

Managing New Zealand-China Relations

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Thank you for the kind invitation to speak today. It is lovely to be at the Christchurch Central U3A. I'd particularly like to thank Rosemary Du Plessis for the invitation to come to Christchurch. I grew up in Balclutha and Blenheim so I always enjoy the opportunity to get back to the mainland.

My topic today is New Zealand-China relations. I thought I'd make a few points (3 to be exact and a conclusion) and then spend time in the Q&A. As you know, China is a controversial topic and it's been in the news a lot lately so I'm really interested to hear your thoughts.

POINT 1

China is New Zealand's largest trade partner and central to our prosperity and security in a Covid-19 world.

China is a really important relationship. It is not long since diplomatic relations were established in 1972 just after the People's Republic of China took the Republic of China's seat in the United Nations. A key agreement between New Zealand and China was the 2008 Free Trade Agreement (recently upgraded). Since that time our economic relationship with China has expanded considerably.¹

- Goods exports to China have grown from \$2 billion in 2008 to \$16.7 billion in 2020 (year to March), with dairy and forestry playing a big role. Surpass Japan, USA and Australia (7.8 billion).
- Goods imports from China have grown from \$5.7 billion in 2008 to \$12.7 billion in 2020 (year to March), with electrical machinery, apparel and other manufactured goods playing a big role. China is easily our largest trade partner.
- The number of fee paying international students from China has grown from 21,135 in 2010 to 36,000 in 2018. After coming close to that the number from India has decreased to 16540 and the number from Japan is 10,985.
- Chinese outbound tourism has become the largest in the world. Chinese visitor numbers to New Zealand have increased from 262,000 in the year ending Feb 2015 to a high of 431,000 in year ending January 2019. As a comparison, 600,000 Australians visit New Zealand each year pre-COVID.
- In 2001, FDI stock from China (including Hong Kong) was 718 million NZD, well behind Australia, the USA and UK. In 2019 Chinese FDI stock reached \$11 billion, making it our second largest source of FDI stock, but still far behind Australia's \$56.9 billion.

¹ Economic data taken from New Zealand China Council website: <https://nzchinacouncil.org.nz/statistics/>

In the COVID-19 recovery, China will likely continue to be an important market for our goods and for imports as well as potentially a source of international students and investment, though these last two, and tourists, are likely to remain depressed for some years.

POINT 2

A 'new era' of more active and assertive Chinese policymaking means New Zealand must deal with Chinese actions in a number of new and at times concerning areas. We are now dealing with a more assertive and confident China. Because it is topical and in the news I'll use the example of Hong Kong to illustrate this point.

The Treaty of Nanjing (August 29th 1842) ended the first Opium War and ceded the territories of Hong Kong to the British Empire. This was followed by a 99-year lease of the New Territories and ongoing British colonial governance over Hong Kong.

Hong Kong was returned to China in the handover of 1997. In the meantime however:

- The Qing Dynasty fell in 1911,
- The Republic of China ruled through the tumultuous 20s and 30s and a Japanese invasion,
- In 1949 the Chinese Communist Party established the People's Republic of China.

The New China began as a radical revolutionary socialist experiment once again closing China to the world. Many Republican sympathisers fled to Hong Kong, a British colony still very much open to the West.

As the Cold War faded Hong Kong became a gateway for China's new opening to the world and a base for many foreign companies with economic interests in or with China. While not a democracy in terms of popular representation, Hong Kong enjoyed the legal system and institutions of democracy providing security for businesses and freedom of speech and association for the people of Hong Kong.

The Sino-British Declaration was signed in 1984 ensuring Hong Kong's return to China. As UK Foreign Secretary Dominic Raab stated in 2019, 'This agreement between the UK and China made clear that Hong Kong's high-degree of autonomy, rights and freedoms would remain unchanged for 50 years. The undertakings made by China, including the right to freedom of expression, an independent judiciary and the rule of law are essential to Hong Kong's prosperity and way of life.'

The Sino-British declaration got a commitment from Beijing to uphold the 'One China, Two Systems' principle at the handover in 1997. The cornerstone of that is the mini-constitution (The Basic Law). This made China very much a part of

the PRC but one with a high degree of autonomy, different institutions, identity and political culture.

In many ways, Hong Kong is a microcosm of China's engagement with the world and shows that socialisation is a two-way process. Let me explain that. If we think back to the 1990s, the prevailing view was that China was reforming toward the norms of the international system, that the revolutionary socialism that marked the Maoist era was something of the past.

Hong Kong, a highly successful financial centre, was viewed as the future for China. In some ways this has come to pass as China has socialised in international society. China's participation in multilateral organisations like the WTO and UN, and its adoption of international treaties and strengthening of the legal system within China, particularly for commercial law, has been a phenomenal shift toward international norms.

But there are also some very clear limits to Chinese reform. China is a Party-State where in recent years in particular, the leadership has retreated from political liberalisation and is further strengthening the role of the Chinese Communist Party. Tolerance for dissent and competing political views in China, unlike in a democracy, is very low; order and hierarchy and regime survival take precedence. We saw this in 1989 on Tiananmen Square and we are seeing it in China today with the tight adherence to Xi Jinping thought and crackdowns on rights lawyers and the media.

Hong Kong is now becoming more like the Mainland.

This began with the slow erosion of some unique features of Hong Kong in terms of the education curriculum and the ownership of media, freedom of speech and assembly (the right to protest) and the migration of Mainland businesspeople (who come from a different political culture) and a few cases of dissidents being targeted.

The long brewing democracy movement culminated in the Umbrella movement in 2014, a series of street protests in response to the National People's Congress proposal for electoral reform. Protests flared up again last year in response to a proposal for an extradition treaty, which Chief Executive Carrie Lam backed. These became increasingly large scale with violent clashes with the Hong Kong police.

Some expected the PLA garrison in Hong Kong to come out onto the street. It didn't but the inflexibility of Carrie Lam to compromise and the inability of the Hong Kong police to calm the protests peacefully ensured that something would change. And it did with the imposition of a new National Security Law.

Hong Kong's Basic Law has a security provision in article 23 but the LegCo had not been able to pass a national security law. This was a politically sensitive issue for the people of Hong Kong.

In June 2020 the National People's Congress (in Beijing), assessing that Hong Kong had failed to follow the mandate given in 1997 to introduce their own security law, took it upon themselves to introduce one to deal with the major embarrassment and disruption of the protests and to show mainland Chinese that the PRC would not tolerate this kind of disorder and opposition.

This came into force on the first of July this year. It criminalises any act of:

- secession - breaking away from the country
- subversion - undermining the power or authority of the central government
- terrorism - using violence or intimidation against people
- collusion with foreign or external forces (e.g., Jimmy Lai arrest)

These provisions appear in violation of the Basic Law.

- Hong Kong didn't make the law.
- It breaches judicial independence (According to the Basic Law Hong Kong courts have jurisdiction over all cases but the NSL creates mainland jurisdiction for certain cases).
- Rights and freedoms of Hong Kong people.

In short, the political environment in Hong Kong has become more like the PRC where democratic rights of freedom of speech and assembly are no longer fully protected. We can talk more about how New Zealand has responded to these concerns in the Q&A if you like but we have certainly made strong statements on the issue, far stronger than we normally see.

Other examples include: the South China Sea; Taiwan; Xinjiang; the Belt and Road Initiative; China's response to the COVID crises (Wolf Warrior Diplomacy), China's role in the Pacific etc. As Chinese influence grows as the second largest economy in the world, we're likely to see more of these issues come to the fore.

POINT 3

Close partners from the United States and Australia to Canada and the United Kingdom have all experienced strained relations with a more active China.

The United States has moved to open strategic competition that is, in the Chinese parlance, comprehensive in its scope ranging from security, economic, technological, and ideological.

Australia has experienced a major deterioration of the relationship over the foreign interference legislation, banning Huawei from the 5G networks and calling out cyber security breaches. There are a number of issues ranging from calling for an international enquiry into the COVID-19 pandemic to strong Australian condemnation of Chinese policy such as in Xinjiang and the South China Sea. There are worries of economic retaliation and overdependence on the Chinese market.

The United Kingdom has recently moved from a very pro-China policy to banning Huawei and sending China strongly worded diplomatic representations in response to what they see as the breach of the 1984 Sino-British Declaration.

And the list goes on: Japan, India and Southeast Asian nations have territorial disputes. Korea experienced retaliation over the THADD missile defence system. The EU has labelled China a systemic rival, as well as a partner.

Since Xi Jinping came to power, China's relations with many countries, especially the advanced economies and Western nations, have markedly deteriorated.

CONCLUSION

So how does New Zealand manage tensions and can we secure our interests without compromising our values? This is a million dollar question. I'll just make a few observations and I'd very much like to hear your thoughts.

1. More issues are presenting in the relationship as China becomes a more assertive actor and as the US moves to strategic rivalry. My view is that the New Zealand Government, as representative of the New Zealand people, cannot and should not compromise its positions on these issues. This follows what many describe as a maturing of the relationship.
2. Businesses should therefore be prepared for the possibility of economic retaliation. Economic relations with China are high value but also the risk is increasing.
3. New Zealand should try to be upfront with China about our values and principles and invest in explaining our positions. We should want to see China succeed and be a responsible global power.
4. New Zealand should maintain an independent foreign policy and strengthen its relations with traditional partners and allies.
5. New Zealand should invest heavily in China knowledge generation in New Zealand. We need to invest in addressing the knowledge asymmetry that we currently have.