



# Economic Statecraft and the Making of Bilateral Relationships: Canada-China and New Zealand-China Interactions Compared

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## Abstract

Conventional wisdom would suggest that middle powers, being hyper-attuned to great power politics, can be expected to bandwagon with their traditional allies. In a unipolar world, Canada and New Zealand could thus be expected to play follow-the-leader with the US. However, the rise of China has a confounding effect on the US-led unipolar order and thus on our traditional expectations of American middle power allies as well. In this article, we probe the apparent variation in what we term “strategic value” for China of New Zealand and Canada. While the two hold a great deal in common, we find that the Canadian case is made considerably more complicated by both the range of strategic considerations present, and the potential payoff for China of one in particular—closeness to the US, China’s prime geostrategic rival. These higher stakes in the Canadian case not only make strategic inroads in New Zealand relatively easy for China, but also suggest that Chinese economic policy is selectively sculpted to suit the PRC’s higher strategic purposes.

**Keywords** Canada · China · New Zealand · Economic statecraft · Foreign policy

## Introduction

This article is motivated by a single principal concern—what explains the apparent differences in the strategic value of two middle powers—New Zealand and Canada—

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for China. Our conception of middle powers is based on the “technical and entrepreneurial capacities” of these states, rather than categorizations based on absolutes of size, power, or geography ([24]: 7).

Indeed, it precisely is this pound-for-pound parity in capacities, we argue, that makes comparisons of Canada-China and New Zealand China relations both possible and fruitful. As noted in our previous study of the two countries’ foreign policies toward China, both are ex-British colonies with legal structures descended from UK common law. Together, they form two of the “five eyes” intelligence community, and share similar sensibilities regarding the defense of human rights internationally, even if these sometimes take a backseat to perceived economic gains in the forging of new commercial relationships. Moreover, the two countries have approximately similar trade profiles, with a heavy basis in primary industries. Both are pro-free trade—FTAs have their discontents in both countries, but neither has adopted an anti-free trade stance as official policy. New Zealand has enjoyed free trade with its largest trading partners (Australia and China) for several years, and Canada has been a party to the North American Free Trade Agreement since it came into force on January 1, 1994.<sup>1</sup> Finally, they also share a proximity to and affinity for a much larger neighbour which shapes their own outlooks, culturally and commercially.

The trouble with the “middle powers” framework, however, is that it obscures a great deal of intra-category variation. Middle powers are conventionally thought to behave in quite predictable ways, being hyper-attuned to geopolitical exigencies. For example, one study considering the behaviours of middling and small states argues that “middle powers, closer to the top level of international politics, tend to be particularly sensitive to the conditions that prevail there....despite all subjective influence, the reactions of middle powers in comparable international situations may be expected to show some similarities” ([33]: 5).

Another suggests that “if the concept of middle powers were to be reformulated, it would clearly demonstrate the leader-follower dynamic of international politics” ([24]: 7).

In other words, middle powers like New Zealand and Canada are not only sensitive to changes in the international system wrought by China’s rise, but are usually expected to bandwagon with established allies [29, 38].

However, China’s rise and international status-seeking complicates this theoretical orthodoxy since, as Thomas Wilkins writes the “middle power modus operandi was predicated upon reinforcing American hegemonic world order, and this order is progressively dissolving” ([71]: 149).

Accordingly, recent works have attempted to clarify points of difference in the way middle powers respond to China. Yet much room remains to explore key points of differentiation among middle powers in their response to China’s economic statecraft, which in turn is shaped by strategic value of middle power countries to Chinese diplomacy. By virtue of much being held constant within the two cases, the comparison undertaken here brings such differences into greater relief.<sup>2</sup>

<sup>1</sup> For a concise overview of Australia-New Zealand Closer Economic Relations (CER), consult <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/nz-australia-closer-economic-relations-cer/>.

<sup>2</sup> A similar approach is taken by in Gilley and O’Neill [30] and Manicom and O’Neill [47].

Economic statecraft can be broadly understood as state manipulation of international economic activities for strategic purposes [3]. Norris defines five factors that reflect the conditions under which states will be able to control commercial actors (and thus direct their activities to generate the desired strategic effects). These determinants of whether a state will be able to mobilize and direct its economic power are (1) compatibility of goals between the state and the commercial actors that carry on the economic activity of the state, (2) commercial market structure, (3) unity of the state, (4) the reporting relationship between the commercial firms and the state, and (5) relative distribution of resources between the state and commercial actors [55].

While there is little doubt about the capacity of the People's Republic to engage in economic statecraft, much recent research has sought to clarify the ways, means and motivations of these activities, cataloguing a growing range of tools and emergent strategies. For example, Li Mingjiang notes that during the Cold War, China explicitly rejected the use of coercive economic means.<sup>3</sup> ([42]: xvii).

However, as he and several contributors to his volume show, coercive tools are increasingly used alongside co-optation and cooperation.<sup>4</sup>

Reilly has recently elaborated techniques of strategic engagement, as well as diffuse and specific reciprocity as distinct means to gain concessions from European states [60]. Brätigam and Tang have written of the specific use of overseas export processing zones, while Norris has elsewhere examined the pressures placed on non-state commercial actors [10, 54].

Crucially, Blanchard and Ripsman have advanced what they call a “political theory” of economic statecraft, arguing that “economic sanctions and incentives usually seek to influence target governments by manipulating the economic calculations of powerful domestic interests in the target state”—that is, when the consequences of an act of statecraft translate into opportunities or costs for actors and institutions within target countries that ultimately determine the results of such an act [5].

With this article, we seek to draw on and extend this line of reasoning, beginning with the assumption that domestic political conditions and backstories exert significant pressures on the results of China's economic statecraft. We maintain that Canada and New Zealand's categorization as middle powers makes both particularly amenable to China's economic statecraft policies. While middle powers typically seek to protect themselves from great power domination by allying with other middle powers via commitments to multilateralism through global institutions, China's preference for bilateral engagement leads to an asymmetrical power imbalance favouring China's strategic pursuits in both cases considered here. Moreover, as Jordaan points out, middle powers “seek also to construct identities distinct from those of the weak states in their region” by attempting to distance themselves culturally and economically from their more powerful neighbours [38]. In the case of both New Zealand and China this factor makes both nations more amenable to China's economic statecraft as an alternative to traditional relationships with Britain and dominant larger neighbouring nations. However, the smallness and historic isolation of New Zealand relative to Canada does mean that the former is more vulnerable to economic dependence than the latter. Empirically, we find that this translates into greater accessibility for China—

<sup>3</sup> For a thorough examination of China's mid-twentieth century approach, see [77].

<sup>4</sup> See, for example Xue [75] and Wong [73].

something that in turn conditions the ease with which it can execute economic statecraft strategies, but that independent of a country's "strategic value," a term we use to understand Chinese motivations and statecraft priorities.

We contend that Canada's greater strategic value for China derives from a range of factors not present—or at least not to the same degree—in New Zealand. Such factors include Canada's membership in the G7 and China's desire to cultivate stronger ties with that organization as well as NATO, concessions on the SCS decision, the DPRK, and various human rights claims. China expects that if it extends fairer access to its markets to Canada, then Canada will reciprocally allow the transfer of restricted technologies (including those with military applications) [7, 21], as well as remove the current restrictions on Chinese state firms acquiring ownership of Canadian energy companies and mines [72].

In the longer term, because Canada is overall the major economic partner and strategic ally of the United States (its southern bordering neighbour) Canada's economic integration with China through a comprehensive trade agreement is seen by China as offering considerable geopolitical advantage. Gaining political-economic influence in Canada is part and parcel of the People's Republic of China's (PRC) fervent long-term comprehensive ambition to displace the core components of the United States-led "outmoded" liberal global governance system under Xi Jinping's international relations doctrine of "the community of the common destiny of humankind" by which China will eventually inevitably succeed the United States as the dominant global super-power [48, 74].

Simply put, China may in the long run have more to gain in geostrategic terms from engaging in economic statecraft in Canada than it does in New Zealand. However, the fact that Canada is a higher-stakes affair for China also makes New Zealand an easier, quicker target for China's economic statecraft. This, alongside New Zealand's growing economic dependence on China, explains the more advanced state of Chinese penetration there.

In the pages that follow, our argument is affected methodologically by tracing two dyadic processes, centred respectively on China-New Zealand and China-Canada bilateral ties. In essence, we find that the Canadian case contains more numerous and politically salient instances of "punctuated equilibrium" than does the New Zealand case.<sup>5</sup> We conclude that this variance evinces the adaptability of Xi Jinping's "China Dream" to different foreign contexts—that is, of the malleability of Chinese economic policy in the pursuit of higher strategic gains.

## The Context of China's Economic Statecraft with Canada and New Zealand

### Canada

After China's Communist Revolution in 1949 the initial focus of the PRC regime was on import-substitution. Most foreign nationals in China had left or were expelled by the early-1950s in the wake of confiscation and nationalization of factories and businesses

<sup>5</sup> Such data points are also commonly referred to as critical junctures or causal process observations. See [23, 59].

associated with foreign capital. But China still faced an existential threat from the US-backed KMT and severe economic disruption due to the US embargo of trade with the mainland. In the early years, and despite implementation of Leninist institutional xenophobia, the PRC sought to cultivate “foreign friends” in advanced industrialized nations for their political and economic support.

China, led by Chairman Mao Zedong also had a larger plan to unify all the nations of the world into a China-led international soviet of the human race [44, 56]. It would be led by China because the Soviet Union had abrogated this role by its lapse into hegemonistic revisionist betrayal of Marx and Lenin’s scientific socialism after the death of Josef Stalin. China saw itself as the true leader of the non-aligned third world nations in the first instance. Due to China’s own poverty and lack of resources it had limited economic statecraft initiatives in those years, but did support revolutionary movements in South East Asia and some international development projects: notably the TanZam Railway in East Africa to “build solidarity” with the “emerging peoples” [65].

In Canada, China provided modest support to pro-China Communist groups and established Canada-China Friendship Associations to raise awareness of the intentions of China’s Great Proletarian Cultural Revolution and other Maoist political initiatives, as well as to set the stage for eventual Marxist revolutionary transformation in Canada [18].

While engagement with the “Godless Communists” was opposed by significant conservative constituencies in Canada, (in particular the Roman Catholic Church in Quebec), there was considerable sympathy for China’s communist regime among leftists in Canada. China’s Henan and Sichuan provinces were the focus of Canada’s Protestant foreign missionary enterprise for almost 100 years up to the early-1950s. The missionaries had direct experience of the weak, corrupt and inept Government of Chiang Kai-shek. They were therefore prime candidates for the Chinese Communist Party’s (CCP) United Front Work assurances that the PRC would promote the interests of common people, through good government based on principles of social justice. The former missionary “China hands” were influential in shaping Canadian public opinion in favour of support for China’s new Communist regime [14].

Chester Ronning, born in China to missionary parents and Canada’s Chargé d’affaires at the time of the establishment of the PRC, negotiated the purchase of a building just inside Beijing’s city wall in 1950. It would have been ideal as the Canadian Embassy venue in preparation for diplomatic recognition of the PRC, but he had to leave China in February 1951 when the Korean War made it impossible for diplomatic relations to continue [27].

The United States’ (U.S.) post-war rise to power was a source of unease to Canadian Tories. Conservative Canadian nationalists were concerned that U.S. economic domination and the “cultural imperialism” of the social values implicit in U.S. popular music, radio, TV and Hollywood movies threatened Canada’s identity as a sovereign nation loyal to the British monarchy. In 1961, John Diefenbaker’s Progressive Conservative Government agreed to ship \$422 million dollars’ worth of Canadian wheat and barley to China over a 30-month period when China was suffering from a severe food shortage (due to the disastrous policies of the “Great Leap Forward” Campaign). This major Canadian trade initiative with China amounted to an audacious challenge to the anti-Chinese Communist economic embargo policy of the U.S. It was a popular measure affirming Canadian humanitarianism as well as demonstrating that Canadian foreign policy would not be subject to the U.S.’s geopolitical imperatives. In

subsequent years, Canada benefitted from considerable Chinese wheat purchases. From an economic statecraft perspective, China was able to exploit a rift between Canada and U.S. The purchase of Canadian wheat was also of overall benefit to China economically. The wheat off-loaded in Tianjin was sold over a wide area north of the Yangtze. Chinese rice was in return exported to Southeast Asia; this more than compensated for the import cost of the Canadian wheat, as well as taking pressure off China's weak transportation infrastructure that strained to move grain from South to North [40].

While Canadian forces fought bravely in the U.S.-led UN forces in the Korean War in the 1950s, Canada refused to join the U.S. in the Vietnam War in the 1960s (and indeed offered asylum to U.S. "draft dodgers"). The election of Pierre Elliot Trudeau as Prime Minister of Canada in 1968 led Canada to new heights of anti-Americanism, as Trudeau initiated measures to limit and restrict both U.S. investment, and U.S. music and television broadcasting in Canada. At the same time, Trudeau was instrumental in Canada's diplomatic recognition of the PRC in 1970, which paved the way for the PRC establishing relations with dozens of nations prior to Mao's death in 1976. Trudeau was strongly supportive of China's Cultural Revolution policies; this was interpreted as China maintaining cultural sovereignty by rejecting both Russian hegemonism and U.S. economic and cultural imperialism, through export of liberal democratic institutions [14].

China made significant propaganda use of the the Canadian Communist doctor, Norman Bethune, who died in China during 1939 under heroic circumstances. He was subject to one of Mao's most famous short writings, "In Memory of Norman Bethune." China called upon all Canadians to learn from Bethune's selfless sacrifice on behalf of the Chinese people, and to follow his example of support for the Chinese Communist Party cause, which was depicted as exemplifying Canada-China friendship and the high virtue of Canadians. The implication was that Canada should provide resources to promote China's development through the Canadian International Development Agency and support the PRC's assumption of the China seat in the UN Security Council, without expectation of anything substantive in return. This strategic soft power initiative by the Chinese Communist Party to promote the Bethune spirit in bilateral relations was extraordinarily effective. Consequently, although previously little know in Canada, Bethune began to be extensively commemorated in his own country as well as in China. His childhood home in Gravenhurst, Ontario was converted to an interpretive museum managed by Parks Canada [58]. York University established a college in his name [76], statutes were raised, plaques mounted, and a Montreal city square renamed after Bethune [68].

After the repudiation of Mao's continuous Marxist revolution policies in the late-1970s in favour of "seek the truth from facts" with the pragmatic Deng Xiaoping at the helm, Canada enthusiastically supported China's post ideological reform and opening up program. The Communist Party was under pressure to grow the economy, in order to deliver improved living standards and stave off popular discontent with the failings of the Party's promises that socialism would deliver real benefits to the masses of ordinary Chinese citizens.

In retrospect, China's economic statecraft with Canada came fully into play starting in the 1980s. Communist Party of China officials, identified by Western diplomats as "progressive agents of change" cum liberalizers, used mostly fluent English to assure the Canadian government and business interests that China's reform and opening would inevitably lead to China evolving to a multi-party democratic state consistent with UN

governance norms [31].<sup>6</sup> [In 1998, China signed the UN's International Covenant on Civil and Political Rights (ICCPR) and began a series of government-to-government bilateral dialogues on human rights [12].

Canada participated in multilateral concessional financing for Chinese development and reorientated a significant portion of Canadian International Development Agency programming to the PRC. Canada also agreed to China's entry into the WTO in 2001.

However, Canadian offers of assistance to bring Chinese laws and practices into compliance with the ICCPR, and approaches to share expertise with UN requirements were rebuffed. Moreover, Canada's modest trade surplus with China due to wheat exports turned to a 3-to-1 trade deficit over these years. The Chinese promise that significant economic benefits would accrue to "friendly nations" who assisted China in the early stages of reform and opening, by China developing rule of law and fair access to the Chinese market, failed to materialize [13].

However, from an economic statecraft perspective, China was able to leverage Canadian aid for infrastructure development and technology and intellectual property transfer. As Canadian scholar David Zweig expounds at length with reference to Canadian International Development Agency programming "in the 1980s, many countries were very positive towards China, so they willingly helped China in those sectors that China considered as its own priorities" [78]. This was sometimes obtained through deception of Canadian partners, in order to achieve the Chinese Communist Party's larger régime goals of strengthening economic performance and thereby consolidating popular support [57].

## New Zealand

When compared with that of Canada, New Zealand's bilateral relations with China from the mid-twentieth century onwards have been relatively harmonious. Although New Zealand did not formally recognize the People's Republic until 1972, as in Canada, the discussion over whether to recognize Mao's régime began almost immediately after his seizure of power. The available historiography recounts that "a number of considerations had to be weighed up, but by December 1949 the balance of the argument was shifting towards recognition." It was only the UN's designation of China as an aggressor in the Korean War that shifted the calculus of the then-National Party government into withholding recognition [2].

Despite the lack of official recognition, however, friendly-if-informal links remained. For example, on October 1, 1959, a *kahu huruhuru* (ceremonial feather cloak) was presented to Chairman Mao by Ramai Hayward on behalf of King Karoki, the fourth Maori King, during a National Day celebration in Tiananmen Square. Arrangements for the gift were made by the New Zealand-China Friendship Society (NZCFS).<sup>7</sup>

<sup>6</sup> See for example Public Services and Procurement Canada Government of Canada, "Governance - CIDA's Program in China," *Government of Canada Publications*, July 1, 2002, <http://publications.gc.ca/site/eng/280843/publication.html>; and Charles Burton, "A Reassessment of Canada's Interests in China and Options for Renewal of Canada's China Policy," (July 28, 2009 report) (Canadian International Council): <http://charlesburton.webplus.net/cic.html>; and [41, 49].

<sup>7</sup> There are some factual inaccuracies in the NZCFS source material on this event, including the attribution of a crucial role to Princess Te Puea. The Princess died in 1952, and thus could not have facilitated the gifting. We are indebted to Hirini Kaa for his clarifying comments on this issue.



As an expression of *Mana Taonga* (the ongoing connection of communities to their gifted cultural treasures) the cloak retained its spiritual value due to its connection to the King. This value was maintained in the connection - the *muka* (flax fibre cord) used in its creation was intended to symbolize the interconnectedness of China and New Zealand. The Mana Taonga was expressed when NZCFS oversaw repatriation of the cloak to New Zealand in 2013, when it was placed on temporary loan to Te Papa, Wellington, by the National Museum of China, still holding its value and connection decades later [50].

Beyond “Maori-Mao relations,” communist China had prominent ideological New Zealand sympathizers as well. After serving New Zealand on the front lines in World War One, Canterbury-born Rewi Alley travelled to China, gaining work as a factory inspection warden for the Shanghai Municipal Council in 1932.<sup>8</sup>

In 1937, Alley was instrumental in creating the *Gongye Hezuoshe*—Chinese Industrial Cooperatives (CICs)—which aimed to promote grassroots economic development following the annexation of much of China’s industrial heartland to the Empire of Japan.<sup>9</sup>

Through his experience with the CICs and having observed the crushing poverty of ordinary Chinese individuals during the 1930s and early 1940s, Alley became radicalized. After 1949 he remained in China, ingratiating himself into the company of Mao Zedong and Zhou Enlai. Deeply committed to the communist cause, Alley authored several notable pieces of propaganda for the CCP, such as *China’s Hinterland - in the Leap Forward*, [1] and later was a vocal supporter of the Viet Cong in the Vietnam conflict. Interestingly, however, his ideological inclinations appear to have had relatively little impact on Alley’s legacy in subsequent decades. From the point of view of both the PRC and New Zealand governments, Alley was a humanitarian who had done China a great service in its hour of need.<sup>10</sup>

Upon his being made a Companion of the Queen’s Service Order in 1985, then-New Zealand Prime Minister David Lange said of Alley, “New Zealand has had many great sons, but you, Sir, are our greatest son” [46].

Apart from Alley, Victor Wilcox, who served as Secretary-General of the Communist Party of New Zealand during the 1970s, also advanced favourable impressions of New Zealand in China. Wilcox headed one of only a few fraternal parties to side with China in the Sino-Soviet split, a group that also notably included Albania’s Enver Hoxha. In recognition of this show of solidarity, and because New Zealand did not enforce a travel prohibition to China, Wilcox met personally with Chinese leaders, to much fanfare, even appearing on page one of a March 1973 issue of *People’s Daily*, while news of an official ministerial visit by Hon. Joe Walding was relegated to page three. As one reflection puts it, Wilcox “was routinely received in Beijing as if he were a head of state and his writings were given worldwide distribution by the Chinese” ([2]: 140).

<sup>8</sup> The American journalist Edgar Snow was a contemporary of Alley’s, was likewise instrumental in setting up Industrial cooperatives in China, and extensively chronicled the formation of the communist insurgency, most notably in his 1937 book [62].

<sup>9</sup> CICs were organized around the China Industrial Cooperatives Association, better known outside China by its less formal name, the Gung Ho International movement.

<sup>10</sup> For a much more critical view of Alley’s life and times, see [8].



Two key factors underpinned New Zealand's decision to recognize the PRC and the deepening of ties that followed. The first and most significant in geopolitical terms was New Zealand's acceptance of the One China policy. A joint communiqué, issued on 21 December 1972, formally affirmed New Zealand's backing for the official PRC position that it was the sole legitimate government of all China and that Taiwan was an inalienable part of it [66]. As Minister of Foreign Affairs N.E. Klrirk remarked in February 1973, China was unwilling to accept the 'take note' [of the PRC's claim to sovereignty over Taiwan] formula used by Canada" when negotiating terms of diplomatic relations with New Zealand [53].

The second key factor concerned shifting trade considerations, in particular the need for New Zealand to broaden its relationships with overseas markets. Although the UK has accounted for some 80% of all New Zealand exports prior to economic deregulation in the 1980s, ([34]: 65) the development of closer trade links within Europe and especially the UK's accession to the European Economic Community led the Kirk government to adopt the view that New Zealand should be less reliant on the UK market in the future, and that it should begin to cultivate political and trade relationships with a number of non-traditional partners. As part of this process, Wellington reopened its Embassy in Moscow, which had been closed in 1950, and in 1973 established a new Embassy in Vienna to facilitate closer trade relationships in eastern Europe, namely with Hungary, Romania, Poland and Czechoslovakia. While the balance of trade between China and New Zealand initially remained small, and was in any case likely to be asymmetrical given the relative size of the two countries, it turned out that the smallness and isolation of New Zealand came with diplomatic benefits for China. These would be increasingly important for China as the 1970s wore on.

Robert Muldoon, having assumed the office of Prime Minister in July 1974, was keen to continue to deepen the relationship with China established by his predecessor. This view was influenced in no small part by Victor Percival, a Kiwi businessman and personal friend of Muldoon, who had recognized early the commercial potential of China. As one biography of Percival tells it, "The fresh New Zealand leader [Muldoon] shared Percival's enthusiasm for closer ties between China and New Zealand. He accepted that there would be excellent trade opportunities and scheduled an official visit to Beijing for late April/early May of 1976 as part of an overseas tour to the United Kingdom, Europe, and Northeast Asia" ([39]: 138).

As it turned out, Muldoon was the last world leader to see Mao Zedong alive when the two met at a ten-minute meeting in early September that year. Following the Chairman's death, the subsequent comeback of Deng Xiaoping within the CCP, and the accompanying prospects for reform and opening up, Chinese officials began to seek new opportunities to travel abroad. According to one report, "New Zealand provided a low-key environment for Chinese leaders to be exposed to the West after the long years in which China had largely been closed off to the outside world." The report goes on to state that New Zealand was an "early beneficiary" of China's outward-bound approach during this period, receiving Zhao Ziyang and Hu Yaobang in 1983 and 1985 respectively [2].

The 1990s marked a key turning point in New Zealand-China bilateral ties, initiating what both sides now commonly refer to as the "Four Firsts"—milestones that set New Zealand apart from other Western countries in its relations with China. The first "First" came in July 1997, when New Zealand became the first

developed Western country to agree to bilateral terms on China's WTO accession. With chief Chinese negotiator Long Yongtu under mounting pressure from the home front to demonstrate progress towards a deal, and with New Zealand's major sticking point being the interests of its dairy sector, "Long had a meeting with the New Zealand delegation in Geneva and deliberately made an offer that was aimed at getting New Zealand to be the first to conclude those access talks<sup>11</sup>" [11]. While the precise details of tariff quotas were not finalized until 2000, the two parties agreed to market access terms in principle. Of course, talk of market access requires the recognition of the existence of markets. The 1997 talks therefore laid the groundwork for the second "First:" in 2004 New Zealand became the first Western country to formally acknowledge China's status as a market economy. The same year, the third "First" was announced. New Zealand had become the first developed Western country to enter into free trade negotiations with China. It was not until 2008, however, that the fourth "First" was finalized, when New Zealand announced that it had successfully concluded a high-quality and comprehensive free trade agreement with China, becoming the first Western nation to do so (but hardly the last).<sup>12</sup>

### **China's Economic Statecraft with Canada and New Zealand in the Xi Jinping Era**

Canada's relationship with China cooled appreciably under Conservative Prime Minister Stephen Harper. An annual government-to-government bilateral human rights dialogue, which had been the centrepiece of Prime Minister Chrétien's "quiet diplomacy" on non-trade issues, was suspended. With regard to expansion of Canada-China trade relations, Prime Minister Harper in an impromptu press briefing on board his jet en route to the APEC summit in Vietnam in 2006 said "I think Canadians want us to promote our trade relations worldwide and we do that. But I don't think Canadians want us to sell out important Canadian values. They don't want us to sell that out to the almighty dollar" [25].

Late in 2012, the Harper government approved a \$15 billion sale of the Canadian oil firm Nexen to the China National Offshore Oil Corporation. But it was under the proviso that there would be no further sales of Canadian oilsands companies to state-owned firms approved, except in "exceptional circumstances." The logic behind this was that Canada's national sovereignty would be threatened if China accumulated a critical mass of economic power in the Canadian energy and mineral sectors, telecommunications network and other infrastructure development [15].

The return to power of the Liberals under Justin Trudeau was welcomed by the Chinese authorities [45]. In opposition, Trudeau had expressed support for enhanced Chinese state investment in Canada's energy and resources sectors [67]. With Liberals

<sup>11</sup> For further readings, see [26].

<sup>12</sup> The Australia–China free trade agreement was concluded November 17, 2014, and came into force on December 20, 2015.

back in power China expected that an approach to initiate an early Free Trade Agreement (FTA) would be favourably received. Once in power, Trudeau significantly upgraded Canada's representation to Beijing by shuffling one of the Government's most senior Ministers, John McCallum, out of cabinet to appoint him as Canada's Ambassador to China. In an interview with the Chinese press on assuming his diplomatic post, Mr. McCullum indicated that his mission to China could be summed up in three words: "more, more, more" [43].

This fit with earlier statements by Justin Trudeau which implied that China would be the new "Third Option" for Canada to diversify its political and economic dependence on the U.S. [67]. Soon thereafter, Canada acceded to the Chinese Government's very high volume and persistent urging that Canada and China begin exploratory talks toward a Canada-China FTA.

Nevertheless, the fact is Beijing does not need an FTA with Canada as such. China already has excellent access to the Canadian market due to Canada's low tariffs, fair and transparent business regulations and impartial rule of law to adjudicate contract disputes. However, it is not reciprocal. Canada has nowhere near a level playing field in China, where many sectors are closed to Canadian goods, services and investment.

The Canadian side anticipates that free trade will promote Canadian prosperity, opening the huge Chinese market to Canadian oilsands petroleum, minerals, wood products, manufactured goods and services. In contrast, Beijing understands free trade economic integration as a tool to facilitate its overall strategic geopolitical interests, as part and parcel to China's comprehensive rise to power. So, it is to be expected that in an interview with Canadian journalists, the Chinese Ambassador to Canada would urge hasty negotiation of a Canada-China FTA claiming: "the earlier the Canadian side signs the FTA, the earlier you get the benefits" [7].

However, in December 2017 in Beijing, Prime Minister Justin Trudeau attempted to impose conditions on labour and gender issues, before agreeing to initiate formal binding negotiations. Prime Minister Trudeau thus squared the circle on the conundrum of trade versus protecting Canadian values in Canada-China relations. However, Chinese Premier Li Keqiang rebuffed this initiative to add non-economic factors to a trade agreement. As a consequence, the FTA negotiations stalled [16, 32].

In terms of explicit economic statecraft, prior to initiation of exploratory talks on free trade, Beijing had complained that Canada's national security review process of foreign takeovers of Canadian firms under the Investment Canada Act unfairly targets China. China's Ambassador Lu Shaye characterized it as "tantamount to trade protectionism" [28]. China's Premier Li Keqiang engaged Prime Minister Trudeau on this issue in a personal telephone call [20].

Subsequently, in an interview with the Canadian news agency, the Ambassador (while committing to China opening its markets "a little more" and facilitating "mutual investment" once the FTA was signed) indicated that from the Chinese government's perspective, aside from acquisition of advanced technologies and products, there are few enticing opportunities for Chinese investors in Canada [7]. So access to high-tech currently restricted from export to China is evidently what the Chinese regime hopes to get out of Canada. This is consistent with the priorities of China's current five-year plan.

In March 2017, the Liberal government overturned the previous government's cabinet order (following the advice of the Canadian Security Intelligence Service), that barred a Hong Kong company, O-Net, (partly owned by the Chinese government) from taking over ITF Technologies, a Montreal firm developing technology applicable to fibre-laser directed energy weapons [19].

Shortly thereafter, the Government of Canada permitted a Shenzhen firm, Hytera, to acquire Norsat International, a provider of satellite communication systems used by military customers, including the Pentagon and the Government of Taiwan, without apparently doing an in-depth national security review [22]. This may have created an impression in the PRC that military technologies shared by NATO and its allies can be sourced through Canada in exchange for promise of trade concessions to Canadian companies with political influence in Ottawa.

Canadian companies with close relationships with Chinese Communist business networks have been pressing the Canadian government to move full steam ahead on negotiating a FTA with China because it will bring economic benefits to these Canadian companies. The asymmetrical power relationship between China and Canada has in the past led to a lot more *take* than *give* on the Chinese side. In addition to allowing the above high-tech transfers, Ottawa is unlikely to spoil the FTA talks by reiterating its support for the Permanent Court of Arbitration's decision that declared China's expansive claims over the South China Sea as illegal under the UN Convention of the Law of the Sea; or demanding China halt its pervasive cyber-espionage of Canadian government and business servers; or by expelling Chinese security agents alleged to be furthering Beijing's interests by harassment and intimidation in Canada, or anything else that criticizes China's domestic or international policy.

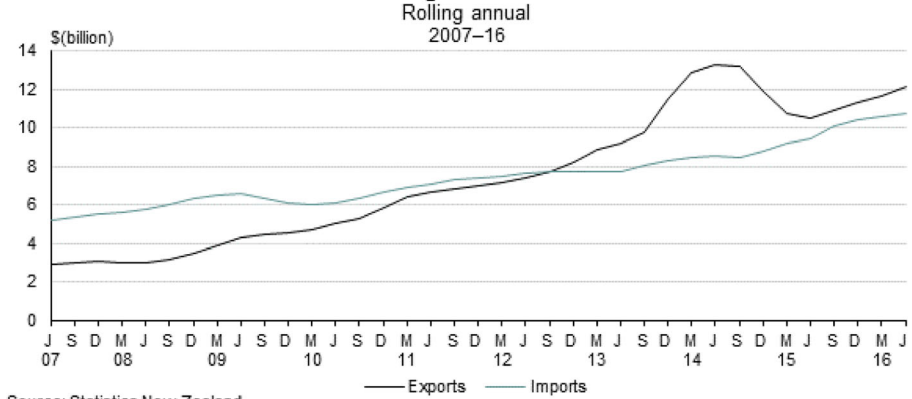
There are other incentives to comply with China's demands of Canada. China threatened in 2016 to halt \$2 billion in annual imports of Canadian canola seed, by imposing new regulations regarding dockage (impurities) so stringent as to be economically infeasible for Canadian producers to meet. Frantic negotiations by two Canadian cabinet ministers sent as supplicants to Beijing ensued. Just prior to an official visit to China by Prime Minister Trudeau, the matter was deferred for further study. Canadian free trade negotiators know that the agreement (whereby China keeps accepting Canadian canola under the existing dockage standard) expires in 2020 [35].

New Zealand's experience and prevailing impressions of China under Xi Jinping are quite different from that of Canada. 2012 marked forty years of diplomatic relations between the two. Economic and social ties have developed rapidly both broadening and deepening considerably since the China-NZ Free Trade Agreement came into effect in 2008. The original agreement had its detractors, of course, most notably NZFirst leader and then-Foreign Minister Winston Peters, who felt that the deal was less advantageous to New Zealanders than it could have been, and a slew of Kiwi manufacturers who fretted over their ability to compete with less expensive Chinese labour. ([17]:848).

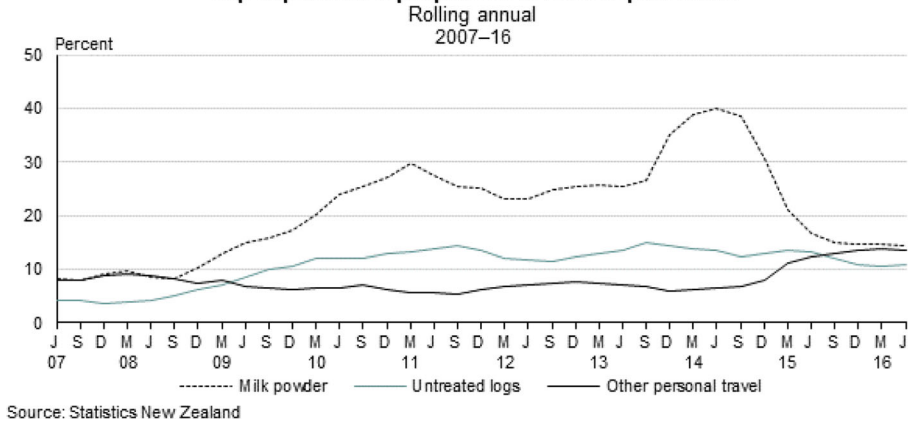
However, according to StatsNZ, New Zealand's trade relationship with China has nearly tripled over the past decade, with two-way trade rising from \$8.2 billion in the year ended June 2007 to \$23 billion in the June 2016 year. Annual exports to

China have quadrupled and annual imports from China have doubled since the June 2007 year. This means that China is now New Zealand’s second largest trading partner for export, with dairy and lumber products leading the way.<sup>13</sup>

**New Zealand's trade in goods and services with China**



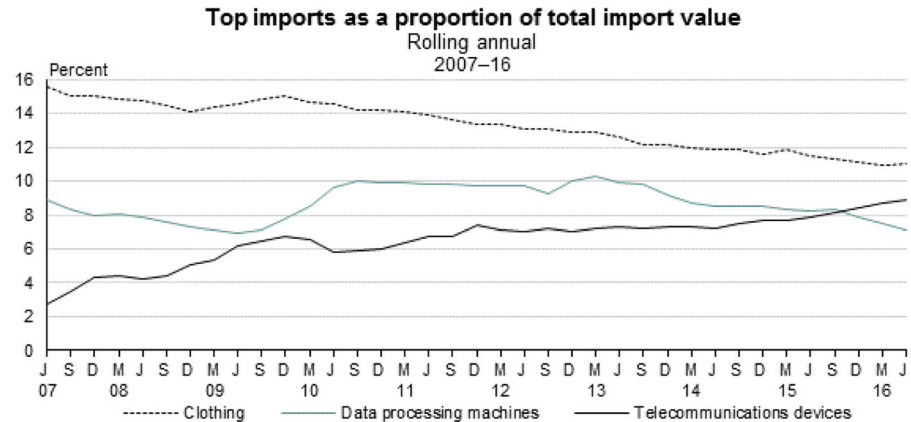
**Top exports as a proportion of total export value**



At the same time, China is now the third largest importer to New Zealand, with clothing and high-tech gear (mostly cell phones, tablets and laptops) predominating. Reflecting on the successes of the 2008 agreement, New Zealand’s Ministry of Foreign Affairs and Trade concluded, “We have traded more with China since the

<sup>13</sup> For a more complete breakdown of the statistics, see: “Trade with China nearly tripled in past decade,” *Stats NZ*, September 7, 2016, accessed December 6, 2017, [http://archive.stats.govt.nz/browse\\_for\\_stats/industry\\_sectors/imports\\_and\\_exports/trade-china-tripled-decade.aspx?url=/browse\\_for\\_stats/industry\\_sectors/imports\\_and\\_exports/trade-china-tripled-decade.aspx](http://archive.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports/trade-china-tripled-decade.aspx?url=/browse_for_stats/industry_sectors/imports_and_exports/trade-china-tripled-decade.aspx).

FTA entered into force in 2008 than in all our previous history, and growth is faster with China than any of our other major trading partners” [64].



It is little wonder then that both sides have sought to renew and expand the 2008 free trade agreement. Jointly announced by President Xi Jinping and Prime Minister John Key in November 2016, the NZ- China FTA upgrade agreement “provides an opportunity to modernise the FTA and make improvements that further free up trade for goods and services to help exporters reach \$30 billion in two-way trade by 2020 — the target set by leaders in 2014” [52].

In their joint statement, Xi and Key laid out nine specific areas for negotiation and future cooperation, including technical barriers to trade (TBT); customs procedures, cooperation and trade facilitation; rule of origin (RoO); competition policy; e-commerce; agricultural cooperation; environment; and government procurement, with further issues to be discussed as they may arise. Though final details are not yet decided, two rounds of talks have been held. The first took place in April 2017, and the second on July 3–6, 2017 in Beijing. Working groups on all nine items met on both occasions, though the second round provided greater opportunity for in-depth discussion of national priorities on both sides. As of this writing, no timetable has been set for the conclusion of talks, though New Zealand’s Ministry of Foreign Affairs and Trade expects a third round of negotiation to take place in late 2017 [52].

As a corollary to the deepening of two-way trade, much recent discussion has emphasized the broader connections to be facilitated by the Belt and Road Initiative (BRI). Early in 2017, New Zealand notched yet another “first” when it inked a memorandum of agreement with China on the BRI. Stephen Jacobi of the New Zealand-China Council argues that in New Zealand’s case the deal “is less about infrastructure and more about connecting up with China through the flow of goods, services, and people” [61]. More recently, Jacobi, a former diplomat who is currently Executive Director of the NZ-China Council, has referred to the BRI “connectivity agenda” to highlight the fact that the memorandum of agreement has as much to do with facilitating people-to-people connections as anything else [36]. Similarly, David



Wang, who is CEO of Bank of China operations in New Zealand, says that the BRI is about promoting cooperation and working to build a community of shared interests and responsibility, and points specifically to people-to-people connections as a key element of unlocking what he calls a “unique mutual opportunity” [70].

BRI thus represents the positive and natural next step in the already strong interrelationships of Chinese and New Zealand societies, one that envisages the freer movement across borders. Statistics New Zealand figures indicate that between 1986 and 2006, the population of New Zealand residents born in Asia increased sevenfold, and that the China-born segment of that population rose by a staggering 800% [4]. The steady increase in Chinese migrants has continued since BRI was launched in 2013. In the year ending April 2013 there were 7894, in 2014 8636, and 10,126 in 2015 [63].

The influx of Chinese migrants and money to NZ has brought with it new worries over influence in New Zealand politics. Such fears first caught the public eye during the 2017 election campaign, when Jian Yang, a list MP for the National Party and former University of Auckland lecturer, made headlines for his alleged failure to properly disclose his record of military service in China, and in particular his role at the Luoyang Language Institute, otherwise known as the People’s Liberation Army-Airforce Engineering College. “National Party MP trained by Chinese Spies,” the headline read [37].

While both Yang and then-Prime Minister Bill English made public statements affirming Yang’s loyalty to New Zealand, the story spawned a series of journalistic probes into the National Party’s connections to China and Chinese foreign influence activities. Professor Anne-Marie Brady of Canterbury University in Christchurch is at the forefront of the investigation, having written a paper widely recirculated online and in the New Zealand media throughout the latter half of 2017 on the “magic weapons” (法宝) employed by China in an effort to gain influence in New Zealand. Among the specific PRC influence activities she elaborates in New Zealand are “maintaining oversight” of ethnic Chinese political figures, community organizations and language schools, particularly in the Auckland region; “harmonization” of print and broadcast Chinese-language media outlets with official PRC Embassy priorities; and the forging of a pro-China strategic bloc through business and cultural exchanges under the BRI. [9]. However, newly-elected Prime Minister Jacinda Ardern has so far been publicly dismissive of fears over Chinese meddling in New Zealand politics. “When it comes to some of the issues that have been raised in Australia [fears over Chinese influence] I haven’t seen evidence of the kinds of issues they are talking about here in New Zealand. That’s not to say we should be complacent. We have to be vigilant and we are,” she said [51].

## **The Future of China’s Economic Statecraft with New Zealand and Canada**

China’s economic statecraft is based in foreign acceptance of the inevitability of China’s comprehensive rise to power. In his report to the Communist Party’s 19th Congress in October 2017, General-Secretary Xi Jinping made clear a new basis for China’s economic statecraft on Chinese terms. He explicitly repudiated liberal democratic political reform as a regime goal for the PRC, instead affirming that China’s faithfulness to the legacy of Leninism and Stalinism that has informed China’s political, social, and economic policy since 1949 [74].

In the same report, Xi assumed the “mandate of history” to implement the “magnificent plan” of realizing the “Chinese dream of glorious Chinese national restoration” by 2050 [74]. Proceeding from 2020, this plan is divided into two 15-year parts. By 2035, China will be fully developed and technologically advanced. It will then embark on taking its rightful place as the world’s unassailable economic and cultural leader, playing “an important role in the history of humanity” [74].

The “Belt and Road Initiative” is a central part of this; it proposes trillions of yuan in investment to build world infrastructure, with the aim of bringing natural resources and other economic inputs to China and facilitating Chinese goods reaching foreign markets. Xi envisions a post-2050 new world order he dubs “a community with a shared future for mankind” [74] (which the People’s Daily newspaper allows is “superior to Western mainstream international relations theory” [69]).

Canada and New Zealand can be expected to recognize the significance of Xi’s vision, since middle powers typically have heightened sensitivities to changing power configurations in international geopolitics. That does not mean, however, that middle powers will respond to China’s economic statecraft in uniform ways. Indeed, as we have shown here, Canada and New Zealand are not on equal footing with regard to their strategic value for China, nor are they equally accessible to China, whatever else they may have in common.

The strategic value of Canada to China is greater than the strategic value to China of other powers due to Canada being the U.S.’s second largest trading partner and a member of the G7 traditionally closely allied with the United States. The U.S. is also heavily reliant on Canadian energy (oil and hydro) and joint water resources piped from north to south. In China’s overall calculation pursuant to China’s achieving global hegemony, which is premised on a significant decline in the global influence of its U.S. rival, drawing Canada away from its economic and strategic reliance on the United States has more strategic significance for China than enhancing relations with other middle powers such as New Zealand who are less closely tied to the U.S. economically and militarily. Canada is also amenable to China’s strategic approach due to Canada’s concern that over-reliance on the U.S. for trade, investment and joint North American national security threatens Canadian national sovereignty, politically and culturally by extending too much leverage to the U.S. in non-trade, non-security matters.

It remains to be seen precisely how malleable China’s economic statecraft is, or how it may be altered in response to implementation barriers in a given target country, whether these derive from domestic institutions, pressure, groups, external alliances or some other source. Ongoing bilateral dialogues may provide fruitful avenues for investigation. In December 2017, Prime Minister Trudeau visited China with a view to initiating formal binding negotiations to a Canada–China Free Trade Agreement. But this was against considerable institutional resistance from security agencies, trade unions, environmental NGOs and a significant fraction of the Canadian population on both the left and right wing of the Canadian political spectrum who have a values-based objection to any Canadian engagement with a nation alleged to pervasively engage in gross violations of human rights. In response to popular discontent over the perceived lack of net benefit to Canada of enhanced economic integration with China, in his meeting with Chinese Premier Li Keqiang to finalize the bases, Mr. Trudeau demanded that China agree that this would be what Trudeau characterized “a progressive trade deal” that includes addressing issues such as gender rights, the environment and labour

rights. China had not acceded to these sorts of non-economic conditions in previous trade deals with other countries. Mr. Trudeau's rationale for proposing that China would agree to such Canadian demands was that "China is very aware that this is a precedent as they move forward with the first trade deal with a G7 country and there is a desire that we get it right." However as a consequence Mr. Li canceled their scheduled post-meeting joint press conference and no further negotiations to a Canada-China Free Trade Agreement have ensued (at the date of this writing in November 2018) [6].

There are a range of lessons that may be drawn from our findings here. For Canada, the most important centres on the importance of historic and ongoing ties with the US. Recent talks between the Donald Trump administration and Mr. Trudeau have cast uncertainty on the future closeness of ties between Canada and the US in general, and on the North America Free Trade Agreement (NAFTA) in particular. The maintenance of ties with the US simultaneously increases Canada's strategic value to China, but also ensures that Canada is less vulnerable to dependence on new trade relationships than is NZ. Similarly, the presence of more numerous and vocal domestic forces advocating against deepening ties with China may inhibit the creation of new opportunities for Canada, but they also serve as a buffer against vulnerability to China's economic statecraft. By contrast, New Zealand is a less challenging and less consequential site for such activities. However, this means that it is a test of the potential fallout from China's economic statecraft, as some New Zealand analysts have already warned. While New Zealand may therefore seek to beef up its resistance to PRC influence, Canada ought to be attuned to New Zealand's early experiences of Chinese economic statecraft, and free and frank dialogue over new and old international alliances ought to be encouraged. The same is true of other middle powers around the world. Such players should be mindful of their vulnerability to the vicissitudes of global geopolitics, and carefully weigh the availability or desirability of whatever mitigation options may be feasible.

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