

# THE BELT AND ROAD INITIATIVE: A NEW ZEALAND APPRAISAL

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August 2018



Published by the New Zealand Contemporary China Research Centre  
Victoria University of Wellington  
Wellington, New Zealand

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ISBN

PDF: 978-0-473-45040-3

Softcover: 978-0-473-45039-7

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## Executive Summary

The Belt and Road Initiative (BRI) presents a unique challenge of responding to a Chinese led initiative that could be a platform for furthering regional development and New Zealand's economic relations with China but one that remains ambiguous, has divided international opinion and that potentially runs counter to some of New Zealand's engagement principles.

In its simplest form, the Chinese Government presents BRI as an opportunity to form bilateral partnerships with China to promote economic connectivity and development and to deepen economic, cultural and political relations with China and the surrounding region. Within Chinese academia, the initiative is considered an economic strategy to deal with Chinese overcapacity and limited consumption and to promote regional development and connectivity whilst exporting what many Chinese scholars consider a successful economic growth model. China's international relations community views BRI as a geopolitical strategy to avoid direct confrontation with its main strategic competitor—the U.S.—and to increase Chinese influence in the surrounding region while increasing China's contribution of public goods, role in the regional economy and voice in world affairs. BRI is considered the external expression of the 'Chinese dream' and the 'great rejuvenation' of the Chinese nation.

International reaction to BRI has been mixed. Many countries, especially developing economies, have entered into projects with China to pursue development opportunities and international organisations like the United Nations Development Programme have viewed BRI as an opportunity to work with China to push forward international development. Major powers from the European Union to the United States have responded more coolly raising concerns of potentially destabilising indebtedness and a lack of transparent and inclusive governance structures around BRI projects. Academics have questioned China's geostrategic ambition, the bilateral nature of the initiative, the effectiveness of the projects and the impact an alternative model of development could have on efforts to promote development in conjunction with the rule of law, good governance, democracy, accountability and transparency. Our closest neighbour, Australia, publically rejected an invitation to join BRI at the national level and is engaged in a fierce debate about their involvement.

Following a pattern of seeking innovative areas of cooperation with China, New Zealand became one of the first Western economies to sign a Memorandum of Arrangement (MoA) on BRI in March 2017. New Zealand was also one of the first Western economies to sign on to the Asia Infrastructure Investment Bank. The BRI MoA focussed attention in the 18 months following its signing on discussing how New Zealand could participate. A range of views have been expressed in New Zealand business

and academic circles, including via a report commissioned by the New Zealand China Council which outlines a series of areas of potential economic engagement ranging from creative industries to becoming a conduit to South America. Discussion of the BRI in the South Pacific has also intensified with Fiji, Papua New Guinea, Samoa and Tonga all taking an interest in working with China within the BRI framework. This, along with a general stepping up of China's diplomatic and economic engagement in the Pacific and the addition of the concept of 'Blue Passages' has added an important regional dimension to the BRI discussion in New Zealand.

More recently, questions have been raised as to how to assess the value of potential participation in BRI and whether there are potential pitfalls for New Zealand engagement in this initiative. Such questions flow from the international response to BRI, an invigorated focus on a broad set of principles of international engagement, increasing uncertainty in the international rules based trading system and the intensification of U.S.-China strategic rivalry.

For New Zealand, the question of how to engage with BRI should be based on an assessment of our national interest, its impact on important partnerships, including China, and the norms we seek to promote internationally. The report recommends limited but committed participation in areas of mutual interest and that this participation is based on well-considered and non-exclusive principles, namely the principles New Zealand applies to engagement with all international partners. Participation should accord with the rules and norms of the international trading system and projects should be open and non-discriminatory.

More specifically, potential New Zealand projects should seek high standards of governance and transparency. Any projects New Zealand participates in should adhere to the rule of law and be subject to due diligence in order to meet international standards of sustainable development, local participation, labour contracting and environmental protection. New Zealand should encourage cross partnering with other BRI countries to avoid the emergence of a narrow 'hub and spoke' system and promote the development of multilateral institutions for appraising and governing resources under the broader BRI framework, including dispute resolution mechanisms. New Zealand should seek to understand and take care with BRI language and the use of concepts associated with the initiative. It should be attentive to BRI projects that involve state resources and those that involve the private sector and seek appropriate New Zealand partners. As the Pacific emerges as an area of BRI activity, New Zealand should seek increased cooperation with China in areas of mutual interest and complementary skill sets. We should increase high-level and academic dialogue between China, New Zealand and the Pacific to improve understanding, coordination and feedback and to ensure BRI projects in the region are consistent with regional priorities and principles.

Bilaterally, any New Zealand participation in BRI projects should build on the many cooperation agreements already signed with China, including the 2008 FTA. The New Zealand Government should review any BRI projects it enters into regularly and maintain good communication with China and other partners. These agreements should be open and transparent. Such limited and contained BRI engagement could test the water, and set useful precedents as one of the first liberal democracies and advanced economies to engage in the initiative.

In short, this report acknowledges the opportunities and the complexities of engaging China under its BRI framework and suggests New Zealand does due diligence and engages in accordance with a set of clearly signalled principles in order to ensure engagement with China meets the expectations of both countries.

## Part 1: Understanding BRI

### The Emergence of BRI

The Belt and Road (BRI) Initiative derives from two events. On 7<sup>th</sup> September 2013, President Xi Jinping visited Kazakhstan, where he announced plans primarily for transport projects with a view to creating a ‘Silk Road Economic Belt’ (丝绸之路经济带), or corridor connecting China with Mongolia, central Asia, Russia, Iran, Turkey, the Balkans, central and Eastern Europe, and ultimately Germany and the Netherlands. Soon afterwards, Xi visited Indonesia on 3 October 2013, where he announced plans to make use of the China-ASEAN fund to promote a ‘21<sup>st</sup> Century Maritime Silk Road’ (21 世纪海上丝绸之路), to link China and Southeast Asia, as well as Bangladesh, India, the Persian Gulf and the Mediterranean, ultimately also ending up in Germany and the Netherlands. These two diplomatic announcements were discussed and promoted within Chinese state media in the following two years under the overarching title, ‘One Belt One Road’ (一带一路).<sup>1</sup>

Since its inception, Xi and other government officials have actively promoted the concept and invested a great deal of political and media capital into it. In November 2013, the idea was officially endorsed by the Third Plenary Session of the 18th Central Committee of the Communist Party of China, which called for accelerating infrastructure links among neighbouring countries and facilitating Belt and Road projects. Shortly after in December 2013, at a Central Party meeting on economic issues, Xi urged strategic planning for the Belt and Road to promote connectedness of infrastructure in order to build a ‘community of common interests’ (共同利益共同体). In November 2014, Xi announced that China would contribute US\$40 billion to set up a Silk Road Fund to finance Belt and Road projects.<sup>2</sup>

It was not until March 2015, that the ideas surrounding Belt and Road became solidified and consolidated and the Government officially adopted the English name ‘Belt and Road Initiative’ (一带一路’倡议; BRI). The National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce jointly published the official founding document for BRI, ‘Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road’ with State Council authorization.<sup>3</sup> This document provides more details about the initiative, its background, the principles that underpin it, the framework for cooperation, key BRI priorities and the cooperation mechanisms it should employ. In the document, BRI is traced back to the century old ‘Silk Road Spirit’ (丝绸之路精神) of ‘peace and cooperation’ (和平合作), ‘openness and inclusiveness’ (开放包容),

‘mutual learning’ (互学互鉴) and ‘mutual benefit’ (互利共赢) –sentiments the document argues are shared by all countries around the world.

Official statements on BRI posit that the initiative aims to promote connectivity across Asian, European and African continents and their adjacent seas with the goal of building a ‘community of common destiny’ (命运共同体).<sup>4</sup> The policy is said to have its roots in China’s ‘Five Principles of Peaceful Coexistence’ (和平共处五项原则) introduced in 1953, and in Chinese efforts to promote mutual political trust, economic integration and cultural inclusiveness.<sup>5</sup> The five cooperation priorities or ‘five connections’ (五通) in the initiative cover ‘policy coordination’ (政策沟通), ‘facilities connectivity’ (设施联通), ‘unimpeded trade’ (贸易畅通), ‘financial integration’ (资金融通) and ‘people-to-people bonds’ (民心相通). While BRI proclaims to uphold the global free trade regime and the open world economy, it does not shy away from seeking ‘new models of international cooperation’ (国际合作新模式).<sup>6</sup>

Since the release of the official document, BRI has become President Xi’s top foreign policy priority with a strong personal identification attached to it. It is now promoted as an integral part of the grand initiative of realising the ‘China Dream’ (中国梦) and the ‘Great Rejuvenation of the Chinese nation’ (中华民族伟大复兴). During his speech at the BRI Summit in Beijing (14-15 May 2017), Xi reiterated the overarching goal of the initiative was to foster a ‘new type of international relations’ (新型国际关系) featuring ‘win-win cooperation’ (互利互赢) with Belt and Road countries. Xi also unveiled more innovative and concrete projects to boost connectivity, such as to train 5,000 foreign scientists, engineers and managers, and to set up 50 joint laboratories in five years as well as to launch 100 ‘happy home’ projects, 100 poverty alleviation projects and 100 health care and rehabilitation projects in countries along the Belt and Road.<sup>7</sup>

### The BRI Discussion within China

Promotion of the BRI has saturated the Chinese media and officialdom. Theme songs have been created and poems written for it. There has been lively promotion and some debate within Chinese Academia about what the initiative means for China and the world. Many Chinese scholars argue the economic dimensions of the BRI originated from economists’ calls for outward-looking solutions to the overcapacity and weak demand in China. Justin Yifu Lin, the former Director of Research at the World Bank, advocated for China to introduce overseas investment plans to rescue weakening domestic demand and a stagnant economy after the global financial crisis. Back then Beijing likely concluded it was too expensive or too risky,<sup>8</sup> but appears to have embraced the idea since 2013 as a



way to promote the structural rebalancing of the Chinese economy and China's growth model in the region.

Another domestic economic driver of BRI is efforts to reinvigorate the economy in western China and address the major inequalities in China's geographically unbalanced regional economy where the benefits of China's economic growth have predominantly been experienced by cities on the east coast. China's 'West Development Strategy' (西部大开发战略) was introduced to encourage businesses to relocate to the relatively underdeveloped western regions and to promote the transfer of funding to develop infrastructure in the west but has struggled to address regional inequality. The BRI is therefore envisaged as providing the opportunity to increase connectivity with Eurasian economies, develop infrastructure to allow the flow of people and goods through western China to those Eurasian economies and to develop new markets and economic activity in the west. Partly for this reason, the Silk Road Economic Belt has received far more attention than the 21<sup>st</sup> Century Maritime Silk Road in the early stages of the development of BRI projects.

The geopolitical debate amongst Chinese international relations scholars has also contributed to the formation of the BRI. Few foreign policy analysts would dispute the idea that a major development strategy such as BRI would have carefully calculated geopolitical considerations attached to it. Xi's new foreign policy positions, from a 'new type of Great Power relations' (新型大国关系) and the China Dream to BRI, are underpinned by China's overall world view in the 21<sup>st</sup> century. This view is both developmental in the sense that China remains behind some major economies on key indicators, such as GDP per capita and high-tech innovation, but also hinges at the national level on a widely held belief that this century will see, if we have not already, China take its rightful place as 'great power' (强国), though the more common terminology in China still remains 'major power' (大国). The BRI can therefore be viewed as a framework for China to increase its regional, and perhaps global, contribution, integration and influence.

Scholars naturally then consider this goal in light of the ongoing preponderance of U.S. power in the region. At one level the U.S. is seen as a major competitor that could potentially spoil China's rise. As the retired PLA Senior Colonel Liu Mingfu put it, the 21<sup>st</sup> century world order can be boiled down to one long competition between China and the U.S. for supremacy.<sup>9</sup> For other scholars, 'going west' became an important geopolitical move to avoid direct confrontation with the U.S., which had initiated its 'pivot to Asia' and joined discussions about creating an economic transpacific partnership. Wang Jisi, for instance, argued there were more potential openings for trade with countries to the west, except India, than in East Asia.<sup>10</sup> For these scholars, China's opening westwards could help to

rebalance its relations with the U.S., as Sino-U.S. relations in East Asia were increasingly becoming zero-sum. The BRI can therefore be seen as the natural extension of this thinking and as an expression of a desire for China to play a new role, even a leadership role, in the region and to become an important Asian power.

For many Chinese scholars, BRI also presents the opportunity for a rising China to re-position its geopolitical strategy and to re-shape the security order in the West Pacific.<sup>11</sup> Some even see BRI as an institutional alternative to the current western dominated international institutions. For example, Wang Mingguo argues BRI is an important initiative to break the ‘institutional shackles’ of the U.S.<sup>12</sup> Wang and Zheng suggest BRI signals a shift from China participating in globalization to actively shaping globalization.<sup>13</sup> Yang argues BRI is an integral part of China’s great power diplomacy and is rooted in Chinese traditional values of ‘justice’ (义) and ‘interest’ (利). Scholars also point to an often ignored aspect of the BRI when they argue China needs to form its own ‘discourse power’ (话语权)<sup>14</sup> and occupy a ‘moral high ground in foreign affairs’ (外交道义高地). They argue, for example, not only does China need to have a greater say in world affairs, but that it needs to differentiate itself from the West’s ‘universal’ values of ‘democracy, liberty and human rights’.<sup>15</sup> Moreover, China’s own domestic growth has led to advocating for the delinking of economic growth from the political system (i.e. delinking the market economy from political liberalism) and for promoting growth without or irrespective of democratisation.<sup>16</sup> This is referred to as the ‘China solution’ (中国方案), or the promotion of the idea that countries should develop according to their own ‘national conditions’ (国情). Such positions show that China seeks a greater role in the world both materially and ideationally. This underpins the importance of a careful reading of what the BRI and its individual projects are promoting.

These arguments follow Yan Xuetong’s view that we are witnessing a significant change in China’s foreign policy direction. Deng Xiaoping’s foreign policy moved China away from the radical international promotion of revolutionary socialism with the idea that China should ‘hide its light under a bushel’ or ‘hide its capacities and bide its time’ (韬光养晦). Yan argues that under Xi, China is now stressing the need to ‘strive for achievement’ (奋发有为).<sup>17</sup> In other words, China under Xi has shifted from a risk-averse and cautious foreign policy, put in place to encourage a benign international environment in order to focus on development, to a more confident and assertive foreign policy accompanied by a reimagining of international relations to provide a greater role for China in the world.

Such a bold foreign policy shift is certainly not without risk. Peter Ferdinand, for example, argues Xi's new foreign policies, including the BRI, are both optimistic and vulnerable because they depend upon active cooperation from others but internationally China does not have the same control it has domestically.<sup>18</sup> Moreover, China lacks experience with the complex political environments along the BRI, such as in the Middle East, and has few trained scholars and practitioners with deep knowledge of the languages and cultures of these regions. Finally, China's BRI could easily antagonize other great powers or countries that already have interests and a presence in areas of BRI activity, such as the U.S., the European Union or Russia, or New Zealand and Australia in the Pacific. The increasingly open strategic competition that underpins at least some of the rationale for the initiative should not be ignored by states seeking to forward their interests under the BRI framework.

## Part 2: The International Response to BRI

### Responses from Governments and International Organisations

Around 65 countries have made some type of commitment to the BRI but the definition of 'joining' remains unclear making it hard to give an accurate number.<sup>19</sup> Most countries that sign memorandums of understandings (MoU) with China and discuss entering into BRI projects are smaller developing states from Central and Southeast Asia. Kuwait, Kazakhstan, Maldives and Nepal became the first four countries to sign a MoU in 2014. Ten more countries joined in 2015, including Uzbekistan, Azerbaijan, Pakistan in Central Asia; Serbia, Georgia, Hungary, Poland, Russia in Europe, plus South Korea in East Asia and South Africa. Egypt and Iran in the Middle East, Belarus in Europe, Bangladesh, Laos and Cambodia in Asia came on board in 2016. New Zealand became the first 'Western country' (according to Xinhua reports) to sign up to BRI in March 2017 and Singapore joined at the last minute before attending the BRI forum in May 2017. Jordan and Oman signed in May 2017; Trinidad and Tobago in May 2018; Bahrain, Antigua and Barbuda in June 2018. Tunisia and Libya signed a MoU in July 2018.

Apart from states, a number of International Organizations have officially endorsed China's BRI. The United Nations Development Programme (UNDP) signed a Memorandum of Understanding (MOU) on cooperation with BRI in September 2016. The then UNDP chief Helen Clark argued 'The Belt and Road Initiative represents a powerful platform for economic growth and regional co-operation, involving more than 4 billion people, many of whom live in developing countries. It can serve as an important catalyst and accelerator for the sustainable development goals'.<sup>20</sup> The World Health Organisation

(WHO) was the second international organisation to formally welcome BRI. On 9 January 2017, President Xi Jinping and the WHO's Director General, Margaret Chan, agreed to bring a global health focus to economic development, starting with the BRI.<sup>21</sup>

No major international NGOs have officially endorsed the BRI to date. However, representatives of overseas NGOs were invited by the Public Security Bureau to attend a forum in Beijing, including the World Economic Forum, the U.S.—China Business Council, the American Energy Foundation and the World-Wide Fund for Nature.<sup>22</sup> A number of forums and international events in China have promoted the outward role of Chinese NGOs to support the development of BRI, such as the Silk Road NGO Cooperation Network.<sup>23</sup> Such events tend to have less buy-in from prominent international NGOs but increasingly attract attention from NGOs in the developing world.

A number of countries have expressed concern about direct and public bilateral involvement in the BRI. Below we review the responses of the U.S., the EU, Japan, India and Australia.

The European Union remains reluctant to unanimously support China's BRI. The European Commission's vice president Jyrki Katainen said at the Beijing Forum in May that any scheme connecting Europe and Asia should adhere to a number of principles including market rules, transparency, sustainability and international standards, and should complement existing networks and policies.<sup>24</sup> The EU's reservations about China came to a head last year when EU lawmakers voted against China's application for 'market economy status' in relation to the terms of China's accession to the WTO, which, if granted, would reduce possible penalties in anti-dumping cases. A particular sore point is China's huge production capacity of steel flooding world markets and arguably threatening the industrial base in Europe that the European Commission considers essential for jobs, growth, and competitiveness.<sup>25</sup>

There has been no unified EU policy toward BRI.<sup>26</sup> While neither the President of the European Council, Donald Tusk, nor the Commission's Head, Jean-Claude Juncker, attended the BRI Forum, several EU countries have been particularly receptive to Chinese investors. Among member states, the prime ministers of Italy, Spain, Hungary and Greece as well as the Polish president did attend the BRI forum. Chinese investment in Europe has caught the attention of many scholars and politicians. Chinese infrastructure investment such as Athens' Piraeus Harbour is indicative of the large-scale interest China has in Europe. Chinese SOE COSCO seeks to make Piraeus into one of the largest container transit ports in Europe by 2018.<sup>27</sup>



More recently, there has been strong European criticism of BRI with 27 of the 28 national EU ambassadors stating it ‘runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favour of subsidized Chinese companies’. Frustrations stem from concern that EU nations do not receive access to Chinese investment opportunities and that Chinese companies undertake most BRI projects. The EU Ambassadors claimed BRI was actually China ‘pursuing domestic political goals like the reduction of surplus capacity, the creation of new export markets and safeguarding access to raw materials’. These concerns led to a call for increased transparency in the procurement process and careful consideration before entering into any BRI agreements.<sup>28</sup>

The U.S. response to BRI has moved considerably over the years. Under the Obama administration officials noted that China’s BRI plans mirrored the intent of the U.S’ New Silk Road Initiative (NSR) from 2011, when the then Secretary of State, Hillary Clinton, launched a new strategy for Afghanistan’s re-build.<sup>29</sup> NSR was established to make Afghanistan a north-to-south infrastructure and economic corridor between Central and South Asia but appears to have gathered little steam. Following President Xi’s announcement in 2013 of China’s own Silk Road, the Obama administration argued the BRI could be ‘mutually reinforcing’ of U.S. efforts to support peace, stability, and prosperity through economic opportunity and connectivity in one of the least-economically integrated regions of the world.<sup>30</sup>

On 4 May 2017, the Trump Administration announced the conclusion of a U.S.—China trade deal on the import of beef from China, with a concession on the BRI position. The U.S. made ‘recognition of the importance’ of China’s BRI. This move could be seen as signalling of the acceptance of one of the initiative’s underlying strategic aims - to secure a greater leadership role for China in Asia. However, as the Trump Administration hit bumps in its relationship with China, particularly over the trade deficit and accusations of unfair economic practice and industrial policy, such as the Made in China 2025 policy,<sup>31</sup> evidence of a more geostrategic and concerned U.S. Government view emerged.

For example, the National Security Strategy stated ‘the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe.’<sup>32</sup> U.S. Secretary of State Mike Pompeo argued ‘Even while America has re-established a position of strength in our diplomatic relationship, China continues its concerted and coordinated effort to compete with the United States in diplomatic, military, and economic terms’.<sup>33</sup> Rex Tillerson noted that while it ‘is not our intent to contain China’s economic growth’ the U.S. does ‘pay close attention to their OBOR policy’.<sup>34</sup> U.S. opposition tends to be seen at two levels.

Firstly, there is concern that BRI could undermine the international rules based order. For example, Rex Tillerson argued that as ‘part of the global order, the international system of rules and norms ... China can choose to carry out its OBOR within that system, or it can try to redefine that. And that’s what a lot of the discussion between us is about...’.<sup>35</sup> At the second level, U.S. opposition shows concern about strategic competition. For example, Pompeo argued that ‘China has the capacity to present the greatest rivalry to America of any of those over the medium and long term’.<sup>36</sup> Marco Rubio argued, ‘Their efforts to establish all these different programmes, the belt and road initiative ... they’re not just efforts to create new overland trade corridors, they’re efforts to basically make these nations economically, politically and eventually militarily dependent on and vulnerable to China.’<sup>37</sup> While concerned and attentive, the U.S. remains confident of its ability to compete as Rex Tillerson conveyed when he stated ‘China has One Belt, One Road; the United States and the global economy has many belts and many roads, and no one country gets to choose the belt or the road.’<sup>38</sup> The U.S. has also embraced a new regional security concept, the Indo-Pacific, with a strong focus on creating a free and open regional order and in promoting security cooperation, infrastructure projects and economic development with likeminded countries in the Indo-Pacific.<sup>39</sup> The U.S. response, has arguably encouraged many U.S. allies to take a strong position on BRI, including Australia.

Australia is one of the few countries to decline the Chinese BRI offer publically and bluntly. During Premier Li’s visit in March 2017, just before New Zealand signed its MoA, Australia rejected a push for an MoU aligning Canberra’s A\$5 billion state infrastructure fund with China’s BRI. Various reasons were put forward from concerns that it may damage its relations with the U.S. or compromise Australia’s technology security to the argument that as a developed economy, Australia was less interested in infrastructure cooperation with China. Australia’s Foreign Minister, Julie Bishop, stated ‘While non-democracies such as China can thrive when participating in the present system, an essential pillar of our preferred order is democratic community.’<sup>40</sup> This comment reflects unease in Canberra not only with China’s growing material power but also of being in a region where one of the largest and most powerful actors does not share the same liberal democratic values. From this perspective, an increase in China’s influence in the region appears doubly troubling for Canberra. Even so, in September 2017, Trade Minister Steven Ciobo reportedly signed a MoU with China on infrastructure cooperation that covers BRI but details of this agreement remain unclear.<sup>41</sup>

India has emerged as the most vocal opponent of BRI to date. It was no surprise that India was the only major power to openly boycott the BRI Forum. New Delhi points out that the China-Pakistan Economic Corridor, the flagship project of the BRI, runs through territory that it claims.<sup>42</sup> Moreover, India argues the unwillingness of Beijing to agree to New Delhi’s requests for consultations on the

objectives, nature and financing of the BRI has created a lot of unease. At the very least, New Delhi wants to see a far more transparent dialogue with China on BRI projects if it has not already found itself in direct strategic competition with the initiative through its own Look East policy.

Japan was initially very sceptical of the BRI, especially on the issue of transparency. It even tried to undermine the BRI with its own 'Japan Infrastructure Initiative' (JII).<sup>43</sup> The JII was launched in 2016 and plans to invest US\$878 million in the short term and up to US\$200 billion in the long term into Japanese-directed infrastructure projects such as railways and power plants in Asia and Africa.<sup>44</sup> However, in a speech in Tokyo in June 2017, Prime Minister Abe reversed his position and lauded the BRI as having the 'potential to connect East and West as well as diverse regions found in between.' Abe noted Tokyo was 'ready to extend cooperation' on condition it will be in 'harmony with a free and fair trans-Pacific economic zone', that the infrastructure to be built will 'be open to use by all' and 'developed through procurement that is transparent and fair' and that the projects will 'be economically viable and financed by debt that can be repaid and not harm the soundness of the debtor nations' finances.'<sup>45</sup>

These responses demonstrate at least a high level of unease and strategic mistrust from many of our partners in the region. They also demonstrate the importance of defining the principles countries put forward in response to the BRI. Questions about transparency, democracy, good governance and openness, are important issues New Zealand will have to take into account in any BRI engagement undertaken with China.

## Responses from Academics

Academics have also raised many concerns about BRI. In the U.S., research from think tanks argue the BRI primarily aims to help China address some of its excess capacity in industries such as steel and cement, since infrastructure projects supported by the initiative would boost external demand for Chinese industry. BRI is viewed in part as a response to the structural challenges that afflict China's growth model, namely, reliance on state-owned enterprises (SOEs) and state subsidized finance leading to over-investment and an undeveloped services sector. In this regard, BRI allows China to double-down on its growth model by finding new markets where it can continue doing more of the same—building infrastructure using SOEs and state finance. According to Joshua Meltzer, BRI could therefore risk 'exporting the weaknesses in China's economic growth model throughout the region'.<sup>46</sup> Academic debate within the EU also tends to sway to the side of moral scepticism. For example,

Siegfried O. Wolf, Director of Research at South Asia Democratic Forum in Brussels, argues that at present there is no effective platform for BRI cooperation between Europe and China. Wolf argues that if China is reluctant to move toward multilateral mechanisms for governing BRI and disregards the values of the European Union (good governance, rule of law, human rights and democracy) then European scepticism of the BRI will likely remain.<sup>47</sup>

Not all academics in Europe and the U.S. are this sceptical, however, with many seeing opportunity to engage more with China through the BRI mechanism. For example, Joseph Nye argues BRI will provide China with geopolitical gains as well as costs and is unlikely to be much of a game changer in its overall grand strategy. He argues the United States should welcome BRI because it is evidence that China has been encouraged to contribute more to the provision of global public goods and become a 'responsible stakeholder'. Moreover, Nye argues there could be opportunities for American companies to benefit from BRI investments. That engagement could go some way to addressing China's 'self-containment', namely, the locking down of China to deeper global engagement and the sharing of ideas as evidenced by China's tight Internet controls across its border. Nye worries that nationalism remains a most powerful force in China and therefore increasing engagement remains crucial.<sup>48</sup>

Critics from India mostly see the BRI as a strategic threat and a destabilizing initiative. Peter Cai from the Lowy Institute argues 'it could be a gross understatement to say Delhi is concerned about China's BRI'. Indian academics' stance against the BRI is based on two long established impediments: antagonism with Pakistan and strategic distrust with China.<sup>49</sup> India is wedged between two nuclear-armed neighbours and has fought wars against both in the past. Strategic competition therefore drives many scholars' views of the initiative. Moreover, the BRI is interpreted by India as a largely unilateral effort that India would not commit to without significant consultation. Rajni Bakshi, Senior Gandhi Peace Fellow from Mumbai's Gateway House, for example, argues that China would need to co-design the new Silk Road with India for it to have any chance of success.<sup>50</sup>

In Japan, a number of scholars have taken a hard line on BRI. For example, Professor Toshihiro Nakayama argues Japan sees a very different set of circumstances in Asia to countries like New Zealand. For Nakayama, the BRI is part of an effort to launch a China-centric sphere while China's geopolitical ambition is not yet fully articulated. Nakayama argues Japan feels more closely the potential uncertainty of China's political and military rise and fears a China centric system overriding the liberal, open, and rule-based order Japan has prospered under. Any consideration of the BRI



should, according to Nakayama, carefully consider China's overarching geopolitical ambitions,<sup>51</sup> a position echoed by many of our Australian colleagues.

In Australia, aligning with the government's explicit rejection of the BRI there are strongly held views in the security community that the BRI is a risk to Australia's security interests.<sup>52</sup> Some academics, however, have sort ways to encourage Australian participation. Laurenceson and Collinson, for example, acknowledge the divide opened between economic commentators and defence specialists about Australia's response to the BRI, and advocate a pro-BRI stance on two grounds. First, the BRI is just another expression of the structural shift in the region brought on by the rise of China and will go ahead with or without Australia. Second, Australia could define the way it engages with the BRI and by gaining a seat on the negotiation table in the early days it could push for 'the principles of transparency, private sector engagement and ensuring that infrastructure investment leads to strong development outcomes.'<sup>53</sup> Given the current debate about Chinese influence and Australia-China relations, it is unlikely a majority of scholars will openly back the BRI in the near future. This has only intensified with the increasing attention in Australia to China's growing role in the Pacific.

Overall then, while there have been many positive responses to BRI, and many appraisals that it could act as a driver of economic integration, development and community building, there have also been a number of significant concerns raised by many of our partners in the region.

## Part 3: BRI and New Zealand and the South Pacific

### New Zealand Signs a BRI MoA

During a state visit to New Zealand in November 2014, Prime Minister John Key and President Xi agreed to upgrade and re-define the bilateral relationship to a 'comprehensive strategic partnership' (全面战略伙伴关系). At the same time, China extended the geographical scope of BRI by describing the South Pacific as 'a natural extension of the 21st Century Maritime Silk Road' and extended a welcome to 'New Zealand to participate, so as to promote ... China-New Zealand economic and trade cooperation'.<sup>54</sup> Similar statements were made in Australia and Fiji during state visits on the same tour. Following this, New Zealand signed up to the Asia Infrastructure Investment Bank becoming the first 'Western' country to do so and the first to face criticism.<sup>55</sup> These agreements followed a tradition of seeking innovative areas of cooperation with China that is referred to in Chinese and New Zealand diplomatic parlance as a history of 'firsts'.<sup>56</sup>

New Zealand became one of the first Western countries to sign a MoA with China on the BRI during Premier Li Keqiang's visit in March 2017. This MoA reads differently to the many that predate it that have a strong focus on development and infrastructure cooperation as would be expected with developing economies entering BRI arrangements with China. For New Zealand, like Australia, joining New Zealand's 30-year infrastructure project to the BRI was floated as an idea,<sup>57</sup> but ultimately the agreement was re-written to focus more on exploring areas of cooperation relevant to the bilateral relationship and more suited to New Zealand's economic situation as an advanced economy. After a preamble acknowledging the Chinese side put forward BRI with the aim to carry forward the 'Silk Road Spirit' of 'peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit', the MoA notes each side reached an understanding of the objectives and principles that underlay BRI cooperation and agree to seek cooperation in four areas:

1. Policy coordination, including senior level dialogues and communication on strategies, plans and policies to connect and integrate them to best support the BRI;
2. Bilaterally mutually beneficial cooperation, including seeking to grow trade to \$30 billion and upgrade the 2008 Free Trade Agreement as well as expanding investment and cooperation in a number of industries to 'jointly ensure sound and smooth operation of major cooperation projects of the two countries';
3. Cultural exchanges, including education, tourism, film and television co-production;
4. Multilateral cooperation, including at the UN, in APEC, the East Asia Summit, the AIIB and the Pacific Island Forum 'to promote common interests of both sides and deepen regional economic cooperation, to complement each other and achieve common development';

As well as agreeing:

5. To 'formulate a more detailed work plan of bilateral cooperation based on the above areas as soon as possible, within 18 months of the Arrangement coming into effect';
6. And, to identify any other areas of cooperation agreeable to both sides.<sup>58</sup>

Signing the MoA arguably committed New Zealand, at least in spirit if not legally, to an effort to seek concrete BRI projects with China. However, looking at what was signed, it is hard to find anything that has been agreed to, other than a consideration of why China put forth BRI and general support for the BRI signalled by signing the MoA, that is outside of the normal business as usual state-led bilateral economic engagement common to relations with China. In fact, many of the above areas of economic cooperation have been ongoing for many years, thus raising the question of what value add the BRI

framework presents. China's reaction, however, underscored the strategic value to China of having New Zealand show interest in and support for its flagship regional initiative.

Premier Li argued 'China and New Zealand will explore the possibilities of bilateral cooperation in various fields to promote interconnectivity between the two countries',<sup>59</sup> suggesting the MoA was a facilitator of deepening discussions around a number of potential economic cooperation projects such as the FTA upgrade. The Chinese Ambassador to New Zealand, Wang Lutong, echoed President Xi's earlier statement that New Zealand is a 'natural extension' of the '21st century Maritime Silk Road' and that China welcomes New Zealand's participation in building BRI. He noted the growth of the economic relationship and that under the BRI, China hoped for more strategic cooperation and to 'expand the participation of Chinese enterprises in New Zealand's roads, railways, ports, tunnels, hotels and other infrastructure construction'.<sup>60</sup> In a similar vein, Consul General Xu Erwen noted that New Zealand has always been at the forefront among Western countries in developing co-operation with China. She argued 'New Zealand has been a pioneer' as 'the first Western country to join the Asian Infrastructure Investment Bank and also the first Western country to sign a cooperation agreement with China on the 'One Belt, One Road'. 'We appreciate this pioneering spirit of New Zealand.'<sup>61</sup>

Although the details on what that MoA means are sparse, the New Zealand Ministry of Foreign Affairs and Trade briefing document refers to the commercial opportunities for New Zealand firms and notes the MoA 'provides a way for New Zealand to engage in China's key regional integration strategy'.<sup>62</sup> Then Prime Minister Bill English's view can be garnered from his general comments about trading with China where he said 'trade openness and strong ties in the region are critical to New Zealand's economic growth, prosperity, and job creation'.<sup>63</sup> Trade Minister Todd McClay commented, 'it's fairly early days in exactly what China may be thinking in as far as its Belt and Road Initiative' and we are 'very keen to hear from the Chinese about what they have in mind, and if there is something there that looks like it would be beneficial to the New Zealand economy and to New Zealanders, then certainly the government is willing to consider it'.<sup>64</sup> During his attendance at the Belt And Road Forum in May that year, Science and Innovation and Tertiary Education, Skills and Employment Minister Paul Goldsmith is quoted in Xinhua as saying New Zealand's best interests lie in 'participating in international initiatives that have the potential to benefit our economy and society'. Moreover, 'Attending the first Belt and Road Forum will allow us to add a distinctly New Zealand voice and perspective'.<sup>65</sup>

Opposition Labour Party leader Andrew Little made few comments on the BRI signing leaving the role to other opposition members. Winston Peters questioned what New Zealand's real interests in the BRI were, stating 'New Zealand is not a Third World country and has largely built New Zealand's infrastructure ourselves. Offers of soft loans for development is simply not in our interests'. Peters warned of the risk of dependence on one major trading partner and described the BRI and FTA upgrade negotiations as an economic kowtow to China. He stated, 'As with our warnings on immigration, we warned about China's ambition because there is no free lunch in business or in international relations'.<sup>66</sup> New Zealand China scholar, Anne-Marie Brady argued in her recommendations to the new government in late 2017 that 'under Xi, China aims to lead Globalization 2.0, via a China-centred economic order: a new economic and strategic bloc known as One Belt One Road' and that 'New Zealand should enter into discussions with Australia and other like-minded nations on the implications of China's One Belt, One Road policies and other aspects of Xi's new foreign policy on global politics, economic independence, and the control of strategic assets.'<sup>67</sup>

In the business community, BRI received little attention but when it did the general discussion was positive but lacking in clear substance. For example, HSBC New Zealand chief executive Chris Russell argued New Zealand was well placed to benefit from China's BRI despite not being geographically located within it. He suggested New Zealand could benefit from more than just infrastructure investment, such as light rail to the airport, but also through economic growth in the regional economy with a projected three billion more middle-class.<sup>68</sup> Siah Hwee Ang, a prominent New Zealand business academic and commentator, argued the BRI was innovative and worked on the premise of an invitation to participate, thus encouraging other countries to participate and generate projects along the Silk Road providing a refreshing approach to development.<sup>69</sup>

Colum Rice, the New Zealand China Council's representative at the BRI Summit in Beijing, argued the event showed how seriously the initiative was being taken and reinforced the stakes for New Zealand. 'In New Zealand we could sit on the edge and say we are not on the map, or we could ask ourselves how do we get on the map and how do we make ourselves relevant?'.<sup>70</sup> New Zealand China Council Executive Director Stephen Jacobi, perhaps the most vocal advocate of New Zealand engagement in BRI, argued consistently that 'it is important for New Zealand to carefully plan the nature and extent of our involvement. This is likely to be more about finding ways to assist China in boosting connectivity along the Belt and Road than it is about infrastructure development in New Zealand.'<sup>71</sup>

The New Zealand China Council commissioned and released an extensive review and report on potential opportunities for New Zealand involvement in BRI in March 2018. The final report put



forward policy recommendations for meaningful engagement. The key areas of focus were: Trade facilitation; New Zealand acting as a conduit to South America; Creative Sector projects; and Innovation. The report recommended that New Zealand should encourage collaboration on biosecurity, customs clearance and supply chain hubbing (New Zealand could be a conduit to South America), as well as employing New Zealand service expertise to further the aims of the initiative, drawing on New Zealand's innovation capabilities to facilitate commercialisation links with China and across the BRI zone.<sup>72</sup> These recommendations reflected the Council's preference for BRI projects that link with New Zealand's extensive experience promoting trade facilitation and other soft skills in the region as opposed to using BRI to promote New Zealand infrastructure development and construction.

Since Premier Li's visit, a number of China-supported organisations have also appeared to promote BRI to New Zealand and Chinese businesses in New Zealand and to lobby for New Zealand to take an active role. These range from Yili's rhetorical use of BRI to promote New Zealand-China dairy cooperation and their investment in New Zealand,<sup>73</sup> to the establishment of the Oceania Silk Road Network (大洋洲一带一路促进机制; OSRN) by the Director and CEO of the China-owned Yashili New Zealand Dairy Company and their active promotion of BRI through international conferences,<sup>74</sup> and the establishment of the 'New Zealand Belt and Road Think Tank and Foundation' (新西兰“一带一路”智库和基金会).<sup>75</sup> These organizations have garnered some attention in the Chinese media but little prominence in New Zealand.

Arguably then, New Zealand signed up to the BRI as an extension of a long-running policy toward China of seeking areas of economic cooperation and to promote further development of the relationship under the highly successful free trade agreement framework. This was received positively by the Chinese Government and Chinese businesses and led to a period of debate about just how New Zealand could participate. As the previous section shows, such a policy appears, in hindsight, to be rational but based on a narrow interpretation of BRI, considering it in the same manner as the FTA negotiations. A clear example of the broader implications of BRI for New Zealand is the extension of the initiative to our closest neighbours in the Pacific.

## BRI and the Pacific

After more than a decade of committed economic and political investment, China has become a key actor in the Pacific. Development aid has increased significantly,<sup>76</sup> and economic relations from trade to investment and economic cooperation,<sup>77</sup> people flows and tourism, natural resource

development,<sup>78</sup> and fisheries,<sup>79</sup> have grown considerably. China has increased its diplomatic engagement with the South Pacific and provided opportunities for many Pacific students and officials to receive training in China. This has led to more attention to China's increasing presence in and relations with the region.

Concerns over the quality of China's development projects have been raised. For example, Australian Federal Minister Concetta Fierravanti-Wells stated Australia wanted 'to ensure that the infrastructure that [China] build[s] is actually productive and is actually going to give some economic benefit or some sort of health benefit ... we just don't want to build something for the heck of building it.'<sup>80</sup> Questions have been raised as to whether there is potential for Chinese development projects to undermine efforts to improve governance,<sup>81</sup> and to the risk of indebtedness through Chinese soft loans.<sup>82</sup> Some predict the emergence of 'soft balancing' and strategic competition between China and the West.<sup>83</sup> Irrespective of these concerns, countries in the Pacific have engaged with China on BRI activities as an extension of the growth of their diplomatic and economic relations with China.

During President Xi's state visit to Australia and New Zealand in 2014 he also visited Fiji. That year saw growth in two-way trade between Fiji and China increase by 18% to 400 million USD. Chinese investment reached 500 million Fijian dollars with a contracted 250 million USD of investment. Chinese tourist numbers hit 50,000 making the Chinese market Fiji's fastest growing source of tourists. Fiji was the only state from the South Pacific region to send its head of government, one of 29 heads of state or government globally, to attend the first BRI Summit in Beijing in May 2017. According to China's Ambassador to Fiji, Zhang Ping, BRI acts as a platform for furthering trade and investment relations between the two countries. Moreover, Zhang argues BRI can promote the development of Fiji infrastructure such as roads and foster the transfer of technology in sectors like agriculture.<sup>84</sup> Fiji, like many Pacific Island countries, has viewed BRI as an opportunity to develop deeper economic relations with China.

Papua New Guinea has also shown interest in the BRI. Prime Minister Peter O'Neil met with President Xi during a state visit to Beijing in June 2018 and expressed his wish for Papua New Guinea to join the initiative. Papua New Guinea currently owes 'nearly \$2 billion (AUD) in concessionary loans'<sup>85</sup> for infrastructure projects which represents a quarter of its total debt. Prime Minister O'Neil said he 'would not sign PNG up to any more Chinese loans' but also that he did not wish to 'allow these opportunities to go by'.<sup>86</sup> PNG acceded to the AIIB in May 2018 as another way of improving infrastructure investment to develop trade opportunities and regional connectivity. Balancing this

opportunity with the associated debt levels presents a key challenge for PNG as for other nations in the Pacific.

Tonga has also shown strong interest in the BRI. During a visit to Beijing marking the 20<sup>th</sup> anniversary of diplomatic relations between the PRC and the Kingdom of Tonga, H.M King Tupou VI and Xi Jinping 'signed seven agreements in areas including economic and technological cooperation, human resources and education'.<sup>87</sup> The Tongan delegation 'spoke highly of the Belt and Road' and 'recognized that the Initiative' 'matches the practical needs of developing countries and provides important opportunities to the development of Tonga and other Pacific island countries'.<sup>88</sup> They affirmed their commitment to further cooperation and strategic partnerships including infrastructure projects in the region. Tonga also joined the AIIB.

The Pacific is clearly on the BRI map and Pacific nations are seeking opportunities under the BRI framework. Three months after New Zealand signed its MoA, the role of the South Pacific in the BRI was promoted in a document titled 'Vision for maritime Cooperation under the Belt and Road Initiative', jointly released on 20 June 2017 by the National Development and Reform Commission and the State Oceanic Administration, as an addition to the Founding document of the BRI.<sup>89</sup> The document unveiled three 'blue economic passages' (蓝色经济通道):

- The China-Indian Ocean-Africa- Mediterranean Sea Blue Economic Passage;
- The China-Oceania-South Pacific Blue Economic Passage;
- The Blue Passage leading to Europe via the Arctic Ocean.

New Zealand and the South Pacific are now included in the geographical routes of the Maritime Silk Road under the BRI framework. Under this 'Blue Partnership' (蓝色伙伴关系), China proposed five cooperation priorities with slightly different focuses to the five general BRI priorities (see Part 1). These are: 'cooperation on green development' (共走绿色发展之路), 'co-creation of ocean-based prosperity' (共创依海繁荣之路), 'co-construction of maritime security' (共筑安全保障之路), 'cooperation on innovative growth' (共建智慧创新之路), and 'joint planning on collaborative governance' (共谋合作治理之路).<sup>90</sup>

Numerous smaller initiatives and projects are proposed under these five priorities. For green development, China aims to increase cooperation on areas such as ecological conservation, marine pollution, and climate change and to jointly develop marine resources, establish industrial parks and tourism, enhance connectivity by building ports, customs cooperation, and strengthening information

infrastructure. China plans to enhance maritime security cooperation, maritime search and rescue, marine disaster prevention and maritime law enforcement. For innovative growth, China is seeking to promote marine science research, education and training and media cooperation. For collaborative governance, China has put forward inter-governmental and inter-departmental cooperation, such as a China-Small Island States Ocean-related Ministerial Round Table Meeting and the Global Blue Economy Partnership Forum as well as strengthening multilateral mechanisms such as the China-Pacific Island Countries Economic Development and Cooperation Forum (中国-太平洋岛国经济发展合作论坛).<sup>91</sup> For example, on 21 September 2017, representatives of 12 island countries, including the Deputy Prime Minister of Samoa, Fiame Naomi Mata'afa, attended a forum in China and issued the Pingtan Declaration.<sup>92</sup>

The extension of the BRI to the Pacific suggests we are likely to see more Chinese political and economic engagement in our region. China is a relatively new actor facing a steep learning curve on local conditions and diversity across Micronesia, Melanesia and Polynesia and between the small multi-island states and ocean territories. Pacific Island countries will seek the opportunity to shape BRI projects and will want to maintain agency in their own development. They enjoy strong and enduring relationships with countries such as Australia and New Zealand and maintain important economic, developmental, security and diplomatic relations with the United States, the United Kingdom, France and the European Union. Managing differences between China's developmental approach and the approaches of Pacific Island Countries and existing actors may prove challenging for the development of the 'Southern Leg' (南线) of BRI.

## Part 4: New Zealand and BRI

With the election of the coalition government in late 2017, there has been a change of tone in New Zealand statements on foreign affairs. There remains a commitment to New Zealand's business sector and to promoting a mutually beneficial relationship with China. At the same time, there is a renewed focus on a number of other important aspects of our external engagement. This is evident in Ministerial comments and in official statements about New Zealand's external environment. In May 2018, Prime Minister Jacinda Ardern presented a more nuanced view of New Zealand's engagement with BRI than was signalled by the previous government when she stated, 'The Belt and Road Initiative is a priority for China. New Zealand is considering areas we want to engage in the initiative, and other



areas where we will be interested observers.’<sup>93</sup> One area where New Zealand will definitely be an ‘interested observer’ is the South Pacific.

In March 2018, Deputy Prime Minister and Minister of Foreign Affairs, Winston Peters, delivered a speech at the Lowy Institute in Australia announcing New Zealand’s ‘Pacific Reset’. Peters noted that ‘The Pacific overall has become an increasingly contested strategic space, no longer neglected by Great Power ambition, and so Pacific Island leaders have more options. This is creating a degree of strategic anxiety.’ Peters added, ‘In navigating a more complex strategic environment, New Zealand’s view is that we must be respectful of Pacific Island countries’ clear wish to manage their own international relations while at the same time retaining New Zealand’s traditional emphasis on human rights, the rule of law, transparency, good governance, and the promotion of democracy.’<sup>94</sup> Peters also commented on BRI. In the Q&A, he is quoted as stating ‘I do regret the speed with which the former New Zealand Government signed up. They couldn’t have known exactly what it all meant.’<sup>95</sup> Peters underscored the Pacific Reset with a major speech on increased aid funding for the region<sup>96</sup> and later repeated the view that New Zealand’s external environment had become more challenging, stating ‘The Asia-Pacific region is much more contested. Great power rivalries have intensified’.<sup>97</sup> Peters is on record as Foreign Minister stressing the value of New Zealand’s relationship with China, stating ‘China and New Zealand have a close, constructive and increasingly mature relationship’.<sup>98</sup>

In July 2018 Defence Minister Ron Marks released the ‘New Zealand Strategic Defence Policy Statement’ which explicitly put forth ‘maintaining the international rules-based order’ as a key New Zealand priority. It noted that ‘China is more confident in pursuing its aims, which include striving for greater connection through a range of new proposals, such as the Belt and Road Initiative’ and that ‘China has set an alternative model of development—a liberalising economy absent liberal democracy—challenging conventional wisdom in the West that the two go hand-in-hand. China’s trade relationships and its economic power have grown significantly, enabling it to pursue its interests with much greater confidence and with a wide array of political and economic levers.’<sup>99</sup> The policy statement positively highlighted areas of China’s adherence to the rules based order but also pointed to territorial disputes in the South China Sea, at the same time alluding to U.S. efforts to undermine the global trading system, suggesting unease with unilateralism and great power rivalry in the region. The early indication then is that the new government is seeking to recalibrate the focus of its relationships in the region.

When New Zealand initiated FTA negotiations with China over a decade ago, the rationale presented by the then Labour-led government was that engaging with China would in some small way encourage it into the rules-based trading system at the same time as providing opportunities for New Zealand

businesses and society.<sup>100</sup> China has become a key part of global trade and the international trading system. But at the same time China has doubled down on its political and economic systems and is promoting a new approach to regional economic engagement and alternative models of regional political community. This combined with increasing strategic competition underlies the resistance in many countries to more fully engaging China's BRI. It also underscores the nature of New Zealand's BRI challenge.

New Zealand has built its relationship with China through diplomacy, business and people to people engagement, as it has with other important partners. It has promoted trade, regional cooperation, multilateral engagement, defence and security dialogue, educational and scientific linkages and developmental cooperation. For New Zealand, the intensification of competition and at times rivalry between China and other partners, such as Australia and the United States, constrains the space for deeper engagement just as Nixon's 'week that changed the world' and policy of détente created space for deeper New Zealand engagement with China. Moreover, many aspects of BRI mirror China's own economic, social and political development experience, thereby potentially differing to previous mechanisms of New Zealand China engagement and underscoring the need for New Zealand to make a careful BRI assessment. BRI presents a unique challenge of responding to a Chinese led initiative that could be a platform for furthering regional development and New Zealand's economic relations with China but one that remains ambiguous, has divided international opinion and that potentially runs counter to some of New Zealand's engagement principles.

## Policy Recommendations

Great power rivalry and criticism of China's political system and external development activities underscore the importance of New Zealand doing its due diligence on any BRI involvement. As a small country in the South Pacific, maintaining lines of communication with China and developing targeted areas of cooperation are crucial to the pursuit of our prosperity. BRI could go some way to achieving this. However, as shown by the above review, New Zealand should be very clear about which aspects of BRI it engages with by carefully selecting projects that are in New Zealand's interest and that adhere to clearly signalled principles of external engagement. Moreover, because New Zealand is an advanced economy, the usual BRI engagement activities that China inks with developing countries do not readily apply. The report therefore recommends the following general principles of BRI engagement.

Potential BRI projects with New Zealand should:

- Build on the wide range of cooperation agreements already signed between New Zealand and China;
- Seek high standards of governance and transparency, adhere to the rule of law and be subject to due diligence in order to meet international standards of sustainable development, local participation, labour contracting and environmental protection;
- Be conducted in accordance with the rules based economic system. They should be WTO compatible and promote rules-based trade, investment and economic development. New Zealand and China have a long history of cooperation in this area;
- Be open and non-discriminatory. They should adhere to competitive and open tender processes and not exclude bids from countries that have not signed onto BRI;
- Encourage cross partnering with other BRI countries to avoid the emergence of a narrow 'hub and spoke' system.

Moreover, the New Zealand Government should:

- Enter into limited and contained BRI engagement to test the water and potentially set useful precedents as one of the first liberal democracies and advanced economies to engage in the initiative;
- Review any BRI projects it enters into regularly and maintain good communication with China and other partners involved. These agreements should be open and transparent;
- Promote the development of multilateral governance structures for appraising and governing resources under the broader BRI framework, including dispute resolution mechanisms;
- Seek increased cooperation with China in areas of mutual interest and complementary skill sets and increase high-level and academic dialogue between China, New Zealand and the Pacific to improve understanding, coordination and feedback to ensure BRI projects in the region are consistent with regional priorities and principles;
- Take extra care with language and the use of concepts associated with BRI. Loose use of BRI terms without a full understanding and appraisal of what they mean to different audiences invites misinterpretation. New Zealand will need to maintain clear and precise statements to ensure understanding with our Chinese partners and to avoid any misinterpretation by traditional partners;
- Be attentive to BRI projects that involve state resources and those that involve the private sector and seek appropriate New Zealand partners.

## Conclusion

This report has shown the complexities of engaging China under its BRI framework and therefore suggests New Zealand does due diligence and engages in accordance with a set of clearly signalled principles. If this approach is used, we are likely to see positive but limited engagement with potential for expansion if projects prove beneficial to New Zealand, China and third parties. This approach is understandable considering New Zealand is yet to have a good understanding of how BRI works, how it will be governed, what impact it will have here and in the Pacific and what the value-add for a small advanced economy in the South Pacific is.

## Endnotes

<sup>1</sup> 'One belt' refers to the economic belts on land while 'one road' refers to the maritime routes of the silk road. Each contain the title 'Silk Road' which was dropped in the overarching 一带一路 shorthand and in the reformed English shorthand of 'Belt and Road Initiative' ('一带一路'倡议).

<sup>2</sup> 'Chronology of China's Belt and Road Initiative', *Xinhua*, 24 June 2016, Accessed 23 July 2018, [http://www.xinhuanet.com/english/2016-06/24/c\\_135464233.htm](http://www.xinhuanet.com/english/2016-06/24/c_135464233.htm)

<sup>3</sup> 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road', *Ministry of Foreign Affairs of the People's Republic of China*, 28 March 2015, Accessed 23 July 2018, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1249618.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml)

<sup>4</sup> This term, sometimes translated as a 'community of shared destiny', is an increasingly common theme employed in China's promotion of the BRI. Rhetorically, it is used as a critique of a national interest based analysis of international relations and to promote a regional vision. For example, Xi argued in 2015 that 'To build a community of common destiny, we need to seek win-win cooperation and common development' (迈向命运共同体, 必须坚持合作共赢、共同发展). See President Xi's speech at the 2015 Boao Forum for Asia 'Building a Community of Common Destiny, creating a New Future for Asia', *Xinhua* 28 March 2015, Accessed 23 July 2018, Available at [http://www.xinhuanet.com/politics/2015-03/28/c\\_1114794507.htm](http://www.xinhuanet.com/politics/2015-03/28/c_1114794507.htm)

<sup>5</sup> Official Chinese statements often refer to a lack of 'mutual trust' as an impediment for China and the region. China increasingly promotes globalization and has shifted from a discussion of foreign economic actors in China to the promotion of Chinese economic actors abroad, such as through the 'go abroad' (走出去) strategy. The Chinese Government promotes a pluralistic view of international political systems (culture) meaning they argue each state should be accepted as equal irrespective of their political system. This is counter to the promotion of a world of multi-party liberal democracies.

<sup>6</sup> 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road'. 28 March 2015, Accessed 23 July 2018, [https://reconasia-production.s3.amazonaws.com/media/filer\\_public/e0/22/e0228017-7463-46fc-9094-0465a6f1ca23/vision\\_and\\_actions\\_on\\_jointly\\_building\\_silk\\_road\\_economic\\_belt\\_and\\_21st-century\\_maritime\\_silk\\_road.pdf](https://reconasia-production.s3.amazonaws.com/media/filer_public/e0/22/e0228017-7463-46fc-9094-0465a6f1ca23/vision_and_actions_on_jointly_building_silk_road_economic_belt_and_21st-century_maritime_silk_road.pdf)

<sup>7</sup> 'Full text of President Xi's speech at the opening of Belt and Road forum', *Xinhua*, 14 May 2017, Accessed 23 July 2018, [http://news.xinhuanet.com/english/2017-05/14/c\\_136282982.htm](http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm)

<sup>8</sup> Jin Ling 金林, 'The "New Silk Road" Initiative: China's Marshall Plan?', *China International Studies*, Jan/Feb. 2015, pp 70-83 (updated English version), *China Institute of International Studies* June 11 2015, Accessed 23 July 2018, [http://www.ciiis.org.cn/english/2015-06/11/content\\_7982914.htm](http://www.ciiis.org.cn/english/2015-06/11/content_7982914.htm)

<sup>9</sup> Liu Mingfu 刘明福, '中国梦: 后美国时代的大国思维与战略定位 The China Dream: Great power thinking and strategic posture in the post-America era' *China Friendship Publishing Company*, 2010, CN Times Books, 2015 pp.180-83.

<sup>10</sup> Wang Jisi 王缉思, 'North, South, East, and West – China is in the Middle: A Geostrategic Chessboard'. *China International Strategy Review*, 2013, pp.27-52.

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## About the Centre

The New Zealand Contemporary China Research Centre promotes knowledge and understanding of contemporary China in New Zealand through research, collaboration and knowledge sharing.

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