

Beware playing China whack-a-mole in the Pacific

Regional security
Canberra is thinking of stepping up to stop Beijing taking over PNG's Digicel network. But is it really up for repeatedly protecting strategic assets?



John Kehoe

As the federal government rushes to deploy vaccines to address the COVID-19 surge in Papua New Guinea, a different PNG dilemma also faces the Morrison cabinet's national security committee.

As previously revealed by a series of reports in *The Australian Financial Review*, the government is considering injecting taxpayer funds to support a private sector bid to acquire the Digicel mobile phone network in PNG.

National security figures in Canberra want to stop one outcome: China taking over the dominant mobile phone network in PNG and other surrounding Pacific islands, including Fiji, Tonga, Vanuatu and Samoa.

There is some risk of espionage and interception of telecommunications and data held by important Pacific island institutions and businesses in Australia's backyard.

Nevertheless, Chinese telco Huawei has built the backbone of PNG's broadband system, so the system is potentially already compromised.

A more legitimate concern may be China using Digicel as a cash-cow vehicle for patronage and corruption among PNG's political elites, as other Chinese state-owned enterprises are already doing in the country.

Digicel is a serious issue for the Morrison government and under active consideration.

But the question the government must ask is: is it up for a game of Chinese whack-a-mole?

If the government did underwrite a bid by a private consortium and ward off purported Chinese interest, is Canberra prepared to step in again and again to stop China taking over strategic assets in the South Pacific?

The Coalition government spent almost \$100 million to fund two-thirds of a 4700-kilometre undersea cable from Australia to PNG and Solomon Islands to stop Huawei gaining a foothold in the Pacific and potentially spying on the region. Nevertheless, Huawei is still present.

PNG's National Executive Council has considered if its government-owned Telkom PNG or PNG DataCo could be part



China's interest in buying the Digicel network in the Pacific islands might be exaggerated.

of a consortium to buy the Digicel assets, according to a PNG source. The possibility of the Australian government joining a consortium has also been discussed in PNG.

But is China really trying to buy an old-technology 3G mobile phone network in a developing country?

New-generation satellite alternatives are emerging that are superior to poles and wires.

There is no firm public evidence, aside from chatter, that Chinese interests such as China Mobile are kicking the tyres.

The Morrison government cannot really know if there is legitimate Chinese interest, or if Digicel's owners are trying to introduce some bidding tension to talk up any sale price.

A Chinese telco equipment manufacturer such as Huawei or ZTE Corp buying Digicel would be akin to global aircraft manufacturer Boeing buying Qantas. That would never happen.

Hence, China's interest may be exaggerated.

Australian private equity firm Pacific Equity Partners last year analysed Digicel's business following an approach by a

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management team interested in putting together a consortium to acquire Digicel's Pacific assets.

A different potential investor also acceptable to Australia has more recently emerged as a buyer, according to a source.

Foreign affairs experts may see value in being a good neighbour to promote stability and prosperity in island nations by investing in modern technology to underpin online banking, education and health services.

But it's a case of buyer beware. Digicel's Irish billionaire owner, Denis

O'Brien, is a formidable negotiator. O'Brien has typically operated heavily regulated businesses in media and telecommunications.

He has successfully courted politicians in Ireland and post-colonial English-speaking countries. Digicel's two main business geographies are in the Pacific and Caribbean.

The Morrison government must ask if it really wants to buy out O'Brien's Pacific investments.

Digicel's business has been challenged by a lack of foreign tourists travelling to the Pacific during the COVID-19 pandemic, which has undermined its high-margin international roaming services.

Returns are much more modest from local villagers recharging their mobile phones, especially when the economy is struggling and locals don't have much money.

Digicel Group's global debt is about \$US5.4 billion (\$7.1 billion) after a restructuring deal agreed by bondholders last year wrote off about \$US1.7 billion.

The company's accounts suggest that its Pacific business owes a more modest \$US80 million, with a cash flow of \$US230 million in the year to March 31, 2020.

O'Brien needs to get breathing space from Digicel Group's secured bondholders, who are owed a significant payment by around July 2022.

At a minimum, he needs a bid to wipe out his debt and get the bondholders off his back.

A figure approaching \$US2 billion has been mooted for the Pacific assets, though it is highly speculative and probably overstated.

Despite its financial challenges, Digicel paid at least \$US1.9 billion of dividends to O'Brien between 2007 and 2015, *The Irish Times* reported.

Financially, Digicel would be a poor investment for Australian taxpayers. But the counterfactual possibility of China acquiring the telco assets could be an expensive strategic cost.

John Kehoe is economics editor in Canberra for *The Australian Financial Review*.

To win the vaccine rollout race, we must break into a sprint

Immunisation
Australia started late and is running slow. To ramp up supply and demand, delivery of the jabs should be industrialised and eligibility broadened.



Steven Hamilton



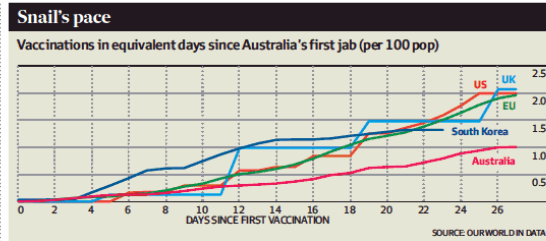
Richard Holden

Australia sailed through 2020 the envy of the world. As deaths overseas rose into the millions, we were largely spared. But with our faltering vaccine strategy, these blessings have become a curse. All this success has lulled our policymakers and the public into a false sense of security. We find ourselves lacking the sense of purpose that drove our earlier response.

Our vaccine rollout began a month ago—more than two months after the US and Britain. Since then, we've administered a dose to just one in 100 Australians—less than half the rate in the US, Britain and European Union at the same point in their rollouts. Not only did we start the race very late, but we're running far slower. We need to sprint.

From the lab to the arm, there are two possible bottlenecks: the number of doses we've received and the number we've administered. Domestic production of the AstraZeneca vaccine will ramp up only gradually through the year. With that supply alone, we wouldn't be able to fully vaccinate our population until the start of 2022 at the earliest. That's far too slow, so we must supplement it with imported doses. But we haven't ordered sufficient doses to be delivered quickly enough.

We've so far been unwilling to strike a deal with either Moderna or Johnson & Johnson, which could conceivably deliver at least some additional supply in the months ahead. Moreover, the US hasn't approved (and may never approve) AstraZeneca, so it is sitting on a stockpile of more than 30 million doses, recently releasing some to



Canada. There are many options. Our government should do whatever it takes to procure more doses sooner.

But that isn't even the bottleneck right now. While we've administered about 250,000 doses, we've imported well over 1.25 million. As challenging as it may be, getting needles in arms isn't rocket science. We had more than six months to plan. There's simply no excuse for anything other than production to be the limiting factor.

As with any economic problem, there are two ways to expand output: to increase supply and demand.

To increase supply, the vaccines should be delivered via a wider array of distribution channels. In the US, there is industrial-scale distribution at places such as the Dodger Stadium in Los Angeles. The US is vaccinating at a rate of 3 million a day—equivalent to about 230,000 a day in

Australia. But here we're still haggling with GPs about their role. And while the idea of pharmacies administering the vaccines has been proposed, we're yet to see any plans.

To increase demand, we should dramatically increase eligibility. In the absence of community transmission, we are not having to protect lives at any cost. With continued vigilance, we can shoot for strong medium-term protection via herd immunity. This means our focus should be on vaccinating to reduce transmission.

As hotel quarantine is our sole source of infection, only once all quarantine workers are vaccinated should the focus turn to the broader community. To the extent some small risk of an outbreak remains, there's still some case for overweighting the highest-risk groups.

But the case is far less than in other countries. Phase 1b, which began on

Monday, will include less than a quarter of Australians, with a minimum age of 70. This should be expanded to include many more people—to those aged 60 or even younger.

And there's a series of other measures. Overseas, some have advocated a "first doses first" strategy: vaccinating everyone once before beginning a second round, given the modest increase in efficacy seen with a second shot.

And the Johnson & Johnson vaccine requires only a single shot, doubling the speed of the rollout. We could also invest in better, less wasteful equipment, such as the so-called "Japanese needle". They cost peanuts for the value they generate.

A faster rollout is worth many billions to our economy. We need to reopen as soon as possible to the foreign consumers of our education exports, foreign tourists who keep whole regions alive, and foreign workers relied on by so many industries.

But we cannot do so before our population is adequately protected. The answer is a radical acceleration of our vaccine rollout.

Treasurer Josh Frydenberg should stroll down the hall and remind his colleague, Health Minister Greg Hunt, of the tremendous economic costs of our continuing to languish.

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