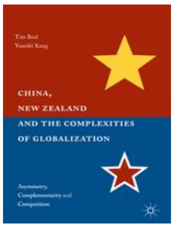

China, New Zealand, and the Complexities of Globalization
Asymmetry, Complementarity, and Competition
Tim Beal and Kang Yuanfei
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Chapter 7: New Zealand and the Complexities of Globalization

Tim Beal

The New Zealand-China relationship as a case study

The New Zealand-China economic relationship cannot be used as a synecdoche for New Zealand's foreign economic relations in general. The historical and economic specificity is too great for that. Of far greater interest is what it says about China's foreign relationships and here again it is clear that we cannot simply extrapolate from the specific to the general.

Nevertheless, the bilateral relationship does provide an excellent case study with wider implications. A good case study has to be small enough to be manageable but have enough commonality and generality to provide insights on broader issues. China's relationship with a micro-state, such as Tonga, would not fulfill that purpose because it is too limited. At the other end of the spectrum, the relationship with major countries, and especially with the United States, tends to be sui generis, and weighed down by its own importance to have much relevance to less crucial associations.

Overseas (or offshore farming) is a good example. Chinese purchase of agricultural land in New Zealand, particularly dairy farms, has been a hot issue in recent years arousing much public fear (probably misplaced) and opposition and forcing the New Zealand government into a difficult position.[1] On the one hand it must respond to public concerns, but on the other hand an overtly racist restraint on Chinese investment is not tenable.[2] It does not go unnoticed in China and has all sorts on repercussions on Chinese policy towards New Zealand and willing to invest. [3] The Green Party, with its particular animus against China, has been vocal in opposing sales.[4] Yet the opposition, both at the elite and popular level has been a barrier to a constructive, restrained and beneficial economic integration with China.[5]

In fact, offshore farming is neither new nor particularly Chinese. The bread that kept the Roman populace happy was baked with grain from Egypt. Later we have the slave plantation in the New World – sugar in the Caribbean and cotton in the American South, which did so much to lay the foundation for Western prosperity. Then, not quite slavery but not far removed perhaps, we have foreign-owned plantations producing tea, coffee, bananas, etc. Today we have American and Chinese interest in farming in the Ukraine and extensive investment by a wide range of countries beyond the original colonial powers, from Saudi Arabia to South Korea, in Africa.[6] It is a politically very sensitive issue, for instance leading to a coup in Madagascar over the government's land deal with the South Korean *chaebol* Daewoo.[7] China is, of course, an investor in overseas farms in Ukraine, in Africa, and in New Zealand. No New Zealand government has been toppled yet, but there is continuing popular and political pressure to restrain Chinese investment.

The New Zealand academic Stuart McMillan takes a broad but essentially defensive position on the subject:

> Chinese interest in New Zealand farmland was a hot issue in 2015. It isn't going to stop soon….
>
> The Government's veto in September of the sale of Lochinver Station to a subsidiary of Shanghai Pengxin will not herald a decline in the interest by Chinese in buying New Zealand farmland.
>
> A driving force behind the acquisition of farmland outside China is China's need for food security – ensuring that it has enough food to feed its immense and growing population.
>
> That concern has led to Chinese buying or leasing land in many countries. …..
>
> It is a rational response to seek productive land other countries are prepared to make available. The devil may be in the detail of practice but that is not a reason to dismiss the basic rationality in China's motivation.
>
> Whether it is just as rational for countries to lease or sell land to citizens, firms or corporations of other countries is another question……
>
> China is, of course, far from the only country seeking to acquire farmland in foreign countries…..
>
> Foreign buying of land is not going to stop any time soon. It is up to the host country to look after itself.[8]

McMillan sees only risks to be on guard against. Nathan Guy, the Minister for Primary Industries, publically at least, sees great prospects with no whiff of danger.[9] No doubt there are problems and disadvantages in Chinese investment in New Zealand agriculture, but there are surely opportunities to be realized. But these don't necessarily come easily or automatically. We discuss this below as an aspect of the need to deepen the relationship.

Although modern New Zealand was a product of globalization it was for a century and more, up until the 1970s, in a cocoon, originally entirely British but later partially American. The early 1970s saw Britain joining the European Common Market, thus forcing New Zealand to look elsewhere for economic opportunities, and the establishment of diplomatic relations with China. New Zealand was exposed to globalization in ways not experienced before, and a part of that new globalized environment was China. China was but a small part in the 1970s, but as its role grew so did the challenges for New Zealand. The country had been developed as an offshore farm for Britain, fulfilling that role for China, albeit on a far smaller scale, has been culturally traumatic. The complexities of globalization as experienced by New Zealand have their own specific characteristics, but the challenges, and opportunities in the process of adjustment to globalization have commonalities around the world.

Asymmetry, Complementarity, and Competition

A major theme of this book is asymmetric complementarity and it is useful to begin by looking at some data about the two countries in the light of these two associated concepts. They are associated because the basis of the economic concept of complementarity - country A exports manufactures to country B which reciprocates by exporting raw materials or foodstuffs – is asymmetry. David Ricardo's great insight was that the foundation of trade between two countries, comparative advantage, arose not because of differences in production cost between them (Portugal in his example produced both wine and cloth cheaper than England) but in differences within the countries themselves. Asymmetry can also be thought of in terms of a relationship *between* to countries – China's population is much larger than that of New Zealand – and *within* them – China's population has historically and geographically located differences which are far more marked than anything in relatively homogenous New Zealand. Thus the differences in disposable income and propensity to consume imported goods varies somewhat over New Zealand, between Auckland, the East Cape, Wairarapa and Southland but these differences are very minor compared with those in China between, for instance, the western provinces such as Tibet and Qinghai and the cities on the east coast. [10]

The WTO's Trade Profiles provide a suitable set of comparable, authoritative data to set the scene and explore the differences between New Zealand and China over a range of apposite variables.

Table 1: Basic indicators

	NZ	China	NZ/CN	CN/NZ
Population (thousands, 2014)	4,510	1,364,270		303
GDP (million current US$, 2013)	188,385	10,360,105		55
GDP (million current PPP US$, 2013)	156,438	18,030,932		115
Trade per capita (US$, 2012-2014)	23,576	3,262	7.2	
Trade to GDP ratio (2011-2013)	57.4	46.9	1.2	

Source: Trade profiles 2015. WTO, September 2015
NZ/CN: figure for New Zealand divided by that for China
CN/CN: figure for China divided by that for New Zealand

Table 1 brings together the WTO's basic indicators for New Zealand and China. The first two columns are WTO data and the final two are our calculations for simple analysis. NZ/CN divides the New Zealand figure by the Chinese one and is used when the NZ figure is greater. Thus we can see that while the degree of trade orientation given by the trade to GDP ratio are similar for both countries – higher that America's 29.9% but quite a bit lower that Singapore's 359.3%, as shown by the respective WTO trade profile –New Zealand's is slightly larger. CN/NZ is used when the Chinese figure is higher. So we can see that China's population is some 300 times that of New Zealand. China's gross GDP is considerably higher, either 55 times that of New Zealand's on a currency exchange calculation or 115 times on a Purchasing Power Parity (PPP) one. So the Chinese economy is far larger than that of New Zealand but if we look at in per capita terms we get a rather different picture. The WTO does not here give pc GDP but that can easily be calculated from the data in the table and that shows that New Zealand's pc GDP in 2013/4 was some US$35,000 (on a PPP basis) compared with China's US$13,200.[11] Thus the average New Zealander is 2.6 times 'richer' that his Chinese counterpart. Or perhaps we should say *only* 2.6 times, and falling. This is important because the prevailing notion in New Zealand is that the gap is far larger, as indeed it was in the immediate postwar period when New Zealand was one of the wealthiest countries on earth and China was still very poor.[12] This is no longer the case but awareness in New Zealand, even among the political elite, has lagged behind changing reality. For instance, one of the reasons the Green Party gave for opposing the China FTA in the Report of the Foreign Affairs, Defence and Trade Committee on the negotiations in 2008 was to preserve

> New Zealand manufacturing, which is finding it increasingly difficult to compete with Chinese producers who have the huge advantages of low-cost labour, weak labour laws, poor health and safety provisions, and few environmental standards.

This argument was not so much factually wrong – Chinese wage rates are, in general, lower – but that it was misplaced and showed no awareness of change and of the real challenges, and opportunities, facing New Zealand. FTA or not, New Zealand has to trade with China, and the rest of the world. New Zealand manufacturing finds it difficult to compete with China, perhaps impossible outside niche industries, but this increasingly less to do with differentials in wages and labor standards, which are decreasing but a range of other, deeper, structural causes. China is moving away from low-cost manufacturing and shifting it offshore to places like Bangladesh, just as other countries, Japan being an obvious example, have done. As migration from the countryside to the cities slows down and ends, then the labor surplus which has kept Chinese wages and labor conditions down will evaporate. Chinese manufacturing is undergoing momentous change, and it is important to recognize that, and its implications, rather than retreating into a vision of the past.[13]

Nevertheless, despite these aspects of convergence, with the gap between New Zealand's pc GDP and China's (with all that signifies) being far less than it as just a few years ago, the asymmetry is marked.

Table 2 shows the rank of each country in world trade, both merchandise and services

Table 2: New Zealand and China, rank in world trade 2014

	NZ		China	
	Exports	Imports	Exports	Imports
Merchandise	58	57	1	2
Commercial services	47	55	5	2

Source: As Table 1

There are no great surprises here except perhaps for China's quite ranking in exports of services. Of developing countries India has frequently been seen as a hub for services but in fact China has been pushing ahead as well.[14] New Zealand comes in between 55th and 58th on merchandise trade and rise to 47th place in the exports of services. Since the WTO, which accounts for most of the trade in the world, has 164 members this places New Zealand on the lower edge of the upper third.

Table 3 presents data for the value of merchandise exports and imports. China's exports are 56 times that of New Zealand's and imports are 46 times greater. This disparity is reproduced in share of world exports and imports. China counts, New Zealand at this general level, does not.

Table 3: New Zealand and China in world merchandise trade, 2014, value and share

Exports fob; imports cif

	unit	NZ	China	CN/NZ
Exports	US$m	41,622	2,342,306	56
Imports	US$m	42,518	1,959,356	46
Share in world total exports	%	0.2	12.3	56
Share in world total imports	%	0.2	10.3	46

Source and notes: as Table 1

Table 4 takes us to the composition of trade and hence to the question of complementarity.

Table 4: Composition of merchandise exports and imports, 2014

% of total

	NZ	China
Exports		
Agricultural products	70	3
Fuels and mining products	6	3
Manufactures	20	94
Imports		
Agricultural products	12	9
Fuels and mining products	17	27
Manufactures	71	60

Source: As Table 1

At this general level complementarity seems to be very strong for exports but not for imports. However, it should be remembered that this data refers to trade with the world, not the bilateral trade between New Zealand and China. That has been covered in Chapter Two and we know that it is highly complementary. The top ten New Zealand exports to China, accounting for 84% of the total are all agricultural products (Table 13) and the top ten imports are manufactures (Table 14). The general profile is different from the bilateral one, as we might expect, but it does have interesting aspects. In New Zealand's eyes, China is an economy which imports agricultural products and exports manufactures. However, looking more closely we see that only 9% of China's imports are agricultural products but 60% are manufactures. Clearly that does not mean that New Zealand can steam in, selling coals to Newcastle, and swamp the Chinese market with New Zealand manufactures. But it does remind us that China provides a huge market for manufactures and a small niche in China is a big prize for any New Zealand company. No doubt exporting would in most cases lead to manufacturing in China, for the international market as well as the domestic one, with a range of advantages and disadvantages.[15] New Zealand manufacturing for, or in, China is likely to be remain a minor matter.

A more substantial issue does arise from this set of data. Only 3% of China's exports are agricultural products (compared with 70% for New Zealand) and this may lead to the false assumption that China is no competitor in this field. Not so. Firstly, if we calculate the value of Chinese agricultural exports for 2014 it comes to US$74.5billion, or 2.6 times New Zealand's US$29.0billion. This does not in itself mean that China is a competitor in the same world markets for agricultural products as New Zealand. For one thing much of the Chinese exports go to Hong Kong which is largely dependent on China for agricultural supplies. But it does remind us that China is a major producer of a wide range of agricultural products, and in many cases the major producer. Much of that stays on the huge domestic market where it does compete, as appropriate with imports, including those from New Zealand. This leads us to a more general point of deep consequence. There is probably nothing that New Zealand exports to China that China does not produce itself, often in great and increasing quantities. We have seen earlier how New Zealand exports of wool to China were devastated in the late 1980s by the 'wool wars' in China which were a matter of the domestic politics revolving around the domestic production of wool. More recently, New Zealand's

flagship

export to China, infant formula is restrained by regulations to protect local production, and that local production itself.[xvi] New Zealand exporters take solace in the reputation for quality, and the premium which this attracts. There is little doubt that, across the board, and across many countries, Chinese products have a reputation for poor quality, and when it comes to foodstuffs, for being a health hazard.[xvii] Yet despite that Chinese agricultural exports are substantial, and growing. Chinese exports of *kimchi*, the iconic Korean pickled cabbage, dominate the markets of Japan and South Korea.[xviii] Moreover, quality is a variable thing, not embedded in cultural inevitability, but historically conditioned, as the case of Japan reminds us. Before the Second World War Japanese products were notorious for being shoddy, though cheap. In truth they were shoddy to a large extent because they were cheap and necessarily so because they were sold in poor, price-sensitive markets – the domestic Japanese one and abroad largely in China and other parts of Asia. After the war China was cut off, for political reasons, but America was opened up, again for political reasons. The American civilian market was the polar opposite of 1930s China – rich, not price-sensitive but demanding high quality. Moreover, especially after the outbreak of the Korean War in 1950 a major customer was the American military in Japan, which was even less price-sensitive and more quality-demanding than the civilians back home. Japan made a concerted effort to improve quality, amongst other things importing the American quality control expert W. Edwards Deming (a prophet much more honored in Japan than at home), brought in concepts such as quality control circles, and relatively rapidly raised the quality level of Japanese manufactures. Japanese products became a byword for quality and reliability.[xix] Just because Japan turned bad quality around does not mean that China will be able to, but it is a prudent assumption. Quality can be managed.[xx]

So, too, can other aspects of economic development.

The proportion of services in a country's economy, and in its international trade, is often taken as an indicator of development, thought that has to be taken with caution.[xxi]

Table 5: Trade in commercial services, 2014

	unit	NZ	China	CN/NZ
Exports	US$m	14,413	232,456	16.1
Imports	US$m	12,910	381,582	29.6
Balance	US$m	1,503	-149,127	
Export%	%	52.8	37.9	
Services as % of Goods and Services				
Exports	%	25.7	9.0	
Imports	%	23.3	16.3	
Share in world total exports	%	0.3	4.7	16.1
Share in world total imports	%	0.3	8.0	29.6

Source: Trade profiles 2015. WTO, September 2015
CN/CN: figure for China divided by that for New Zealand

Table 5 shows that while China's trade in services is considerable greater than New Zealand's the proportion for New Zealand is much higher. Moreover, New Zealand has a small positive balance in services trade while China has a substantial deficit. However, change is on the horizon with services becoming an increasingly important part of the Chinese economy, and its trade.[xxii]

Patents are an important indicator of innovation and growth in an economy. Table 6 gives data on patents grants both countries, with some additional calculations. It is no surprise that there many more patents granted in China; apart from anything else it is the place where much of the world's manufacturing takes place. However, relative to population New Zealand still far outstrips China, having 1.05 per thousand people against 0.15 in China. There is an interesting difference between the two countries in the percentage of patents taken out by residents. The figure for New Zealand is 6.3% and for China ten times more, at 69.1%. What this signifies is unclear and partly revolves what is meant by resident – does that include foreign corporations with a subsidiary in the country? New Zealand is a small, open economy whereas China is a much larger and self-reliant one. What is clear is that China is rapidly becoming the leading country in patent generation, overtaking the United States, a definite sign of innovation.[xxiii]

Table 6: Patent grants by patent office, 2013

NZ	Residents	298
	Non-residents	4,454
	Total	4,752
	%residents	6.3
	per 1000 people	1.05
China	Residents	143,535
	Non-residents	64,153
	Total	207,688
	%residents	69.1
	per 1000 people	0.15

Source: Trade profiles 2015. WTO, September 2015

We can see that a comparison of New Zealand and China is not straightforward. Differences in size (of area and population), of economic structure, and of per capita GDP and development status are embedded in a very complex asymmetrical mosaic in which history, geography, culture, and geopolitics all play a part. The FTA between the two countries progressed so swiftly, and on terms relatively advantages to New Zealand partly because New Zealand was so small and posed no threat to Chinese domestic interests, except in dairy, but it was also a member of the OECD and could be used by China as a stepping stone to FTAs with larger and more significant countries.[xxiv] The two economies are very complementary, which is why there is so much trade between them, but that complementarity has shifted over the years – New Zealand no longer imports its tea from China nor export seal skins there.

Moreover that complementarity is increasingly under pressure from competition. As noted above, there is nothing of any consequence that New Zealand exports to China that China cannot produce itself, and this natural import substitution is a growing force. A force that plays out not merely in the marketplace but in politics. Indeed in reporting on Prime Minister John Key's April 2016 visit to China, Fran O'Sullivan in the New Zealand Herald, presumably echoing a comment by Key, claimed that an upgrade to the FTA provisions on dairy access would be difficult because '[Chinese president} Xi is worried about pressure from China's 2 million dairy farmers.' [xxv]

Asymmetry, complementarity and competition form the backbone of this study of the New Zealand-China economic relationship, but there are two set of connected themes which, from the New Zealand standpoint at least, have to be addressed. We approach this from a New Zealand perspective because whilst China is of crucial importance to New Zealand, that importance is not reciprocal. New Zealand is of very limited significance to China so very is little point in dwelling too much on that aspect of the relationship.

The two themes are New Zealand's ambivalent but intense attitude towards China represented by the two poles of 'golden fleece' and 'yellow peril', and the functional, pragmatic one of what form the relationship should take in order to minimize dangers and maximize benefits for New Zealand. They are overarching themes, generalizing and touching on very complex matters which we cannot go into. They are also inter-connected with the second being influenced by the first.

China as Golden Fleece or Yellow Peril

Modern New Zealand, as we have seen, was a product of the European, and particularly the British, expansion. Much of this was driven by the lure of China. The fabled riches of Cathy, the Golden Fleece transcending its Greek original. New Zealand was first settled by Europeans partly because of the China market and China was usually an important fixture on the trade horizon except for the period when direct trade with Britain was all-consuming. The myth of the immense China market survives to this day. A business member of Prime Minister John Key's delegation to China in April 2016, attempting to upgrade the FTA to catch up with the Australians, was quoted, in an article tellingly (if geographically challenged) entitled 'Eastern promise in John Key's trip to China', that' if we sold a paper clip to each person in China we'd be on the pig's back'.[xxvi] The idea that China was so vast that selling something quite minor to each person would bring great wealth has innumerable variants stretching back two centuries and more.

Unrealistically optimistic dreams about the China market have long been counterbalanced by a pessimistic, evil twin – the fear of the Yellow Peril. New Zealanders (and Australians) saw themselves as European outposts in an unwelcoming, often menacing, environment. By the time Europeans arrived in New Zealand India had been colonized and Southeast Asia followed soon after, Only China, and Japan, left untamed and so perceived to be threatening. In reality the Yellow Peril was largely illusory but it had a profound effect on New Zealanders who looked to the imperial power – initially Britain then from the 1940s, America – for protection and security. Ironically the imperial relationship resulted in the converse. New Zealand troops have died in a number of wars from the Indian Rebellion of 1857 through to Afghanistan today fighting countries with which New Zealand had no conceivable direct quarrel. The Pacific War with Japan is a partial exception, because there was a danger of invasion, but the war came about because of imperial rivalry over East between Japan and the US, rather than any premediated Japanese designs on New Zealand. Indeed, in 1937 New Zealand signed a trade treaty with Japan, which was then the country's third largest export market.[xxvii]

Britain, and the United States, had their own geopolitical reasons for these wars in which New Zealand has been embroiled, but they had no relevance to New Zealand's interests. The heritage of this misplaced search for security in the imperial embrace survives today

Most countries in the world, and none more than those in the Western Pacific, are faced with a cruel dilemma. Where do they stand in the confrontation between the United States and China? China is for them, and for New Zealand, their major economic partner and indeed source of migrants. Yet their political and military ties are with the United States. Many people, especially in the United States, think that a clash, perhaps conflict between the two is increasingly likely.[xxviii] The dangers are little recognized as yet in New Zealand. There is much more discussion in Australia which admittedly is much more in the front line.[xxix]

The leading academic figure in the Australian debate is Hugh White, professor in the Strategic and Defence Studies Centre at The Australian National University.[xxx] However, the concern goes beyond academia. Malcolm Fraser, a former Liberal Party (i.e. conservative) Prime Minister who died in 2015 also weighed in, described America as 'Australia's dangerous ally', and warned of the folly of blindly following the policy of the United States rather than addressing Australia's interests.[xxxi]

The strategic studies establishment in New Zealand, and politicians, show little concern. [xxxii] The only dissenting voice is that of former diplomat Terence O'Brien.[xxxiii]

Gerry Brownlee, in a speech at the National Defense University of the People's Liberation Army in Beijing in September 2015 declared:

> New Zealand has welcomed the US rebalance into the Asia-Pacific.
>
> We have benefited from this move, and consider the rebalance a positive factor for regional security.
>
> We do not see our defence relationships with the United States and China as mutually exclusive.
>
> We believe that the United States and China want the same thing for the Asia-Pacific – peace and prosperity.[xxxiv]

Perhaps Brownlee and his advisors have a more astute understanding of the situation, and this was just politico-waffle for the occasion, but the actions of the New Zealand government suggest otherwise. For instance, IN February 2016 the NZ Defence Force announced that 60 soldiers would be participating for the first time in the annual Ssang Yong exercises on the Korean peninsula.[xxxv] These are amphibious exercises led by the United States and ostensibly practicing a beach landing on the coast of North Korea. New Zealand has also participated in the annual Bersama military exercises in the South China Sea as part of the Five Power Defence Arrangements (FPDA) with Malaysia, Singapore, Australia and the United Kingdom. [xxxvi]FPDA was set up by the British in 1971 on their military withdrawal from the area and was clearly aimed from its inception at China.[xxxvii] The South China Sea is currently where the standoff between the United States and China is most pronounced and third party statements on the issues tend to be seen as a litmus test of allegiance. Thus in the prelude to, and the process of John Key's visit to China in April 2016 in an attempt to upgrade the FTA there were surprisingly explicit warnings from China; A Xinhua commentary on the issue is worth quoting at some length because it covers the main Chinese concerns and it is authoritative. Since Xinhua is the official news agency a 'commentary' (basically an editorial) is a considered statement, lower perhaps in status than one from the Ministry of Foreign Affairs, but wearing the imprimatur of government none the less:

> An upgrade of the FTA will top Key's China agenda; a new version of the agreement would be in the interest of both countries and boost bilateral ties.
> But relations between the two countries haven't been entirely rosy. In February, Key made some remarks against China regarding the South China Sea, likely under the pressure of his country's military ties with the United States. It was a surprising move that went against New Zealand's previous pledges not to take sides in the region's territorial disputes.
> What is more baffling is Wellington's successive engagement in war games in the South China Sea. After observing the U.S.-Philippine military exercises that lasted 12 days near the disputed waters, New Zealand will again send its servicemen for a five-nation drill in the region starting on Sunday.
> The war game's timetable overlapping the prime minister's week-long China trip no doubt raises suspicions, despite an official claim from Wellington that there's nothing provocative in New Zealand taking part in the military exercises while Key is in China.
> Key should be reminded that New Zealand is an absolute outsider in the dispute and not a concerned party, and that any attempt by Wellington to break its promise not to take sides on the issue would risk complicating the flourishing trade ties between China and New Zealand.
> Wellington is advised to be more discreet in its words and actions. New Zealand should chart its own course in its relations with China rather than have its agenda hijacked by the ambitions of its military allies. The future of bilateral ties between New Zealand and China, to some extent, depends on Wellington itself.[xxxviii]

The warning does not appear to have been heeded. [xxxix] Frankly at this stage we don't know to what degree the warning was implemented. The Chinese media, as is usually the case, was uncritical – 'China, New Zealand agree to upgrade and expand FTA'.[xl] The New Zealand Government claimed triumph – 'Successful trip to China concludes'.[xli] The New Zealand media that covered the trip spent most of their regurgitating statements from John Key. The closest we got to a feeling that the Key mission was not really achieving the upgrade it desired came from reporter Stacey Kirk: 'Key chalks up small win in push for free-trade upgrade after China talks':

> China will allow dairy to remain on the table as it progresses talks with New Zealand over an upgrade to an existing free-trade agreement.
> But it's not yet promising that formal re-negotiations will begin…….[xlii]

The main opposition Labour Party has been slow to comment and one blogger opined:

> Greens and NZ First both opposed the FTA with China. Labour's policy has been getting closer and closer to the Greens, so it is not impossible they'll oppose any upgrade to the China FTA purely because it may happen under National.[xliii]

The FTA upgrade is a minor issue in the development of the New Zealand- China economic relationship but it is a reminder of how important politics is. Politics here encompasses not merely state to state relations but the broad gamut of attitudes and opinions, both at popular and elite level. The concept of 'Yellow Peril' is manifested in many ways. Fear of course. Fear of invading hordes –in the past with guns, now perhaps with credit cards. Fear that the Chinese will buy up all the farms and all the houses, and being able to do that because of their pitifully low wages. It is of the nature of racism that writers can consider all Chinese filthy rich and at the same time dirt poor. Behind these popular attitudes, and arguably providing their foundation, is New Zealand's position in the geopolitical struggle between the United States and China.

We have seen that for a quarter century after the founding of the People's Republic in 1949 was constrained by the perceived need to follow the leadership of the United States. As American policy changed this opened the way for New Zealand (and Australia next door) to establish diplomatic relations with China and greatly expand the trade. New Zealand's 'Three Firsts' led to its fourth one – the FTA with China. Trade, in a sense, followed the flag, stagnant when state relations were hostile and expanding when then they were warm. The FTA is one example; another is the granting of Approved Destination Status (ADS) which led to impressive growth in tourism from China. Politics has been by no means the only factor of course, but it has played an important role. And it continues to do so.

It is perhaps significant, and illustrative of the ambivalence and tensions within the New Zealand that the Key government signed onto the Asian Infrastructure Investment Bank earlier than Australia and the EU countries, and in the teeth of American disapproval. John Key himself surely amplifies his personal role and the influence of New Zealand when he claims

> "I said to [Xi Jinping] the AIIB was really important to you guys - we were [the] first country to back you. "I spoke to lots of other leaders to get support for you," Key related.[xliv]

Actually it appears that New Zealand was the first non-Asian country to sign up; 21 Asian countries (including Singapore) had already joined.[xlv] John Key trained as an accountant and became head of foreign exchange for Merrill Lynch making a modest fortune but one sufficient for him to retire and go into politics.[xlvi] Presumably it was this background in banking which enabled him to pursue an independent course of enlightened self-interest in respect of the AIIB. However, when it comes to strategic issues he seems to defer to the military/security establishment.

New Zealand needs to see China for what it is, eschewing the simplicities of Golden Fleece and Yellow Peril. It needs to navigate carefully and skillfully thought the United States-China confrontation. Ad it needs to handle its economic relations with strategic vision. It is not merely the FTA that needs an upgrade.

Moving from commodity trade to a deeper relationship

At first glance New Zealand's trade with China, or more precisely the PRC, seems to have been a great success. There was very little trade, or even contact, for many years but now China is New Zealand's major trading partner and source of tourists, migrants, and students. Obviously New Zealand cannot match that importance to China but nevertheless when Prime Minister John Key visited China in April 2016, he had meetings with both Premier Li Keqiang and President Xi Jinping.[xlvii]

However, when we look more closely we can see there are problems.

Statistics, as we have seen, are quite patchy, especially for the early years, but we do have data from United Nations Commodity Trade Statistics Database for Sino-NZ trade going back to 1984. It has grown enormously but it would seem that the main reason was the huge expansion of the Chinese economy, especially the international segment, spewing out exports and sucking in imports.

In 1984 China's exports to New Zealand were US$31 million and by 2014 they had grown 150-fold to US$4,738 million.[xlviii] During this period New Zealand's share of China's exports grew substantially from 0.12% to 0.20%, a 64% increase. How much of this was due to push from China or pull from New Zealand entrepreneurs such as Sir Stephen Tindall, founder of The Warehouse, an emporium for cheap imports, mainly from China, is uncertain.[xlix] China's imports from New Zealand tell a different story. Again they grew vigorously, from

US$136million in 1984 to US$9,505 million in 2014 – a 70-fold increase. However New Zealand's share of China's imports fell from 0.52% in 1984 to 0.49% in 2014. Indeed the share had fallen to 0.17% in 2008 before it was rescued, it would seem, by the FTA. In other words, New Zealand's share of the Chinese market has decreased slightly over this period and if the FTA provides only a temporary stimulus, as FTAs with other countries such as Australia erode the advantage, that may well fall even further.

It may well be that this decline was due to forces quite beyond New Zealand's control. An increase in export efforts by other countries would naturally tend to depress marker share. It may be that New Zealand did better, for whatever reason, than it might have been expected to do it in the circumstances. However, it would seem there are no grounds for complacency and it would be wise for New Zealand to take stock of its economic engagement with China.

The vulnerability factors are quite well known. Firstly New Zealand is too dependent on the Chinese market. This has two aspects – indirect and direct. Former Trade Minister Tim Groser point out that indirect dependency is quite beyond New Zealand's control:

> There are rather large practical limits to what we can do about this. Even further diversification of our export effort (which is central to this Government's trade policy) does not avoid the problem. An astonishing 124 countries now count China as their number-one trading partner. If China slows down or worse, all our export markets slow down. Period. We would be adversely affected even if we did not sell a single dollar of goods and services directly to China.[l]

As for direct dependency Groser claimed that export diversification was 'central to this Government's trade policy' he gave no evidence and did not mention it again in his speech. It is unclear how much effort the NZ government is putting into diversification (apart from signing up to the TPP) and what is being achieved. For instance there has been a lot of talk about the 'NZ Inc India strategy', launched by John Key in 2011, and the Ministry of Foreign Affairs and Trade webpage on it asserts (in April 2016) that it aims to 'Grow merchandise exports to at least $2 billion by 2015'.[li] In fact exports to India in 2015 only amounted to a quarter of that target.[lii] It would seem that Groser, and presumably this is still the opinion of the government, was confident that the TPP would go a long way to solve any problems (and might obviate the need for other measures):

> Absolutely the best insurance policy New Zealand can take out is to complete the TPP negotiations and improve our access to the huge markets that would represent - about 40% of global GDP.[liii]

New Zealand's merchandise exports to China are unduly concentrated, as we have seen. Table 13 in Chapter two documents how the top ten commodity groups have accounted for 84% of exports to China over the last quarter-century. Moreover the bulk of the merchandise exports are fairly simple commodities. Not computers, aircraft, motor vehicles or all the other products which embody technology and have brand value. To be sure, some of the exports, and infant formula is the major example, do embody a degree of technology, especially in terms of food safety assurance, do have some brand value and do, at the moment attract a premium. However, it is unlikely that these advantages can be sustained in the long-term. As more foreign products move into the Chinese marker, and as domestic production improves in in quality and health safety, the New Zealand advantage will diminish. Milk powder is milk powder and convergence is inevitable.

It is also inevitable that, given New Zealand's small size manufactured exports will always be small part of exports. At the same time, the endowment of natural resources will provide profitable export opportunities. Nevertheless, within those natural constraints there can be a shift to higher-value added products, of which wine is an excellent example. Wine is a variegated, differentiated product where oenological and marketing skills can produce something much more valuable than the ingredients in it.[liv] It helps that China is a burgeoning wine market, one of the largest in the world and predicted to be the biggest importer, consumer, and producer of wine in the near future.[lv]

Turning to services we have tourism and education as the two main areas, and New Zealand overly dependent on China in both. Although they have a lot in common, and education is grouped under tourism in the statistics, they have rather different characteristics and distinctly different potential.

The problems with tourism are well known. It is a low-wage, low-productivity industry.[lvi] For a country such as New Zealand which markets itself as an uncrowded country with unspoilt beaches and empty hills, success in attracting tourists breeds its own danger, both for the customers, and for the hosts.

The comments by journalist Barry Soper, with the use of the emotive word ‘invasion’ is illustrative of much of New Zealand public opinion, and media:

> And as he wrapped up his Chinese whistle stop visit to three cities in four days, Key unveiled a fifty million buck deal for Queenstown where 10,000 Chinese will **invade** in groups of 500 over four months of the low season in 2018.

New Zealand’s ‘100% pure’ marketing slogan, which goes beyond tourism into concepts such as food safety, has won plaudits.[lvii] There are synergies to be reaped from the ‘halo effect’, where good reputation in one sector produces benefits in another[lviii] But it also makes New Zealand very vulnerable to bad publicity from environmental peccadilloes.[lix]

Quality control is a familiar problem in service industries where customers interact not with fixed and finished physical products but with people, with foibles, tiredness, sickness and the rest of the human condition. The problem is exacerbated with tourism where customers come in touch with the wider community. Mass tourism is probably not popular with locals anywhere, except those benefiting from the industry itself. One issue which has aroused a lot of emotion in New Zealand recently has been the issue of foreign drivers being involved in crashes or driving dangerously. Car keys have been seized from bemused visitors by vigilante

New Zealanders.[lx] Chinese drivers are frequently, but not exclusively mentioned – the hostility extends to foreign drivers in general. It may be that just as a generation ago all East Asians were perceived as Japanese, now they are thought of as Chinese. Whether Chinese drivers are particularly dangerous is unclear; official documents tend to be coy. [lxi] An investigation by the Christchurch *Press* decided that foreign drivers were indeed more dangerous than locals but did not delve into nationality.[lxii] Perceptions can be more important than realities, though of course analyzing the reality is a prerequisite for solving or ameliorating the problem.

Tourism has its dangers then, but it also offer great possibilities, not merely in revenue terms but in reputation as well. Tourism decisions are greatly affected by word of mouth and while unhappy tourists may denigrate New Zealand, satisfied ones can be ambassadors, not only for further tourists, but for New Zealand products in general.

The same goes for students who come to New Zealand for study, although here the effect is multiplied. Students who have had a good experience, found their studies, got to know the country and made friends can produce all sorts of reputational benefits, as J. William Fulbright famously recognized.[lxiii]

New Zealanders struggle not merely with the size of China, but its diversity. New Zealand is a unitary state, not merely in terms of governance but also socially and culturally. There are differences to the native eye, and ear, to be sure. There is Auckland, then the land south of the Bombay Hills. However this is all very minor compared with China, where the legacies of the past are embodied in modern provinces and autonomous regions. There is also a tendency to confuse temporary advantage with permanent entitlement. This is manifested for instance in complacency about New Zealand's food safety compared with China's, or about the advantages of the 2008 FTA. A phrase frequently encountered in field work for the report

Service Success in Asia was that New Zealand had a brief ‘window of opportunity’ that had to be seized and turned into a sustainable advantage.[lxiv]

How can New Zealand mitigate the dangers and vulnerabilities discussed about and build a mutually beneficial, sustainable relationship with China that realizes the undoubted and huge opportunities?

Constructing a strategic vision and deepening the relationship

Clearly there is no simple answer to this challenge, not can this book attempt to create a practical checklist. Of necessity the discussion is brief, and at a high level of generality.

There are a host of practical issues which can be mentioned but not developed. These include the classic one, not confined to the New Zealand-relationship, of focusing on the market rather than what is convenient or easy to produce. For instance *Pinus radiata* may grow extremely well in New Zealand but may have not been a wise choice for extensive timber plantations because of its poor reputation in the market. Having large and continuing supplies the question arises of how best to market it and the consensus, though not quite the reality yet as any glance at a New Zealand harbor-side with its huge piles of raw logs waiting export indicated, is to move it up the value-chain.[lxv] Negotiations preceding the FTA brought official Chinese acceptance of its suitability for construction purposes.[lxvi] But architects need to be convinced while at the same time there is increased high-quality competition from South America.[lxvii] All this requires cooperation within the New Zealand timber industry, judicious assistance from New Zealand Trade & Enterprise, and committed strategies. Although this has been talked about for many years it is not clear how much substantial progress has been made.[lxviii] Certainly the government’s frequent use of the phrase ‘NZ Inc’ implies the recognition that cooperation between companies, and between those companies and government, need to be improved.[lxix]

Beyond specific industries there is need for a strategic vision which is grounded in mutuality and built on a historical perspective. Mutuality means being aware of your own strengths and weaknesses as well as opportunities and threats in the market. New Zealand companies reportedly often overestimate their ability to service the Chinese market both in terms of volume (asymmetry again) and in long-term commitment.[lxx] An understanding of the present needs to be placed between, and informed by, a knowledge of the past and a conception of the future. This is traditionally difficult in New Zealand where companies are small and under-capitalized, and governments work to a three-year electoral cycle. It may be significant that the New Zealand government's strategy document 'Opening Doors to China' published in 2012, is subtitled 'New Zealand's 2015 vision'.[lxxi] The document, and other material available from the website of the Ministry of Foreign Affairs and Trade, give as one might expect, an enthusiastic and perhaps breathless overview of the economic relationship, its success and its opportunities. How much of this is matched by hard reality is difficult to say

Some of the hazards are illustrated by a comment that John Key made in the foreword to the 'Opening Doors to China: New Zealand's 2015 vision' pamphlet:

> Trade with China has been one of the great success stories of the New Zealand export sector over the past decade or more. So much so that I had no hesitation in setting an ambitious future goal when I visited China three years ago. Premier Wen Jiabao and I agreed that we should aim for a doubling of bilateral trade by 2015. We're on track to achieve that goal.[lxxii]

John Key was both right and wrong in his prediction about achieving the aim of doubling trade that was agreed in 2010.[lxxiii] Bilateral trade went from $10 billion in 2010 to $20 billion in 2014, one year ahead of schedule, but then fell back to $17 billion in 2015. Much of the increase was due to booming dairy exports and the calamitous decline to the meltdown in that market in 205, as Table 7 indicates.

Table 7; Dairy exports to China 2010-2015

Year	NZ$ billion
2010	1.4
2011	2.2
2012	2.2
2013	2.8
2014	6.0
2015	2.4

Source: INFOSHARE, downloaded 1 May2016
HS04; June years

The reasons for that are beyond the scope of this book but it does suggest the need to broaden and deepen the relationship.

Broadening needs no explanation but we conclude with some thoughts on deepening. That, by definition, is very complex and requires focused research. It would be a suitable topic for a monograph on its own because in many ways it is the key to developing the New Zealand-China relationship in a sustainable to optimize mutual benefits.

The benefits might be mutual but that does not been they are equal. China is much more important to New Zealand than New Zealand is to China, and with every passing day the disparity increases. For this reason it behooves New Zealand to formulate strategies to develop the relationship; it is not something for which China has any great need.

Basically, New Zealand needs to embed itself into China, economically, socially and politically. Exports alone will be insufficient because of rising domestic competition in China, in quality as well as quantity, and increasing international competition. We can be reasonably sure that New Zealand will always be able to export wine to China and get a reasonable price for it. But New Zealand's export potential is limited and the share, and profile, within the Chinese wine market will almost certainly decline. How much better to supplement exports with investment in the Chinese wine industry. Investment partly in terms of money but more importantly utilizing present advantages in viticulture, oenology, and international marketing. There is, indeed, New Zealand investment in China but it appears to be concentrated in dairy, and by Fonterra.[lxxiv] On his April 2016 visit Prime Minister John Key, John Key tells told ‘China's business bigwigs’ that ‘NZ [is] open to Chinese investment’. Perhaps he should spend more time getting New Zealand business to investing China, and not just in dairy.

Deeping the relationship also means making better and smarter use of the Chinese diaspora in New Zealand. [lxxv] It means seeing tourists and especially students as potential, and potent, ambassadors for New Zealand in its products. New Zealand officials often extol the Colombo Plan. The postwar initiative that brought a number of students from what were then poor Asian countries to New Zealand. Those lessens need to be re-examined and perhaps re-applied.

A deeper relationship would also generate greater mutual knowledge with all sorts of unforeseen benefits. One example is the halal industry – the provision of halal compliant goods and services to Muslims. We have already noted the importance of this to New Zealand. China is not usually thought of in terms of Islam, although the first Muslims to come to New Zealand, in the 19th century, were Chinese.[lxxvi] China has a substantial Muslim minority, which means an important domestic market segment – in 2005 the 14th largest ‘Muslim market’ in the world.[lxxvii] Moreover, for a variety of reasons – domestic politics, geopolitics and economic potential – China is developing its ‘Belt and Road’ strategy which embraces many Islamic countries.[lxxviii] So China offers new ways of developing halal exports, but recognizing this takes knowledge and contacts. It also benefits from government encourage and support, and good relations between Zealand and China and this was exemplified by the announcement that the John Key April 206 visit to China had resulted in, amongst other things, a new agreement on halal accreditation.[lxxix]

The New Zealand China economic relationship has been through bad patches but from the 1970s onwards has been growing and China now ranks alongside Australia in importance. There are problems. The meltdown in the dairy market in 2015 had a substantial impact on the trade and on the New Zealand dairy industry itself.[lxxx] This, however, is probably temporary. There are deep-seated problems, with long historical roots, such as the irrational hostility in some quarters to China, Chinese tourists, and Chinese investment. There is the danger that New Zealand may blindly get itself embroiled in conflict between the United States and China. There is the underlying failure to deepen the relationship fully to produce sustained benefit, but this hopefully work in progress. The relationship has demonstrated great benefit to New Zealand but its potential is not yet fully realized

We hope this book will help in some small way to develop the New Zealand – China relationship and by doing so offer some lessons to the world how two countries, so different in many ways, but with shared interests in peaceful cooperation, can overcome obstacles and achieve fruitful mutual benefit.

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