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Walking a Tightrope: New Zealand Revises Its China Policy

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A number of countries have recently revised their approaches to dealing with a more assertive China. How to recalibrate relations with China is also a main – if not the central – foreign policy challenge for New Zealand, where a centre-left government took office in 2017. The government's more sober approach to dealing with China has, among other things, been reflected in defence policy, a push to strengthen ties with the South Pacific, foreign direct investment regulations, and an initial ban on Huawei rolling out 5G broadband technology in New Zealand.

- New Zealand's ties with China had blossomed in the past 15 years. A free trade agreement, burgeoning bilateral exchanges, and a comprehensive strategic partnership were testament to warm relations.
- China's assertiveness in the South China Sea, its increasing presence in the South Pacific, and concerns about its inference in other countries' domestic politics have, however, put a damper on the relationship.
- In 2018 the government in Wellington announced a number of steps which, collectively, could be understood as a major reset of relations with China – not unlike the prior reset of Australia's own China policy. However, concerns that the bilateral relationship was spiralling out of control have led in 2019 to fence-mending activities.
- China–New Zealand relations are unlikely to regain their earlier shine. China itself has begun to differentiate more between Australia and New Zealand, also reflecting an apparent attempt to drive a wedge between the two.

Policy Implications

Despite their limited resources and vulnerability, small powers like New Zealand do not lack agency. The government in Wellington should work with partners in Asia on the same wavelength to help advance regional agendas, including but certainly not limited to trade issues, and to ward off attempts at divide and rule. It should also work intensively with like-minded and willing partners in the European Union and elsewhere to address pressing global issues, including climate change adaptation and reforming multilateralism.

Revising China Policies

A number of countries have recently embarked on resets – that is, significant changes – in their policies towards the People’s Republic of China (PRC). In the United States, the Trump administration has decided to confront China across the board to retain geopolitical and technological global leadership. Its ally in Australasia, Australia, has reset its China-related policies too (Köllner 2018). The European Union also called in a recent position paper for a more nuanced outlook on China, which – depending on the issue at hand – it views as a cooperation partner, an economic competitor, and a systemic rival promoting alternative models of governance. While these resets all entail idiosyncratic domestic drivers and dynamics, they do also reflect changes occurring in the PRC, which in recent years has become much more assertive in its foreign policy and overseas influence activities and also more ideologically orthodox and repressive domestically.

The challenge of how to (re)calibrate policies towards China is particularly acute for small powers, vulnerable in terms of their security and economy. Especially countries for whom China has become a very important economic partner in recent years – but which are on the other hand formally allied, or strategically close, to the US – feel sandwiched. Growing tensions between the US and China have limited their diplomatic manoeuvring space, necessitating balancing acts. An interesting case in this regard is New Zealand, which is a small power in the international system but also a regional power in the South Pacific. Whereas China has come to play an ever larger role in economic terms for New Zealand, the Australasian country is a security partner and in some ways de facto ally of the US (Thompson 2018: 10–11). Moreover, New Zealand is closely integrated economically with Australia – which is also its only formal ally. This raises the question of whether New Zealand would follow the Australian example of resetting relations with China.

In this paper I seek to answer this question. I first sketch the blossoming of New Zealand–China ties since the early years of the new century and then highlight the manifold changes in China-related policies that took place in 2018 under a new centre-left government. Finally, I discuss more recent developments before concluding.

Blossoming New Zealand–China Ties

New Zealand’s relations with the PRC experienced ebbs and flows in previous decades. Under the Labour-led government of Helen Clark (1999–2008) and the National Party governments of John Key (2008–2016) and Bill English (2016–2017), New Zealand experienced a veritable blossoming of bilateral ties. In fact, it became a frontrunner among developed countries in terms of forging close ties with China. Both the PRC and New Zealand take pride in the “first fours” that were achieved in the bilateral relationship during the years between the late 1990s and 2008: In 1997 New Zealand was the first developed country to agree to China’s accession to the World Trade Organization by concluding the required bilateral negotiations, and in 2004 it became the first developed country to recognise China as a market economy. In the same year, New Zealand was the first developed country to start ne-

negotiations on a free trade agreement (FTA) with China while in 2008 New Zealand was the first Western country to conclude such negotiations.

The special bilateral relationship between China and New Zealand was symbolically crowned by the signing of a Strategic Partnership Agreement in November 2014. A few other “firsts” followed thereafter. In 2015, New Zealand was the first developed country to become a prospective founding member of the Asian Infrastructure Investment Bank initiated by China. In November 2016, negotiations to upgrade the existing bilateral FTA were launched – constituting another first for a developed country vis-à-vis China. Finally, in April 2017, the two countries signed a “Memorandum of Arrangement [MoA] on Strengthening Cooperation on China’s Belt and Road Initiative [BRI].” Again, New Zealand was the first developed country to officially support Xi Jinping’s signature foreign policy and global connectivity initiative (MFAT n.d.).

Both New Zealand and China have benefitted from their close ties. The PRC was, among other things, able to gain negotiation experience from the expanded connections with the developed Australasian nation. Moreover, the existing warm relationship could serve as a benchmark for other ones with countries in the South Pacific, namely with Australia and beyond. For New Zealand, closer bonds with China helped to further grow and diversify global economic linkages. The expansion of bilateral trade also cushioned New Zealand from the worst fallout of the 2008 global financial crisis. According to some calculations, New Zealand’s exports to China account for more than 5 per cent of gross domestic product and are particularly concentrated in categories that are comparatively easy to substitute for China – such as agricultural and forestry products, as well as educational services (Thompson 2018: 25–26).

Bilateral trade tripled in the 10 years after the signing of the FTA, with China overtaking Australia as New Zealand’s most important partner for trade in goods and services in 2017. In the last few years, New Zealand has run a significant surplus in its trade with China. In 2018 New Zealand exports to China topped NZD 17 billion (EUR 10 billion), driven by Chinese demand for meat, logs, and dairy products. Whereas Chinese foreign direct investment (FDI) in New Zealand has also grown, China is – some high-profile deals notwithstanding – not yet a top source of local FDI stock. The number of incoming Chinese tourists has also grown exponentially. They have become a major driver for the tourism sector, which looms relatively large in New Zealand. In 2018 nearly 450,000 Chinese tourists visited New Zealand, making the PRC the second-largest source (behind Australia) of incoming tourists. The aim is to increase the number of Chinese tourists arriving to 800,000 by 2024 (whether such growth is sustainable in either environmental or infrastructural terms is debatable, however).

New Zealand has also seen a massive increase in terms of incoming Chinese students and related revenues in the tertiary education sector. In 2017 more than 40,000 Chinese students were enrolled in tertiary education institutions in New Zealand, accounting for nearly one-third of all international students there. Long-term immigration from China has also grown substantially since the mid-1990s. Whereas the Chinese community of New Zealand was 18,000 strong in 1986, by 2018 there were 200,000 Chinese New Zealanders (out of a total population of 4.7 million people) – with just over half of them being recent migrants from the PRC (Brady 2018).

Signs of Trouble

A first indication that not all was well in New Zealand–China relations had come in November 2016, when Prime Minister Key visited China to seek an upgrade in the bilateral FTA. Upon his arrival in Beijing, he was greeted by an editorial in the *Global Times* – the semi-official Chinese newspaper known for its blunt language – which said that the prime minister better not mention the South China Sea issue if he was interested in securing a refreshed FTA. Yet, unlike the US or Australia, Wellington had refrained from publicly criticising China for its activities in the South China Sea. Instead, the National government had called for mutual restraint and emphasised that competing territorial claims needed to be resolved in accordance with international law (Ayson 2016). The editorial thus constituted an affront, if not a humiliation. It certainly indicated that the diplomatic gloves came off in Beijing where the South China Sea issue was concerned.

In New Zealand itself, the growth of the Chinese community had led both National and Labour to field more parliamentary candidates of Chinese descent. One of the successful ones, academic-turned-National member of parliament Yang Jian, caused a scandal in September 2017. It was then reported that Yang had worked for a Chinese military intelligence school for a number of years and was a member of the Chinese Communist Party (CCP) – but had failed to mention these facts when applying for residency, citizenship, and jobs in New Zealand (Jennings and Reid 2019). Under the Key government, Yang became an important figure in New Zealand–China relations and a key fundraiser for National among the Chinese community. Yang continues to be an MP but is no longer a member of the Foreign Affairs, Defence and Trade Committee. The Yang affair marked the start of a public debate in New Zealand about the possible interference of the CCP in domestic politics and the public sphere. The debate has mirrored to some extent a similar one in neighbouring Australia (cf. Köllner 2018), but has been more low-key – also reflecting a different media scene in New Zealand. The scandal also led critical observers to question Wellington’s reliability as a member of the “Five Eyes” intelligence-sharing club, which also includes the US, Canada, the United Kingdom, and Australia.

A Major Reset of China Policy in the Making?

In September 2017 a general election took place in New Zealand. National, which had been in power for nine years, remained the largest parliamentary party. However, acting as kingmaker, the moderately populist New Zealand First – led by political veteran Winston Peters – chose to join forces with Labour and its young yet unproven party leader Jacinda Ardern. The Green Party came to support the minority government from outside cabinet. What would the new government mean for New Zealand–China relations? Over the years, especially when on the campaign trail, Peters had often taken a critical stance towards China, focusing in particular on FDI and immigration issues. In his earlier stint as foreign minister (2005–2008) he had also promoted close relations with Australia and the US as well as with South Pacific nations. Labour, on the other hand, had been behind the FTA, but more re-

cently had been cautious with respect to issues such as FDI and immigration. It had also emphasised human rights issues – a focus shared by the Green Party.

In the new government the foreign policy and defence portfolios went to NZ First, with Peters becoming foreign minister again. Major initiatives relevant to New Zealand–China relations began to unfold in 2018. A few policy entrepreneurs had provided possible inspiration for some of these. For one, academic Anna Powles and her father, former senior diplomat Michael Powles, argued in spring 2017 in the *New Zealand International Review* for a reset in New Zealand’s policies towards the (South) Pacific (Powles and Powles 2017). In fact, the first major foreign policy initiative – launched by Peters with a speech given in Sydney in March 2018 – was the “Pacific Reset.” It promised more technical and financial support to the region, intensified engagement with South Pacific partners, as well as encouraged greater policy coordination with key partners “near and far” (Peters 2018). This also included the US, which Peters – in a speech delivered later in the year – implored to step up its efforts in the South Pacific. He even drew a parallel to the US’s engagement in the Pacific War in 1942 – much to the surprise of his cabinet colleagues who were blindsided by the speech.

The Pacific Reset has entailed a significant increase in New Zealand’s foreign aid budget allocated to the South Pacific, the posting of 14 more diplomats to the region, as well as a number of visits there by Peters and also Ardern. Whereas in the original Powles paper China’s growing role in the South Pacific had only been mentioned as one of the dynamics in the region, Peters repeatedly framed the government’s Pacific Reset as a response to increasing competition for influence and resources in the region – or, in other words, China’s increasing footprint there. To a very significant degree, the Pacific Reset was thus motivated by concerns about China’s expanding presence in the South Pacific and the perceived need to balance against this.

Another noteworthy think piece was published by Christchurch-based academic Anne-Marie Brady a few weeks after the election. Shortly before, Brady had caused ripples both domestically and internationally with her in-depth examination of the United Front and other forms of interference by the CCP globally – and, more specifically, in New Zealand (cf. Köllner 2018). In her policy paper, Brady (2017) argued that China’s “covert, corrupting, and coercive” political influence activities in New Zealand were now at a “critical level” and that the new government needed to make legislative and policy changes to better protect the country’s interests. Brady suggested to follow Australia’s example, and thus to build an “internally focused resilience strategy” aimed at protecting democratic processes and institutions in New Zealand.

Indications of a Full-Scale Reset in 2018

In tune with Brady’s call for a readjustment of New Zealand–China relations, a number of government initiatives and statements in 2018 indicated a rethink of New Zealand’s approach to China was occurring. Apart from the Pacific Reset, the following were particularly noteworthy developments:

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- The government's Strategic Defence Policy Statement launched in July 2018 did not speak about China as an "important strategic partner" (as the 2016 Defence White Paper had), simply vowing to continue to build a "strong and resilient" bilateral relationship. Unlike earlier government documents which tended to soft pedal such issues, the paper noted China's more assertive approach to territories claimed in Northeast Asia and the South China Sea plus China's influence-seeking and other activities in the South Pacific and Antarctica. That such comments were made not in a bilateral or a multilateral setting but in a public policy document was fairly blunt in diplomatic terms.
 - A few days after the release of the statement, the government finally decided to replace by 2023 its aging P-3 Orions with four state-of-the-art Boeing P-8A Poseidon maritime patrol aircraft. The purchase would allow for greater interoperability with Australia and other core security partners. Considering that New Zealand has in recent decades not spent much on defence (cf. Thompson 2018: 22–23), this hefty expenditure was quite significant.
 - Already in March 2018, Peters had called into doubt Wellington's commitment to supporting the BRI. He argued that it was not clear where the initiative was headed, and criticised the National government for having been hasty in signing up to it. In autumn 2018 the 18-month period in which New Zealand and China, under the terms of the relevant MoA, should have identified concrete BRI-related cooperation areas was notably up without official follow-through.
 - Of relevance to Chinese FDI in New Zealand is also the two-stage reform of the Overseas Investment Act. The first, taking effect in October 2018, included a ban on foreign buyers acquiring existing homes. The second-stage of the review meanwhile, scheduled for legislative action in mid-2020, is likely to result in more discretionary power being invested in the government to screen – and deny, if need be – investment that is not in the "national interest." Currently New Zealand lacks such screening provisions, which would allow the government to assess the desirability of Chinese and other FDI projects in critical infrastructure such as logistics, utilities, land, and beyond.
 - Things came to a head towards the end of 2018. In November, the Government Communications Security Bureau (GCSB), part of New Zealand's intelligence community, blocked a bid by telecom provider Spark due to security concerns. Spark had intended to use equipment from Chinese telecommunications company Huawei in a first local rollout of 5G broadband technology. Under New Zealand law, such decisions rest with the GCSB – allowing the cabinet to treat this as a political non-issue. Whether China accepted this stance is a different matter.
 - A month later, the GCSB also called out China for nefarious cyber activities. The relevant statement spoke of "links between the Chinese Ministry of State Security and a global campaign of cyber-enabled commercial intellectual property theft" which "targeted the intellectual property and commercial data of a number of global managed service providers, some operating in New Zealand" (National Cyber Security Centre 2018). Whereas in the past, as Ayson (2019) has noted, successive governments had been willing to name North Korea and Russia as perpetrators of cyberattacks, they had been reluctant to add China to the list. That changed in late 2018, with Wellington joining the US and other governments in pointing the finger at China too.

So, pulling it all together, there it was: New Zealand's full-scale reset of China policy – or so it seemed. All that was missing, relative to Australia's own response, was legislation concerning espionage and foreign interference. But then, in spring 2019, parliament's Justice Committee started to look into possible irregularities in connection with the 2016 and 2017 elections, focusing on foreign interference. In a joint statement in the relevant hearings, the heads of the GCSB and of the New Zealand Security Intelligence Service noted "that many states (as well as some non-state actors) retain at least a latent ability to conduct foreign interference activities in New Zealand," enumerating a number of "vectors" of possible foreign state interference in New Zealand elections such as: cyber-enabled threats; the use of traditional and social media to spread disinformation; building covert influence and leverage, including through electoral financing; and, the exertion of pressure and control of diaspora communities (New Zealand Parliament 2019). Unsurprisingly, the two intelligence chiefs called for greater vigilance. It remains to be seen whether, based on the Committee's recommendations, this all will lead to legislative action.

Fence-Mending: The "February Panic" and After

A number of things indicate that the government in Beijing became increasingly concerned, if not annoyed, about the direction that New Zealand's China policy was taking. It appointed a senior and outspoken diplomat – who had served before as the number two person in its Washington embassy – as the new ambassador to Wellington in spring 2018. A few months later, it called in the New Zealand ambassador to the PRC to complain about the depictions of Chinese behaviour in the Strategic Defence Policy Statement. Finally, Ardern's first official visit to China got delayed by "scheduling difficulties." More often than not such issues either indicate diverging priorities on both sides or, worse, clouded relations. By February 2019 Ardern had still not visited China, and the desired updated FTA seemed to be on the backburner in Beijing. Talk of Chinese "political blowback" to the readjustment of the country's China policy in general and the Huawei decision in particular mounted in New Zealand's media. Pundits argued that the prime minister was being played by NZ First on foreign policy. The opposition also chipped in, blaming the government for a steadily deteriorating relationship with the PRC. A few other things contributed to the media-hyped "February panic" about relations with China: the sudden postponement of the 2019 China–New Zealand Year of Tourism's launch, with the relevant Chinese minister facing "scheduling issues"; reports about Chinese tourists being discouraged from visiting; and, the turning away in mid-air of an Air New Zealand plane bound for Shanghai (Edwards 2019). In sum, things seemed to have spiralled out of control, with the government – and the prime minister in particular – coming under increasing pressure to do something about it.

And that is what the government did, with a little help from the Chinese – who apparently also had little interest in ties hitting rock bottom. From March of this year onwards, things were in recovery mode – with the tourism year finally getting underway and Ardern visiting Beijing in early April. There she assured President Xi that China was a "valued partner," and that Chinese companies would not be discriminated against in New Zealand. Ardern also officially opened the revamped New Zealand embassy in Beijing, which boasts a 100 seconded and local staff – making

it New Zealand's largest embassy anywhere in the world. Also in April, trade minister David Parker attended the second BRI Forum in Beijing, bringing back ideas about possible areas of New Zealand involvement such as streamlining custom procedures, aligning accounting standards, and "greening" the BRI. Peters went on record to endorse the government's stance on BRI collaboration, ostensibly because it had now become clearer that the initiative went beyond mere infrastructure. Finally, in early May, Ardern affirmed that she was in charge of New Zealand's foreign policy directions – and thus also the stance towards China.

Especially Ardern's visit to Beijing has helped to re-stabilise ties with China and to "put a floor under the relationship," as one observer put it (author interview, Wellington, May 2019). Together with Ardern's principled response to the Christchurch mosque shooting in March 2019, it demonstrated the prime minister's ability to face up to tough tests. Certainly, her visit was well received in China. An editorial in the Mandarin-language version of the *Global Times*, published shortly thereafter, drew a clear line between the governments in Canberra and Wellington. Whereas Australia harboured "greater geopolitical ambitions" in the shadow of the US and needed to be pressured, the more pragmatic New Zealand, which placed "greater emphasis on its economic interests," needed to be understood and worked with (Harman 2019). This divide-and-rule approach, reflecting traditional United Front tactics, is unlikely to succeed in driving a wedge between the two close allies however.

Regardless of the reassuring noises coming out of Beijing, New Zealand–China relations are bound to be bumpier in future. Difficult decisions loom ahead. For example, Huawei's participation in rolling out 5G might require another look (and possibly a political decision) if Spark or another company comes up with a new proposal. Such a decision would be a genuine litmus test for where the government in Wellington stands in the so-called Cold War between the US and China. There is also the challenge of how to strike a balance, in the context of China–New Zealand FTA upgrade negotiations, between the interests of New Zealand exporters and of those – including NZ First – demanding a more restrictive and selective approach to incoming direct investment. Moreover, the government in Beijing will keep a close watch on how Chinese investment projects are henceforth treated under a beefed-up Overseas Investment Act, and on what comes out of parliament's inquiry into election irregularities.

There will also be other issues where the governments in Wellington and Beijing do not see eye to eye, especially given the evolution of China's domestic and foreign policies under Xi. In a global geopolitical environment characterised by increasing confrontation between the US and China, the New Zealand government may come under pressure to take a clear stance on some issues – even if they would prefer not to. In any case, the government will have to give more thought to how to protect New Zealand's strategic interests (and assets) and how to safeguard the country's sovereignty in a changing environment. Such a rethink is arguably not only necessary but also healthy. New Zealand's signature foreign policy approach in recent times has been to negotiate ever more comprehensive FTAs. This approach has helped the country to successfully surf the waves of globalisation. But in a new global setting, it is no longer sufficient. New Zealand's much-touted "independent foreign policy," which seeks to chart an own course between the great powers, will be increasingly put to the test.

Small Powers in Difficult Times: Challenges and Agency

The academic literature on small powers and their relationships with big ones helps to illuminate New Zealand's recent travails in readjusting its China-related policies. Given the asymmetric nature of these relationships, smaller powers face – or at least perceive – substantial vulnerability in security and economic terms. They have fewer resources and meet limits to their ability to shape their geostrategic environments. Small powers may pursue economic openness but choose to forgo an alliance with a particular big power – or, for that matter, outright neutrality. If so, they will try to be on friendly terms with the big powers in the region or at least to not antagonise them too much. Otherwise they will support multilateralism.

New Zealand of the past few decades is a case in point. Of course, existing stances can become challenged by changing domestic politics and more specifically, as the New Zealand case shows, by particular new government configurations. But being small in size can also have its advantages. For example, a smaller number of domestic actors can facilitate learning and quick adaptation in the face of challenges. Much of this helps to explain why New Zealand's recent readjustment of its China-related policies has resulted in a number of fairly significant related initiatives – but ultimately, after some toing and froing, not in a fuller reset thereof, Australian style.

Despite their limited resources and vulnerability (perceived or real), small powers like New Zealand do not lack agency. They do not need to lie low and just hope for the best. In this vein, the government in Wellington should work with suitable partners in Asia – such as Australia, Japan, or Singapore – to help advance regional agendas, including but certainly not limited to trade issues, and to ward off attempts at divide and rule. It should also work intensively with like-minded and willing partners in the EU and elsewhere to address pressing global issues including climate change adaptation and reforming multilateralism. For this, New Zealand should step up its efforts to use forums – both governmental and of the Track II type – to compare notes and share experiences. This it should do, most importantly, to identify the scope for joint action at the bi- or multilateral level, in world regions such as the South Pacific and Antarctica, as well as at the global level.

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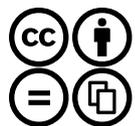
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