

# TRADING WITH THE GREAT POWERS: THE LIMITS OF NEW ZEALAND'S FREE TRADE STRATEGY WITH CHINA UNDER THE BELT AND ROAD INITIATIVE

Dr Jake Lin | Victoria University of Wellington | [jake.lin@vuw.ac.nz](mailto:jake.lin@vuw.ac.nz)

Policy brief no. 6 | June 3, 2017

Presented at the conference: 'Small States and the Changing Global Order: New Zealand Faces the Future' at University of Canterbury, Christchurch, New Zealand, 3-4 June 2017

New Zealand is set to have deeper trade relations with China under the Belt and Road Initiative (BRI). Lessons from China's connectivity projects show that New Zealand needs to be cautious about the opportunities and challenges.

## Key findings

- New Zealand's long trade engagement with China has been by and large successful, but not without cost.
- China has a track record, both domestically and internationally, of managing free trade and connectivity projects in which profit trumps other broader issues, such as human development and environmental protection.
- There are limits in New Zealand's free trade strategy with China under the BRI, given the potentially negative impact on New Zealand's social and political integrity, and the potential erosion of its ties with traditional allies.

## Executive summary

New Zealand's free trade relationship with China continues to grow. After becoming the first developed country to sign up to China's BRI, an upgrade of the current free trade agreement is also on the agenda. However, the global dynamics of free trade is shifting, as the US's hitherto leading role becomes increasingly uncertain after US President Donald Trump's abandonment of the TPP and his 'America First' policy. There will be a tipping point, where NZ has to choose between how much to get involved in its relationship with China, and how much it continues to align with its traditional partners.

This policy analysis suggests that New Zealand should be a cautious observer of China's past and current domestic and international connectivity projects and learn lessons from them. It is important for New Zealand to diversify trade partnership with other countries and regions, given the potential risks of a deeper trade relationship with China. New Zealand also needs to stand up to China's behaviours that are against its traditional values, and live up to the expectation that trading with China will ultimately bring it into the liberal international order.



*This project  
is supported by:*

The NATO Science for Peace  
and Security Programme

## Analysis

The successful trading partnership with China comes with costs. New Zealand's overall free market strategy (one not just directed to China) has resulted in rising inequality over the last three decades. The country's income inequality level has gone from below to above the OECD average, and is rising faster than in many other OECD countries. A more unequal society brings several socio-economic issues with it. For instance, housing affordability is plummeting, especially in the main cities. Child poverty and the gap between the wealthy and the poor is growing. Also gaining traction in public discussions are the environmental affects resulting from the exponential growth of dairy product export to countries such as China (which is our largest market for dairy). New Zealand's greenhouse gas emissions in 2015 were 24.1% higher than 1990 levels - a long way below what the country committed to in the Paris agreement.<sup>1</sup> Highlighting the contribution of dairy farming to river pollution, one NGO has warned that over 60% of monitored rivers are unsafe to swim in.

China's celebrated 'reform and open' transformation, that much paralleled New Zealand's shift to a free-trade foreign policy, has had even more far-reaching consequences. Since the early 1980s, Chinese market reform has been aimed at replacing the socialist collective and planned economy. These reforms have pushed China towards becoming one of the most unequal societies in the world, before it even gets through the middle-income trap. The GDP miracle in China is primarily driven by the abundant supply of cheap labor and investment, which creates problems of overcapacity and ballooning debt. Although this economic growth has particularly benefited a very small group of elites, the still-intact authoritarian political regime continues to buttress this lopsided development. Foreign businesses in China face pervasive cronyism, corruption and tight censorship. Advocating for liberty and rights has been met by increasingly harsh crackdowns since President Xi took power. Environmental degradation is on an unprecedented scale, with about 20% of China's arable land contaminated, and more than 80% of the underground water unfit for drinking because of industrial contamination.

In the name of free trade and economic connectivity, China has recently launched the so-called 'project of the century' – the BRI. It aims to improve infrastructure and build cultural ties. It could involve Chinese state-led investments up to US\$4 trillion, and could include roughly 65 countries, connecting central Asia, Europe (by the overland Silk Road Economic Belt), as well as reaching Africa (via the Maritime Silk Road). New Zealand is not geographically within the initiative, and its inclusion precisely reflects the rhetorical nature of the initiative. Responses to the BRI vary. The most eager participants are smaller Asian states such as Pakistan and the Central Asian states. The US, Japan, the EU, India, and Australia openly reject joining the BRI at this stage. A few developed countries have become involved to different degrees. For instance, Italy sent its Prime Minister to the BRI forum in May 2017, and New Zealand and Singapore signed a BRI-related MoU with China. However, China is not the only country to put forth connectivity plans in the region. The great powers such as the US, Japan, India and Russia all have similar projects. Japan, for instance, initiated the Partnership for Quality Infrastructure, a US\$200 billion, five-year plan to enhance east-west connectivity. The common reasons for caution about the BRI are: environmental and social concerns; economic concerns about debt and financial risk; and strategic concerns about the political or even military purpose of the infrastructure building.

These concerns and cautions are legitimate in terms of how far the Chinese would like to go in the name of free trade and economic connectivity. The lessons from Beijing's handling of domestic



*This project  
is supported by:*

The NATO Science for Peace  
and Security Programme

connectivity projects are informative. This is because the BRI is actually the continuation of China's provincial and sub-national ideas and practices. The first popular initiative to promote internal connectivity was the 'Develop the West' campaign in 2000. Although the initial goal was to close development gaps between the coastal east and inland west China, inequality actually grew at its highest recorded rate over the following ten years. This economic inequality has been coupled with issues such as forced migration and environmental degradation. The campaign led to deteriorating ethnic relations in Xinjiang and Tibet. But, Hong Kong is possibly the most disastrous case of Beijing's state-led connectivity and integration campaign. Initially the campaign started with the good intent of helping boost economic growth after the SARS epidemic crisis in 2001, and salvaging Hong Kongers' diminishing loyalty and patriotism to the Mainland. However, the ambitious campaign unexpectedly caused growing grievances towards governance, political and identity conflict with the Mainland, and led to the rise of an indigenous independence movement.

Internationally, Beijing's economic connectivity projects also often result in a series of broader issues. For example, in Taiwan, the 2010 Economic Cooperation Framework Agreement (ECFA) free-trade treaty and its 2014 upgrade (the Cross-Strait Service Trade Agreement - CSSTA) were both initiated by Beijing to enhance economic integration and cultural trust across the strait. However, they have resulted in growing frustration and political resistance, as epitomised in the Sunflower Student Movement in 2014, and the consequent fall of the KMT in the 2016 general election. Korea's Jeju Island has been turned into 'China town' under the 2014 China-South Korea Free Trade Agreement. Chinese tourists swelled from 1.8 million to 5.6 million after the agreement was signed. The amount of land on Jeju owned by mainland Chinese has increased from a reported 20,000 square meters to 5.92 million square meters. There is a growing resentment amongst local islanders to the influx of tourists and investors. Other international connectivity projects in Asia and Africa have varied outcomes but generate common concerns: lack of transparency around projects, corruption, environmental issues, and undue political influence on local governance.

### Why does this matter to NZ?

When it comes to the BRI, New Zealand has so far behaved in fashion similar to its historical position of 'proactive yet careful'. Although New Zealand is among the few developed countries to sign a MoU on BRI with China, it did not send its Prime Minister to the Belt and Road Forum in Beijing in May 2017. This forum is mostly portrayed by Western media as a gathering of authoritarian regimes. But, as Reuben Steff argues, the picture is becoming increasingly complex. As China and the US's strategic competition continues to develop,<sup>2</sup> it will become increasingly difficult for a country to have merely a one-dimensional trade relationship with China.

So far, New Zealand has been lucky trading with China, with no major political tensions coming to fore. In Hong Kong, for example, China's connectivity and integration projects have led to almost fully-fledged political control of the indigenous politics. And in Australia, there have been episodes of Chinese political infiltration reported, such as a China research think tank at the University of Technology Sydney being criticised as a 'propaganda arm' of the Chinese party state, and a port lease in Darwin to a Chinese company with military ties.

However, New Zealand should not be complacent by any means about its trade relations with China under the BRI. Plenty of lessons can be learned from China's past and present economic connectivity projects. First, China's projects are profit driven, particularly obsessed with property and land, often at the expense of social and human development and environmental protection. Secondly, China



*This project  
is supported by:*

The NATO Science for Peace  
and Security Programme

ultimately aims at political influence on local politics through the vehicle of economic investment. It sees granting access to its massive market as a 'favour' that the host country will need to return sooner or later - for instance, by not commenting on the South China Sea issue, or by dropping steel dumping investigations.

Partly because of being afraid of damaging a relatively stable trade relationship with China, New Zealand often has not stood up to defend its core values, i.e. the rule of law, a free press, rights to political participation, and the rights to peacefully criticise authorities. For example, Bill English had a last-minute cancellation of a meeting with two Hong Kong democracy leaders in October 2016. New Zealand did not join 11 embassies in Beijing to criticize China's crack down of human rights lawyers in March 2017. Nor did New Zealand support the UN's March 2016 joint statement about China's human rights situation - a statement endorsed by New Zealand's traditional allies such as Australia, Japan, the UK and the US. If instances like this are repeated too often, New Zealand may risk being 'normalised' by its traditional allies as a country drifting away from the liberal world.

### What should NZ do?

- Cautiously manage the scope and depth of involvement when trading with China, under the BRI or the upgrade of the free trade agreement.
- Carefully manage the public image of the closeness of New Zealand-China relations.
- Strategically diversify its trading partnerships beyond China, in Asia and South America for example.
- Carefully protect the existing trust with its traditional allies, by living up to the goal that trading is a means to eventually bring China into the liberal international order.

### Conclusion

By being the first developed country to support the BRI, New Zealand is being typically proactive when it comes to seizing business opportunities. However, there are strong arguments supporting the notion that New Zealand should be cautious about the challenges posed by a closer economic and trade relationship with China. There are limits to New Zealand's free trade policy with China, given declining US leadership and a more competitive geopolitical order that is evolving in the region.

---

<sup>1</sup> <http://www.radionz.co.nz/news/national/331646/nz-seventh-worst-on-emissions-of-41-nations> (accessed on 25 May 2017).

<sup>2</sup> <https://thespinoff.co.nz/politics/10-04-2017/no-new-zealand-does-not-have-an-independent-foreign-policy> (accessed on 25 May 2017).



*This project  
is supported by:*

The NATO Science for Peace  
and Security Programme