New Zealand moves to broaden economic ties with China

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New Zealand Prime Minister John Key launched a major strategy document, “Opening Doors to China,” at an official function in Auckland on February 3. It aims to strengthen economic ties by attracting more investment from Chinese state-owned companies, and more Chinese students and tourists. A new embassy will be built in Beijing to boost New Zealand’s diplomatic and trade presence.

The government will increase the number of business delegations to China and set up a body similar to the US-NZ Council to develop relations in time for the first “partnership forum” between the two nations. This is due to take place in Beijing later this year when Key makes a formal visit to China to commemorate the 40th anniversary of diplomatic relations.

The announcement came a week after Key’s conservative National Party-led government endorsed a decision by the Overseas Investment Office (OIO) to allow the sale of 16 farms, with a total area of 7,900 hectares, to the Chinese company Shanghai Penqxin for $NZ200 million. The sale was conducted by receivers after the previous owner was declared bankrupt. The opposition Labour Party, along with the anti-immigrant NZ First Party, opposed the deal on a nationalist basis, branding it “unpatriotic.”

A local consortium, which had submitted a lower bid, lodged an immediate appeal with the High Court. On Wednesday the court overturned the government’s decision, saying the relevant legislation was intended to allow overseas investment in farmland only where it was likely to “benefit New Zealand.” The benefits of Shanghai Pengxin’s investment, Judge Forrest Miller ruled, were “materially overstated” in the OIO recommendation. The ruling effectively established a higher test for the economic benefits of foreign investment in farms, and the Pengxin bid must now be re-appraised by the OIO.

The court ruling is a setback to the government and its plans to foster investment from China. The Chinese government had lobbied strongly in favour of the Shanghai company. Last year, Trade Minister Tim Groser was dispatched to Beijing to placate Chinese concerns over the OIO’s slow progress. Beijing’s Wellington consul Cheng Lei declared bluntly that New Zealand must take an “objective approach” to Chinese investment. In order to honour the terms of the countries’ bi-lateral Free Trade Agreement, he said, China should be on an equal footing with other foreign investors.

Figures released by the OIO show that of the 872,313 hectares of land sold to foreign interests over the past five years, only 223 hectares went to Chinese concerns. The major buyers were from the United States, Canada, Britain, Australia and Israel. US interests alone made 194 purchases totalling 193,208 hectares.

Commentator John Armstrong wrote in the *New Zealand Herald* on Thursday that the court ruling was a “full-blown political disaster” for the government, forcing it “to explain to the Chinese why just about every foreign investment application in recent years has got the nod, but a comparatively rare Chinese one gets pole-axed.”

Key said this week that a government appeal on the Shanghai Pengxin decision was “very unlikely” as it could take years to resolve. He hinted, however, at changing the foreign investment laws to weaken the "national interest" clauses that the court used to throw out the Chinese bid.

An influential section of business is determined to expand economic relations with China. Since the Free Trade Agreement between the two countries commenced in 2008, New Zealand's exports to China have increased 144 percent, supplanting the US as the country's second largest export market after Australia. Total bilateral trade was $12.8 billion in 2011 and is expected reach $20 billion by 2015. China is now the biggest importer of New Zealand dairy products by value, having increased five-fold since 2008. New Zealand's education sector aims to double the value of education services to $5 billion by 2025. China is the largest source of foreign students, with about 21,000 enrolments in 2010.

Chinese investment in New Zealand remains small. In 2010 it was $1.87 billion, compared with cumulative investment from Australia of $100 billion. It is set to increase, however, with Chinese investors showing interest in the food and beverage sector, natural resources, clean-tech, high value manufacturing, and information technology. China's intention to invest in New Zealand government bonds and infrastructure—including the rebuilding of earthquake-hit Christchurch—has attracted considerable attention in ruling class circles.

The efforts to establish closer ties with China will not have gone unnoticed in Washington and Canberra. The Obama administration has made a far-reaching shift in foreign policy aimed at challenging China's growing economic and political presence in the Asia Pacific region. Washington's provocative drive has assumed reckless new military dimensions, with disputes over the South China Sea and the decision to establish a permanent base for US troops in northern Australia. Washington had a hand in the ousting of Kevin Rudd as Australian prime minister in 2010, over his attempts to moderate tensions between the US and China.

New Zealand governments, under both Labour and National, used the ramping-up of US militarism after September 11, 2001 to re-establish the defence relationship interrupted by the country's 1987 anti-nuclear legislation. New Zealand's provision of troops for the US occupations of Afghanistan and Iraq paved the way for the "normalisation" of ties, culminating in the signing of the Wellington Declaration by US Secretary of State Hilary Clinton during a visit in 2010. Clinton signalled the return of direct military contact, including exercises, joint training and officer exchanges. A defence White Paper released before Clinton's visit, while paying lip-service to upholding an "independent" line on foreign policy, emphasised that New Zealand would be "an engaged, active and stalwart" partner of the US.

On the economic front, President Barack Obama last November announced a new trading bloc, the Trans-Pacific Partnership (TPP), aimed at forcing Beijing to accept US trade terms. China has expressed strong concerns over the TPP, and New Zealand is well aware of the tensions the US is generating. Trade Minister Groser recently threatened to walk away from the nine-member dialogue group if the TPP became a vehicle for the "containment" of China.

The New Zealand capitalist class, along with those of all Asia Pacific countries, faces a difficult dilemma. Its trade and investment relations with China are burgeoning at the very point that Washington is demanding reliable and committed allies against any expansion of Chinese geopolitical influence. The tensions in ruling circles, as evidenced by the legal wrangling over the decision to allow a Chinese company to buy land, will only sharpen as the US confrontation with China intensifies.