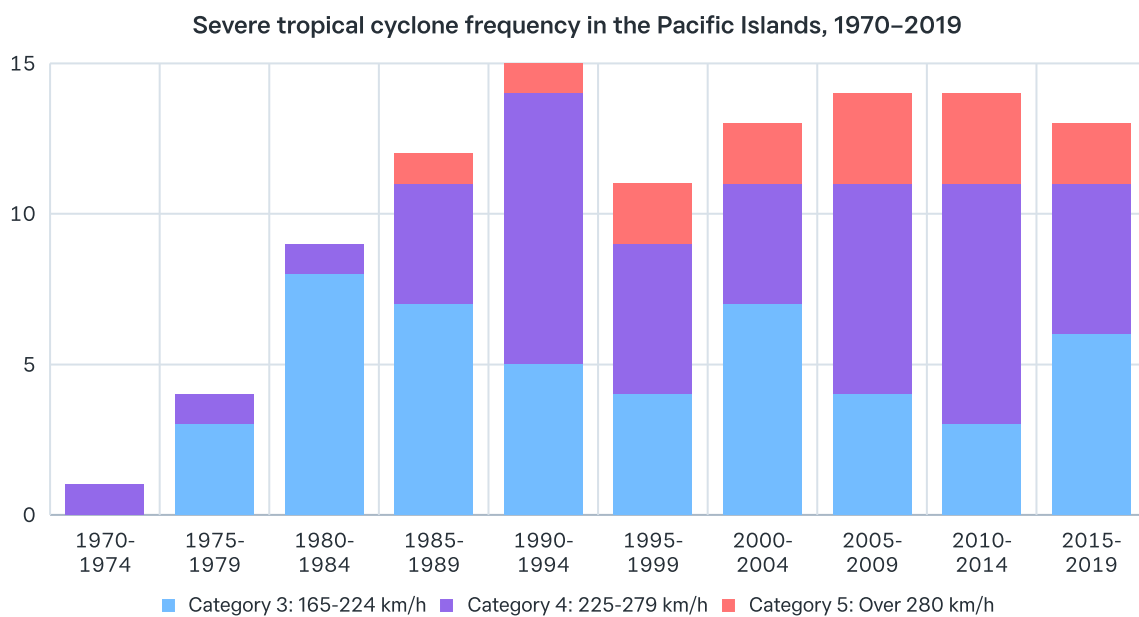
Source: World Bank Worldwide Governance Indicators

Climate change is the single biggest security concern in the region

Climate resilience will increasingly be at the centre of geopolitical partnerships.

Climate change poses an existential threat to some Pacific Island countries, impacting territorial integrity, economic stability, and human security.³⁷

Pacific Island states are engaging in assertive climate diplomacy to push for global action on mitigation and adaptation. But slow international responses have exacerbated inequalities and strained social and political systems. There is an urgent need for more investments to climate-proof infrastructure.



Source: EM-DAT International Disaster Database

Climate change vulnerabilities and extreme natural disasters are also being leveraged for strategic advantage, with external partners offering climate assistance and disaster response to increase their strategic access and enhance or maintain their integration into vital government operations and

systems. Disaster response partnerships can enhance presence in key geographic areas that are crucial for military, economic, and political purposes. For example, mobilising naval and air assets for disaster response involves securing rights to use ports, airstrips, and maritime routes. Strategic access allows a country to project power, influence regional dynamics, and safeguard its interests by being physically present in strategically or diplomatically important locations.

Larger powers are jostling to be first and preferred responders to climate and humanitarian emergencies, sometimes complicating local response efforts and delaying delivery of assistance to affected communities.³⁸ Pacific Island countries have expressed a need for greater local capacity-building and alignment with national emergency response systems, rather than duplicating efforts with incompatible systems and command structures.

What does the future hold?

The Pacific's geopolitical landscape is increasingly crowded, with multiple powers vying for influence. Pacific Islanders have found their region, previously undervalued by larger powers, now a focal point for strategic competition.

China is expanding its reach through diplomatic relations, infrastructure projects, and development finance, while traditional partners such as Australia and the United States strive to maintain their influence.

But competition can distract from the Pacific's most pressing needs, and much more could be done to help improve the overall development and security trajectory of Pacific countries.

Pacific leaders demand more

Pacific Island countries are boldly asserting their needs and ambitions for better deals on trade, human mobility, and national resilience.

Pacific leaders are pushing for development approaches framed around regional identity, culture, and values, rather than geopolitical competition.

All want to lift their countries out of aid dependency.

Heads of governments recognise that external partnerships will be vital to addressing the development gaps and vulnerabilities of the region, but also insist on their countries shaping the rules of engagement, and on the need to align interventions with national and regional policies and contexts.

“In the Pacific, we feel our partners have fallen short of acknowledging the integrity of Pacific leadership, and the responsibility they carry for every decision made as a collective, and individually, in order to garner support for the sustainable development of our nations.”

— Prime Minister of Samoa, Fiamē Naomi Mata’afa
20 March 2023

“I do not want forever to be a borrower. I do not want forever to be a recipient of aid and grants. Papua New Guinea has emerged as a shared leader in the Pacific. We want to share responsibility with Australia to assist in keeping our Pacific safe and keeping our brothers and sisters in the greater Pacific also well assisted.”

— Prime Minister of Papua New Guinea, James Marape
11 December 2023

“We would welcome to see world leaders, China and the US, standing side by side with the Blue Pacific leaders and their Pacific Island Forum partners to honour the Zone of Peace of the Pacific.”

— Prime Minister of Fiji, Sitiveni L Rabuka
17 October 2023

Acknowledgements

The authors wish to thank the Lowy Institute’s [Riley Duke](#) and [Jack Sato](#) for their contributions to researching this report.

The Data Snapshot also draws extensively on original Lowy Institute data from the [Pacific Aid Map](#), the [Asia Power Index](#), and the [Global Diplomacy Index](#).

The authors would like to thank the Lowy Institute’s Ian Bruce, Clare Caldwell, Stephen Hutchings, Hervé Lemahieu, and Sam Roggeveen for their contributions. Special thanks to Brody Smith for original interactive design work on this product.

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