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14. ABSTRACT China has adopted increasingly interventionist foreign policies under Xi Jinping, which are characterized by the use of competitive strategies, co-optation of private enterprise, and three-dimensional integration. Despite the close economic ties between the two states, China's new strategic approach poses a multi-faceted challenge to New Zealand's interests. New Zealand should adopt a more comprehensive approach to national security that includes three lines of effort: safeguarding its democratic institutions, preserving its economic base, and supporting regional stability in the South Pacific.					
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New Zealand's Strategic Challenge:
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from China's new interventionist foreign policies.

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EXECUTIVE SUMMARY

Title:

New Zealand's Strategic Challenge: A comprehensive response to the challenges to sovereignty, prosperity, and stability that arise from China's new interventionist foreign policies.

Author: Major Maia Baker, New Zealand Army.

Thesis: Although New Zealand's relationship with China will only grow in importance over the coming decades, China's strategic aims and methods pose a multi-faceted threat, which must be addressed. New Zealand should respond to this challenge by adopting a more mature and comprehensive approach to national security and the growing threat from China. This new approach should include three strategic lines of effort: safeguarding New Zealand's democratic institutions, preserving its economic base, and supporting regional stability within the South Pacific.

Discussion: Since diplomatic relations were established in 1972, New Zealand and China have pursued a close economic relationship which has enabled New Zealand to grow in prosperity and weather global economic setbacks. At the same time, aspects of Chinese foreign policy pose a threat to New Zealand's interests, which successive governments have been reluctant to address. These threats include China's use of sharp power, influence operations, economic practices, trade retaliation, and development practices that contribute to regional instability. The challenge posed by China is better understood when its actions are placed within the framework of its strategic objectives and its strategic approach. China's interest in New Zealand and the South Pacific can be understood in terms of its temporal ambitions under Xi Jinping's "Two Centenaries," and its geostrategic priorities. China's strategic approach features three key characteristics: the pursuit of competitive strategies, a high degree of three-dimensional integration, and the co-optation of private enterprise. While New Zealand and China maintain a positive economic relationship, this does not prevent China from pursuing foreign policies that will harm New Zealand's interests and those of its neighbors. New Zealand should adopt a range of defensive measures to support three strategic lines of effort: safeguard its democratic institutions, preserve its economic base, and support regional stability within the South Pacific. Other western democracies such as Australia, the United Kingdom, the United States, and Canada provide examples of best practice.

Conclusion: New Zealand should take a more active and deliberate approach to strategy. Government self-censorship, driven by a reluctance to antagonize the PRC, can only erode New Zealand's capacity to protect and advance its interests. New Zealand's need for a comprehensive government approach for addressing the threat from China, also strengthens the case for a national security strategy document that explains and coordinates the roles of different parts of the government.

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INTRODUCTION

New Zealand and the People's Republic of China (PRC) have maintained a mutually beneficial relationship since the countries first established diplomatic relations in 1972. Access to Chinese markets has been essential to New Zealand's prosperity over the last half-century, while New Zealand played a key role in supporting China's economic opening to the rest of the world. Since President Xi Jinping's accession to power in 2012, however, China's actions in New Zealand and around the world have drawn scrutiny from intelligence agencies, media, academics, and politicians. Increasingly powerful, ambitious, and perhaps insecure, China now wields an array of coercive and subversive techniques to support its domestic and foreign policy objectives abroad. Although New Zealand's relationship with China will only grow in importance over the coming decades, China's strategic aims and methods pose a multi-faceted threat, which must be addressed. New Zealand should respond to this challenge by adopting a more mature and comprehensive approach to national security and the growing threat from China. This new approach should include three strategic lines of effort: safeguarding New Zealand's democratic institutions, preserving its economic base, and supporting regional stability within the South Pacific. This challenge can best be understood when it is placed within the context of China's strategic objectives and the strategic approach with which it pursues them. In addressing the particular challenges that China poses to New Zealand, best practices can be drawn from other western democratic states such as Australia, the United States, the United Kingdom, and Canada. Ultimately, the challenge posed by China illustrates why small states need grand strategy, and why the lack of a national security strategy is a key deficiency in New Zealand government policy.

DISCUSSION

The New Zealand – China Relationship

New Zealand and the PRC fostered their early relationship on a shared desire to address the spread of Soviet influence in the South Pacific. Since then, however, the relationship has primarily centered on trade rather than security matters.¹ As a former British colony, New Zealand's economic wellbeing was heavily dependent on guaranteed access to British markets through the first half of the twentieth century. This ended with the United Kingdom's accession to the European Economic Community, which it announced in 1961 and implemented in 1973.² New Zealand responded by diversifying its export markets and establishing a free trade arrangement (FTA) with Australia, as well as trade deals with the United States, Japan, South Korea, and China. New Zealand and China established diplomatic relations in 1972, and since then the relationship has been punctuated by a series of firsts. New Zealand was the first state to support China's accession to the World Trade Organization in 1997, first to recognize China's market economy in 2004, and first to negotiate an FTA with China, which the two countries implemented in 2008.³ Former Minister of Foreign Affairs, Murray McCully, emphasized that New Zealand's economic resilience following the 2008 Global Financial Crisis resulted from its FTA with China.⁴ New Zealand's relationship with China has continued to grow over the last decade. In 2013, New Zealand and China commenced the first tripartite development project with a Pacific Island nation.⁵ In 2014, the two states announced that they would upgrade their relationship to a "comprehensive strategic partnership."⁶ In 2016, negotiations to upgrade the bilateral FTA commenced.⁷ Without a common language, culture, or set of political values, New Zealand's relationship with China is thus primarily motivated by trade, which has not only fueled

economic growth, but also helped New Zealand to navigate the economic setbacks of 1973 and 2008.

While New Zealand's chief interest in China is with trade, China's interests in New Zealand are somewhat more varied. With its many "firsts," New Zealand acted as China's advocate in the West. More recently, by joining the Asian Infrastructure Investment Bank and supporting the Belt and Road Initiative (BRI), New Zealand has furthered China's broader economic aims in the South Pacific.^{8,9} New Zealand enjoys a disproportionate influence in international forums, as it administers the foreign and defense policies of three other Pacific Island nations: Niue, Tokelau, and the Cook Islands. New Zealand's support can thus garner four votes in international forums such as the United Nations.¹⁰ New Zealand is a claimant state in Antarctica and administers the Ross Dependency, which is a large area of the continent and adjoining sea. Chinese officials, perhaps erroneously, believe that the Antarctic Treaty will expire in 2048. In anticipation of a polar land grab, China seeks to stake its claim in the continent, which offers vast natural resources, a base for tracking space-based military technologies, and other geostrategic advantages.¹¹ New Zealand's airspace has relatively little traffic, making it a promising testing ground for space and near-space technologies.¹² Already, it appears that China has launched near-space dual-use equipment from Chinese-owned New Zealand farmlands.¹³ In addition, New Zealand is a valuable exporter of dairy products to China. New Zealand supplies 24% of China's foreign milk imports and 80% of its butter.¹⁴ Finally, as a small and nonthreatening country, New Zealand serves as a sandbox environment for diplomatic and trade negotiations, allowing China to refine its process in a low-risk environment before engaging with larger economies.¹⁵

Although it has largely been one of mutual gain, New Zealand's relationship with China is not without risk. In a number of areas, the actions and policies of the PRC are at odds with New Zealand's values and interests. China's actions in New Zealand, the South Pacific, and its own "near abroad" all pose a challenge to New Zealand's long-term interests.¹⁶ Seeking to preserve its trade benefits, the New Zealand government has traditionally tended to accommodate the PRC's foreign policy excesses. Indeed, the previous National government exercised a "no surprises" policy by which it avoided public statements that China might view as a challenge to its core interests.¹⁷ This has changed somewhat under the current Labour government, which has voiced some limited criticism over China's actions in the South China Sea.¹⁸ They have also introduced a number of policies that limit the scope for Chinese influence in New Zealand.¹⁹ China has voiced its dissent to these policies, and the opposition party has called on the government to repair the relationship.²⁰ One key shortfall of public discourse within New Zealand is that the PRC's actions are often taken in isolation, giving rise to skepticism about the veracity or relevance of various issues. This discussion can be better informed by situating the PRC's actions within a broader framework that incorporates China's overarching strategic objectives and its unique strategic approach. This will allow us to better understand the challenge posed by China and formulate an appropriate response.

China's Strategic Objectives

Temporally, China has structured its strategic objectives around two key dates: the centenary of the Chinese Communist Party (CCP) in 2021, and the centenary of the founding of the People's Republic of China (PRC) in 2049. The Chinese Communist Party (CCP) adopted these "Two Centenaries" into its constitution in 2012, along with development benchmarks for what Xi Jinping calls "the great dream of the Chinese nation's rejuvenation."²¹ The Two

Centenary goals largely center on China's domestic and social development, although they also address China's economic and military power. The CCP intends for China to be a "moderately prosperous society in all respects" by 2021, which in effect means doubling the 2010 per capita income figures.²² By 2049, China is likely to have reaped the benefits of its BRI and become the largest economic power in terms of gross domestic product (GDP). Military reform also features in the Two Centenary goals, with three key benchmarks: to achieve mechanization, organizational reform, and increased informational capabilities by 2020; to have completed modernization by 2035; and to have "fully transformed into world-class forces" by 2049.²³ By the second centenary, Xi Jinping envisages that "China has become a global leader in terms of composite national strength and international influence."²⁴ These goals suggest that China's People's Liberation Army (PLA) will benchmark against the United States not only in terms of military capability, but also in terms of force projection and global reach.

Geographically, China's strategic aims can best be visualized as a set of concentric rings, at the heart of which is the continued survival and leadership of the CCP. The second strategic aim is the maintenance of internal stability, which the CCP pursues through state propaganda, the Social Credit program, repression of political dissidents, internal and international travel controls, and censorship of media and the internet. Third is sovereign territorial integrity, which includes maintaining control over outer provinces such as Xinjiang, Tibet, and Hong Kong, as well as the reintegration of Taiwan. Chinese leadership is particularly concerned that neighboring states will exploit disunity within these provinces as a pretext to violate China's territorial integrity. Through troop and naval dispositions, and the development of its anti-access and area denial system, China seeks to defend its borders against foreign aggression. The fourth ring encompasses China's near abroad. This includes territorial claims in the South and East China Seas, diversifying trade routes, and areas of dispute with India. China ultimately seeks to

exert regional influence and supplant the US as the stabilizing power within East and South East Asia. In the final outer ring, China's global strategic aims include the development of a robust global economic infrastructure, access to natural resources across the globe, development of a network of friendly nations and regional platforms, and control over the global narrative relating to China's core interests.

China's foreign policy objectives in the South Pacific align with its global strategic aims outlined above. China is extending its diplomatic reach by providing aid and investment to Pacific Island nations. In part, this is a continuation of the competitive "checkbook diplomacy" that China and Taiwan have traditionally carried out in the region, exchanging aid for exclusive diplomatic recognition.²⁵ The South Pacific is also a source of important natural resources including timber, minerals, fishing stocks, meat, dairy, and agricultural produce. Finally, the South Pacific appears likely to play a key role in China's military development and geostrategic expansion.²⁶ Physical infrastructure such as the Port of Darwin and a proposed cruise terminal in Vanuatu may in the future support the projection of PLA Navy vessels into the Pacific. Pacific Island nations, including New Zealand, also offer suitable locations from which to launch and / or track space and near-space military or dual-use technologies such as satellites, high-altitude balloons, and ballistic missiles.

China's Strategic Approach

Having developed a broad understanding of China's strategic objectives, it is important to understand the characteristics of its strategic approach. A strategic approach can be defined as a framework or set of guiding principles that govern the application of ways, means, and

subordinate goals in the pursuit of overarching strategic objectives.¹ China's strategic approach can be determined from official statements, foreign policies, and unofficial but apparently state-sanctioned activities. Since Xi Jinping's accession to power, China's strategic approach has become more aspirational and aggressive, making greater use of the levers of national power.²⁷ The relative policy-stability of its one-party government means that China can set long-term strategic objectives, such as the continuing cycle of five-year plans and Xi Jinping's Two Centenaries. Within this context, China's strategic approach in the current era features three main characteristics: the pursuit of competitive strategies, co-optation of private enterprise, and a high degree of three-dimensional integration. These characteristics, which are explained in more detail below, describe a strategic approach which is effective, if potentially self-defeating.

China's foreign influence operations indicate that it is engaged everywhere in competitive strategies. Thomas G. Mahnken explains that long-term competitive strategies are pursued by identifying constraints and other factors that will affect a competitor's decision-making, and choosing actions that are designed to exploit them.²⁸ Although Xi Jinping insists that China will "hold high the banner of peace, development, cooperation, and mutual benefit,"²⁹ China's diplomatic, trade, and informational practices are rather more competitive in character. Chinese officials emphasize the nation's historical commitment to continuing dialogue with other states, even during times of conflict. At the same time, China carries out belligerent actions such as cyber-attacks and intellectual property theft against friendly nations. Both of these apparent inconsistencies point to a non-linear or opportunistic logic underlying China's strategic approach. China is willing to employ competitive strategies against friendly states and trading

¹ *Strategic approach* is offered here as an alternative to *strategic culture*. Strategic culture situates national strategy within the context of culture, history, and tradition: an approach that is unnecessary for the purpose of this paper.

partners, as demonstrated by Landbridge Group's acquisition of a 99-year lease on the Port of Darwin in 2016.

Landbridge Group is a Chinese-owned company that has extensive links to the CCP and PLA. It is headquartered in Shangdong Province, whose provincial government has named the company's owner one of the "top 10 individuals caring about the development of national defense."³⁰ Landbridge Group maintains an armed militia in Shangdong whose role is to provide logistics, emergency services, and combat readiness support to the PLA Navy.³¹ This is part of a broader effort within China to build closer links between business and the military, which was introduced under Xi Jinping.³² Landbridge Group and other Chinese shipping companies have secured deep water ports in key locations throughout the Indo-Pacific, Africa, the Middle East, Europe, and Central America. These installations are configured to provide support to the PLA Navy and required to do so on demand.³³ Many of these ports appear to be commercially unviable, but are geo-strategically well positioned to support the PLA Navy's power projection and control of key waterways.³⁴ Zhang Jie, a researcher at the elite Chinese Academy of Social Sciences, first articulated this approach in 2015 under the label "civilian first, later military."³⁵ Understanding how Landbridge Group contributes to China's military strategic objectives, it is useful to view the Port of Darwin through a strategic rather than commercial lens.

The Port of Darwin is strategically located on the northern coast of Australia and is a focal point for defense cooperation between Australia and the United States. Darwin is home to Australian Army and Air Force bases and serves as a forward staging base for military operations in the region. While Australia does not maintain a naval base in the area, Darwin functions as a center for multinational military and naval exercises, hosting up to 100 visiting Australian and foreign warships each year.³⁶ Since President Obama announced America's

“Pivot to the Pacific”, Darwin has been at the center of American-Australian military relations.³⁷ From 2012, it has been the site of a semi-permanent American military presence, with a contingent of United States Marines basing themselves in the town for six months of every year. Darwin thus serves as the southern flank of America’s military presence in the South Pacific. When the sale to Landbridge Group was announced, American officials expressed concern that Australia did not consult the United States ahead of time.³⁸ This purchase fits one of the categories of competitive strategy outlined by Bradford A. Lee, that of “attacking the enemy’s strategy.”³⁹ Through the Port of Darwin purchase, China has challenged America’s force posture in the South Pacific, generated tension within the American-Australian military partnership, and gained a strategic foothold from which Landbridge Group may later support PLA Naval operations.

The Port of Darwin purchase also fits a second category of Lee’s competitive strategies, that of “attacking the adversary’s political system.”⁴⁰ The sale was enabled by bureaucratic shortfalls, a political rift between state and federal governments, and lower scrutiny over sales to private companies rather than state-owned enterprises. For a number of years, the Northern Territory state government had unsuccessfully lobbied Australia’s federal government for funds to upgrade the port, believing the capital investment would provide the region with much-needed economic stimulus.⁴¹ In 2015, the state government put the port up for sale in what is now widely considered as an ill-conceived cash grab. The sale raised numerous procedural concerns, including a lack of transparency by the state government, the Foreign Investment Review Board’s failure to investigate the sale, and an only cursory review by mid-level bureaucrats within the Australian Defence Force.⁴² Senior Australian officials, including the Federal Treasurer and Minister of Defence, were informed of the sale only hours before it was announced.⁴³ The sale highlighted a number of bureaucratic shortfalls, which the Australian

government has since moved to fix. But it also fits a general pattern by which China exploits weaknesses within political systems in order to pursue its goals. Elsewhere, China has cultivated weak or corrupt political leaders, engaged in “debt-trap diplomacy” in capital-starved developing states, and gained undue influence over regional platforms through vulnerable member states.⁴⁴

Landbridge Group’s purchase of the Port of Darwin, along with similar acquisitions by other Chinese shipping companies, is one method by which China employs private corporations to pursue its strategic objectives. Another example of this is the employment of private fishing boats in the South and East China Seas, which the PRC has armed and mobilized to assert China’s territorial claims in the region.⁴⁵ This practice can be incorporated into Luttwak’s two-dimensional strategic framework, by which strategy is conceptualized along vertical and horizontal dimensions.⁴⁶ Horizontal integration is the harmonious application of the levers of national power through a whole-of-government effort. China can add *corporate power*, or the co-optation of private enterprise, to its diplomatic, military, informational, and economic levers of national power. China employs corporate power within other states or disputed areas as an asymmetric means to gain access, apply political leverage, or undermine defenses. Efforts such as these differentiate China from other states, which may seek to develop key industries or outsource public functions to private contractors, but do not wield private corporations as a lever of national power. Vertical integration, or nesting, is the alignment of objectives throughout the strategic hierarchy. This term was initially developed to describe military strategy, but it translates readily across all levers of national power. An example of effective vertical integration in the diplomatic domain is China’s pursuit of PRC enterprise to foreign enterprise, party to party, and person to person relationships.⁴⁷

China's whole of government foreign policy efforts fall under three broad categories: hard power, soft power, and sharp power. These three approaches can respectively be described as coercive, persuasive, and subversive in nature. Hard power is the use of tangible military and economic capabilities to pursue goals through the use or threatened use of force. Hard power efforts may include military occupation, diplomatic isolation, and economic sanctions. Soft power is persuasive in nature and can range across all levers of national power. China seeks to extend soft power through legitimate activities such as peacekeeping, humanitarian aid, and trade partnerships. While hard and soft power are well understood, the term "sharp power" was coined to describe a third approach, which is inherently subversive.⁴⁸ It is used to undermine state institutions, politicians, academics, and business leaders. As an example, Australian Member of Parliament (MP) Sam Dastyari was forced to resign in 2017 when it was revealed that Chinese corporations had paid money towards his travel expenses, legal bills, and other debts. Before he was outed, Dastyari had publically supported China's territorial claims in the South China Sea contrary to his party's policy stance, and was implicated in a counter-surveillance scandal involving a Chinese political donor.⁴⁹ In this case, China employed sharp power techniques through its corporate lever of national power to corrupt an Australian official and employ him as a mouthpiece for its own political messaging.

China has demonstrated a remarkable willingness to apply deeper (i.e. more coercive) policies in response to perceived threats to its core interests. After the 2010 Nobel Peace Prize was awarded to Chinese political dissident Liu Xiaobo, China immediately imposed a trade embargo on Norwegian salmon. The embargo remained in place for six years, costing Norway US\$1 billion in lost exports.⁵⁰ After relations were normalized in 2016, China chided the Norwegian government for undermining the two countries' "bilateral mutual trust."⁵¹ This incident reveals much about China's strategic approach. While the Norwegian Nobel Committee

is appointed by the Norwegian parliament, it functions as an independent entity whose decisions do not reflect government policy.⁵² Nevertheless, China retaliated against Norwegian commerce in order to influence the Norwegian government and appears to have done so effectively. In imposing the trade embargo, China subordinated trade to internal stability, in keeping with the order of its strategic priorities. Given the enormity of the Chinese market, China's willingness to impose coercive economic measures is an effective deterrent. Other states are thus compelled to take note of Norway's misfortune and practice self-censorship over matters pertaining to China's core interests.

Building on Luttwak's two-dimensional strategic framework, China's application of soft power, sharp power, and hard power methods of influence may be visualized as points along a third dimension or axis. Whereas the strategic hierarchy forms the vertical *y axis*, and the levers of national power form the horizontal or *x axis*, methods of influence form the depth or *z axis* (see Figure 1 below). Progression along the *z axis* indicates the increasingly aggressive employment of the levers of national power from soft, to sharp, to hard power methods. As mentioned earlier, the *y axis* can also be broadened from Luttwak's military description to encompass a whole of government approach. Within the alternative framework offered here, the strategic hierarchy is capped with policy and national grand strategy. Below this are efforts to shape the strategic environment at the multinational level, for example through international law, regional platforms, or multinational organizations. Next are state-level interactions, then department-to-department (or business-to-business) interactions. The lowest level encompasses interpersonal and transactional engagements. China's strategic approach is inherently three-dimensional, in that it is characterized by the harmonious integration of efforts along the *x*, *y*, and *z axes*.

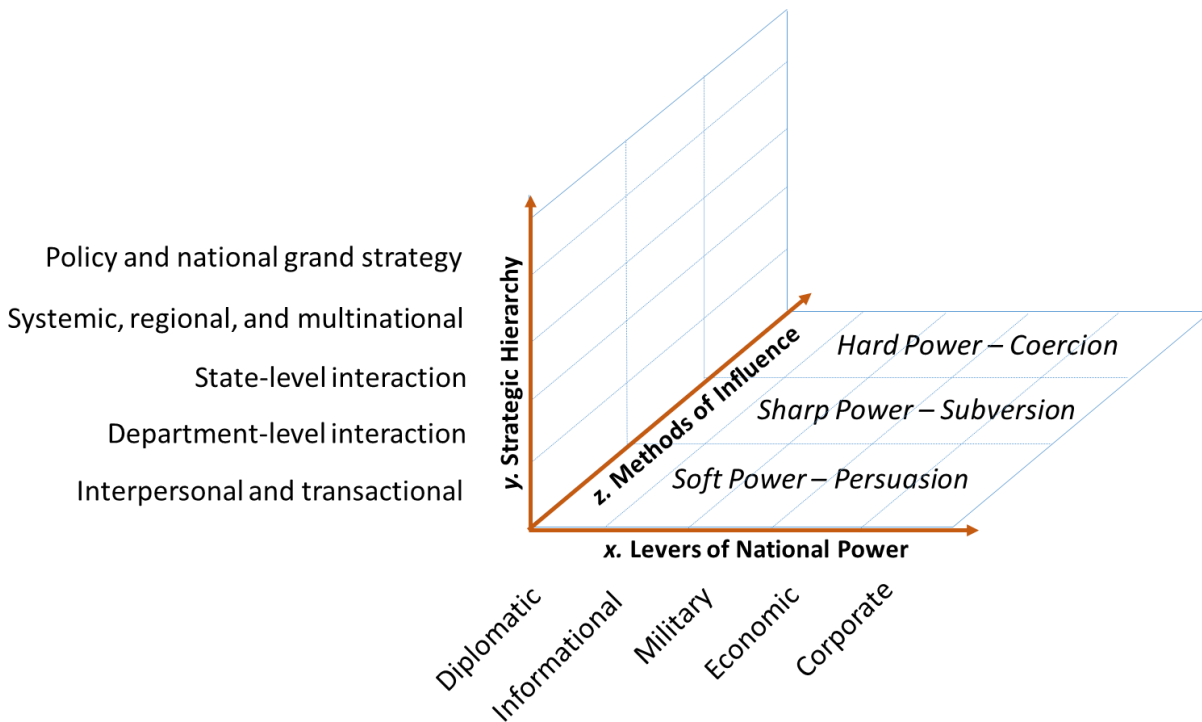


Figure 1: Representation of a Three-Dimensional Strategic Framework

The acquisition of the Hambantota Port in Sri Lanka provides an example of how China’s strategic approach is used to pursue its geostrategic aims under Xi Jinping’s Two Centenaries. The construction of the port, which was completed in 2010, was a Chinese proposition, funded by a US\$2 billion Chinese development loan. The port was located in the home province of then Sri Lankan president, Mahinda Rajapaksa, who pushed the project ahead, along with a number of Chinese-funded vanity projects, despite opposition from community groups.⁵³ Located in a remote area, the commercial port failed to turn a profit. Sri Lanka granted a 99-year lease on the port to the state-owned China Merchants Group to avoid defaulting on its loan repayments. Although China hasn’t declared any ambitions to establish a permanent military presence at the Hambantota Port, it is apparent that the Hambantota Port offers geostrategic rather than commercial value, given its location relative to India, the Indian Ocean, and the Strait of Malacca.⁵⁴ Indeed, shortly after the Hambantota Port acquisition, Chinese warships began

making port calls at the Sri Lankan capital of Colombo. India has recognized this threat and made a US\$300 million bid to purchase a forty year lease on the equally unprofitable Hambantota airport to preclude China from developing the port into a naval base.⁵⁵ In this example, we see China employ sharp power in a friendly state by using a debt-trap investment technique to gain control of dual-use infrastructure. China pursued this goal through engagement at the state, corporate, and person-to-person levels, leveraging a key weakness within Sri Lanka's political system, which was the corruptibility of President Rajapaksa. All of this contributed to an outcome that will support China's military strategic aims for 2049.

New Zealand's Strategic Challenge

Successive New Zealand governments have insisted that although the two countries have different political values, they can work around these to cooperate on areas of mutual interest. In fact, differences over such fundamental matters as human rights, freedom of navigation, foreign influence operations, and debt-trap diplomacy have unwisely been ignored by governments who were anxious to preserve the economic benefits of free trade. China's strategic objectives and the sharp power techniques inherent in its strategic approach challenge New Zealand's interests in a number of ways. Firstly, Chinese influence operations threaten to erode New Zealand's democratic institutions. Secondly, China may come to threaten New Zealand's economic base through market manipulation, gaining undue influence over key infrastructure, or employing trade retaliation for real or perceived challenges to China's strategic interests. Finally, China's policies in the South Pacific may contribute to regional instability and increasing polarity, while setting the conditions for the PLA Navy to project maritime power into the region. New Zealand should adopt a comprehensive cross-government approach to address vulnerabilities that are being exploited by Chinese efforts. Wellington should recognize and respond in a proportional

manner to the PRC's employment of a range of sharp power techniques. This requires a multilevel approach consisting of three strategic lines of effort: safeguard New Zealand's democratic institutions, preserve its economic base, and promote stability within the South Pacific region. Looking further ahead, it is apparent that New Zealand will better position itself to identify, articulate, and respond to challenges such as those posed by China by adopting and publishing a national security strategy.

Safeguarding New Zealand's Democratic Institutions

China's influence operations in New Zealand are not as overt or coercive as they have been in states such as Norway and Sri Lanka; however, they give cause for concern. These are documented by Anne-Marie Brady of Canterbury University and feature common features with influence operations elsewhere.⁵⁶ In outline, these include state influence over Chinese expatriate communities, Chinese language media, tertiary academic institutions, and the New Zealand political system. The CCP established United Front organizations abroad to influence foreign governments and ethnic Chinese expatriate communities. United Front efforts have increased markedly since 2012, and play a key role in presenting the official Chinese narrative abroad.⁵⁷ By playing a coordinating function within New Zealand, Brady argues that the United Front extends CCP influence over Chinese community groups, suppresses anti-CCP Chinese groups, and mobilizes political support for pro-Chinese issues.⁵⁸ The role that the United Front plays in informing and coordinating Chinese communities, in conjunction with Xi Jinping's Social Credit system, offers significant potential for Chinese state influence within New Zealand. CCP-backed Chinese language media in New Zealand has also increased significantly in step with United Front actions.⁵⁹

New Zealand's political system features a number of weaknesses which the PRC may exploit to exert undue influence. As noted above, United Front organizations play a key role in coordinating political support among Chinese expatriate communities. Access to the Chinese market brings enormous trade benefits, which means that business interests and Chinese interests can often be aligned. Government self-censorship over China's military actions in the South China Sea may thus be a result of political prudence, business pressure, Chinese pressure, or all of the above. Jian Yang, a Chinese-New Zealander serving as a Member of Parliament (MP), failed to disclose to the public that he is a member of the CCP, or that he studied and served with Chinese military intelligence for fifteen years before emigrating.⁶⁰ Such are New Zealand's democratic protections that although he has been removed from several boards and committees, he continues to serve as an MP. Chinese interest groups and businesses, backed by the CCP, make significant political donations and offer directorships to retired politicians.⁶¹ New Zealand's campaign finance laws allow for anonymous donations from both domestic and foreign sources. During the last six years, over 80% of the donations to New Zealand's two largest political parties were from anonymous sources.⁶²

Another arm of China's foreign influence apparatus is the network of Confucius Institutes, which have established partnerships with hundreds of universities around the world. Confucius Institutes have been established at New Zealand universities in Auckland, Wellington, and Christchurch.⁶³ These organizations do not teach for-credit courses; rather their role is to teach Chinese language, culture, and history to tertiary students and the wider community. While these appear to be benign goals, commentators have raised concerns about the potential for Confucius Institutes to exert undue influence over academics or student bodies, noting that host universities receive funding from Beijing.⁶⁴ Liu Yunshan, China's Minister of Propaganda in 2010, emphasized the contribution that these organizations make to China's global propaganda

efforts.⁶⁵ Some universities that host Confucius Institutes have been accused of self-censorship over issues that are sensitive to the CCP.⁶⁶ They present a CCP-approved version of Chinese history and culture, including core issues such as human rights, the suppression of Uighur populations, and sovereignty over Tibet and Taiwan. At a time when both the public and private sectors recognize a need to grow public awareness about Chinese culture, Confucius Institutes are performing a function that universities are not resourced to fulfil, albeit in a way that is intended to garner support for the CCP's party line.

China also targets tertiary institutions by sending PLA scientists and doctoral students to study areas of science and technology which have military or dual-use applications. This practice is described in China as “picking flowers in foreign lands to make honey in China.”⁶⁷ These students are often directed to conceal their military background by providing false or misleading information on their visa applications. China has established close relationships with hundreds of universities based on collaborative research and Chinese funding. While New Zealand is not one of the top destinations for this, the issue came to light in 2018 when a Chinese PhD student at the Auckland University of Technology was investigated for conducting research into 5G wireless technology that has military applications.⁶⁸ Several of New Zealand's universities have established partnerships with Chinese companies that are understood to have links with the PLA. New Zealand does have legislation in place which bans universities from developing technology with a military end use unless authorization is gained from the Secretary of Foreign Affairs and Trade.⁶⁹ However, collaborative research and technology transfer may play a partial, unobvious role in China's military modernization.

Australia, the United States, and Canada have taken action to prevent foreign influence over their democratic institutions. Australia instituted sweeping legislation in 2018 to protect

against foreign influence operations.⁷⁰ While the legislation was drafted in response to concerns raised by Australian intelligence about Chinese actions in particular, it addresses foreign rather than Chinese interference. The United States Congress introduced similar legislation in June 2018, with some notable differences. The “Countering the Chinese Government and Communist Party’s Political Influence Operations Act” recognizes China’s use of sharp power and requires the United States government to implement a number of measures to curtail Chinese influence operations.⁷¹ Unlike Australia, the American legislation targets China directly. However, it spells out a clear distinction between Chinese nationals and the state, and includes provisions to protect Chinese nationals in America from intimidation and surveillance by the Chinese government. Canada introduced legislation in 2018 to protect against foreign interference in national elections.⁷² This followed from a report released by Canada’s Communications Security Establishment, which found that the 2015 federal election had been targeted by low-level cyber-attacks.⁷³ The legislation bans foreign entities from spending money to influence Canadian elections. Political advertisements are required to carry identifying taglines, and media platforms including social media are prohibited from accepting election advertisements from foreign entities.⁷⁴

Following these examples, New Zealand should implement a package of legislative reforms to protect against foreign political interference. This should include a new ministerial portfolio that is responsible for coordinating protective measures across a range of government departments and state sector functions, including defense, foreign affairs and trade, customs and police, primary industries, education, internal affairs, and the intelligence community. Political donations from foreign and anonymous sources should be banned. Persons or organizations that engage in political lobbying on behalf of a foreign state should be required to register as foreign agents. The use of subversion or coercion to influence the political process should be proscribed

under New Zealand's espionage legislation. Confucius Institutes and other informational apparatus that represent foreign governments should also be required to register as foreign agents, and the government should give consideration to removing them from publicly-funded facilities such as university campuses. Media outlets, business forums, and community groups such as United Front organizations should likewise be required to declare any links to foreign governments and register as foreign agents if applicable. New Zealand should also take active measures to protect expatriate populations and foreign tertiary students from surveillance, influence, and coercion by their home states.⁷⁵ Finally, New Zealand should review its tertiary funding model, which has led under-resourced universities to seek corporate partnerships and foreign funding to bolster their finances.

Preserving New Zealand's Economic Base

New Zealand continues to support China's economic programs through its support to the Asian Infrastructure Investment Bank (AIIB) and BRI. This is a logical continuation of New Zealand's policy of pursuing closer economic ties with China and promoting economic development throughout the Asia-Pacific region. Trade between the two countries tripled during the ten years following the implementation of the 2008 FTA. China is now New Zealand's largest export market and trading partner, and New Zealand achieved a NZ\$3.6 billion surplus in its trade with China for 2017.⁷⁶ While New Zealand should continue to benefit from its close economic ties with China, the government should also recognize the risks inherent in the trade relationship. In 2014, dairy prices in New Zealand fell by 60% as a result of China stockpiling milk powder.⁷⁷ A number of farms were driven out of business, resulting in an increase in rural land sales and attendant decrease in property prices. In the same year, Chinese investments in farmland increased markedly, making Chinese investors the largest foreign buyers of New

Zealand real estate in 2014.⁷⁸ While it has not been established that China deliberately manipulated New Zealand's property market, this shows the extent to which New Zealand's economy is in thrall to Chinese market forces. This lends gravity to the threat posed by the PRC's use of corporate power and trade retaliation in pursuit of its national strategic objectives.

Among other states, the United Kingdom has begun to apply closer scrutiny to foreign investments, following concerns over China's penetration into British infrastructure. The United Kingdom's Department for Business, Energy and Industrial Strategy has proposed legislation to limit foreign investment in critical infrastructure.⁷⁹ The National Security and Infrastructure Investment Review was published in October 2017, partly in response to concerns about a Chinese company's ownership of a 30% stake in the Hinkley Point nuclear power plant.⁸⁰ While it emphasizes the United Kingdom's commitment to open markets and the importance of foreign investment, the report states that "we need to be alert to the risk that having ownership or control of critical businesses or infrastructure could provide opportunities to undertake espionage, sabotage, or exert inappropriate leverage."⁸¹ The review proposes a range of short and long-term national security reforms. The proposed short-term legislation gives the government greater scope to examine and intervene in corporate mergers that involve military, dual-use, and high technology sectors. Proposed long-term reforms would give the government greater scrutiny over transactions and foreign investment across a broader range of transactions that may potentially affect national security, or which fall within a set of essential economic functions.

Chinese investment and the BRI offer immense opportunities to develop new infrastructure and open up new trade links across Eurasia and the Indo-Pacific. However, some states have come to reject Chinese investment deals for a number of reasons. China's state communications company, Huawei, has been denied access to 5G networks in a number of

states, including New Zealand, due to concerns about the integrity of its systems.⁸² Larger infrastructure projects have cost more than expected, while China's practice of exporting labor rather than employing local contractors has limited the benefits to host nations.⁸³ Other investments such as ports and airports in Sri Lanka, Pakistan, and Australia have proved to be unprofitable. This has given rise to suspicions that these projects have been selected for their geostrategic, rather than commercial value.⁸⁴ Finally, commentators have levelled allegations that China has engaged in "debt-trap diplomacy" by offering huge investment loans to developing countries that are unable to meet their repayments.⁸⁵ In the last two years, a number of states including Malaysia, Pakistan, Nepal, and Sierra Leone have cancelled Chinese infrastructure projects linked to the BRI citing concerns over national debt, especially in the wake of China's takeover of the Hambantota Port.⁸⁶

China has repeatedly demonstrated its willingness to impose diplomatic and economic costs on states that challenge its core interests or its employment of competitive strategies. As noted above, in 2018 the New Zealand government blocked a bid by Huawei to develop the national 5G network, citing security concerns raised by the Government Communications Security Bureau.⁸⁷ While the government did not specify the nature of its security concerns, the PRC recently adopted legislation that requires telecommunications companies to support Chinese military intelligence on demand.⁸⁸ This is another application of Chinese corporate power and contributes to Xi Jinping's goal to achieve greater military-civilian integration. The PRC retaliated against the Huawei ban by targeting the New Zealand tourism industry. Tourism is New Zealand's largest export earner, while China is its second largest international tourist market source after Australia.⁸⁹ The PRC delayed the announcement of the China-New Zealand Year of Tourism, which was to be launched in Wellington in February. CCP-backed media ran articles to dissuade Chinese citizens from travelling to New Zealand, while the Chinese

Consulate issued a travel advisory warning for New Zealand. This is a tactic that China has also recently employed against Canada following the arrest of Huawei's chief financial officer.⁹⁰

Hong Kong Airlines have now announced that they will withdraw services from New Zealand, although it is not clear whether this was influenced by the Huawei ban, or was purely a commercial decision.⁹¹ In February 2019, an Air New Zealand flight was denied a landing permit and turned back while en-route to Shanghai because the flight documentation included a reference to Taiwan.⁹²

New Zealand's economic base and infrastructure should be protected against unfair trade practices, opportunism, takeover of critical infrastructure, and trade retaliation. These protections should include broader governmental powers to monitor and intervene in foreign investment or corporate mergers with foreign companies. Industries that would warrant government oversight and intervention include those related to military, dual-use, and high technology research and applications. This would also include critical infrastructure such as power generation plants, utilities, ports and airports, railways, and communications infrastructure. Such transactions should be reviewed to determine the potential for espionage, sabotage, and inappropriate leverage. In doing so, it is important to remember that China has a long strategic planning horizon, grand aspirations for 2049, a growing stake in the South Pacific and Antarctica, and a policy of wielding corporate power in support of national strategic objectives. Chinese trade retaliation can be very effective in New Zealand, where it can be represented as a natural response to inept messaging and policy-making by the government. The government can mitigate the impact of Chinese trade retaliation by taking deliberate steps such as; promoting transparency and public discourse, further diversifying New Zealand's trading partners, and reducing the reliance on primary industries such as agriculture by providing greater incentives to invest in high end goods and services.

Promoting Stability within the South Pacific Region

New Zealand works closely with Australia to promote stability within the South Pacific region through diplomatic engagement, economic aid, humanitarian aid and disaster relief, and peacekeeping operations. This is both a pragmatic undertaking and a moral obligation on the two wealthiest states in the region. Regional instability can create conditions for increased migration, transnational crime, and humanitarian crises. China's strategic aims and its employment of competitive strategies in the South Pacific can frustrate the efforts of Australia and New Zealand. Based on its stance of non-interference in sovereign matters, China is willing to work with any nation, as long as they do not criticize China's policies and actions relating to its core strategic interests. Australia and New Zealand have voiced concern that China's "no strings attached" approach to engagement can exacerbate regional instability by supporting illegitimate regimes and fueling corrupt practices.⁹³ Following a military coup in Fiji in 2006, the Pacific Island Forum applied diplomatic pressure to isolate the new regime and encourage a peaceful transition to legitimate government.⁹⁴ These efforts were undermined by China, which was not only willing to engage with the military junta, but also sponsored an alternative regional platform that included Fiji and seven other Pacific Island nations, but not Australia and New Zealand.⁹⁵

More recently, the PRC has increased its efforts to build influence in the South Pacific through infrastructure development loans. China is increasingly seen as the preferred investment partner by Pacific Island leaders who are put off by New Zealand's and Australia's insistence on the promotion of democracy, governance, and individual rights.⁹⁶ China's investment in the South Pacific increased sharply over the last decade, and it is now the second largest donor after Australia. However, Chinese development funds typically come in the form of loans rather than grants. According to the International Monetary Fund and Asian Development Bank, six Pacific

Island states are at high risk of debt distress, with another four countries rated at a moderate risk.⁹⁷ Chinese investment in the region is thus a significant potential driver of instability, as isolated island nations take on significant levels of national debt that they are unlikely to be able to repay. A senior Australian politician has spoken out against China's infrastructure development projects in the Pacific, describing them as "useless buildings," "roads to nowhere," and "white elephants."⁹⁸ China's close relationship with Papua New Guinea (PNG) was an ostentatious display during the Asia Pacific Economic Community (APEC) forum at Port Moresby in 2018.⁹⁹ Xi Jinping has incorrectly labelled China as PNG's largest development partner, while Chinese aid and development loans dovetail with China's exploitation of PNG's natural resources. China accounts for the majority of PNG's timber exports, both legal and illegal, which has driven unsustainable logging practices and deforestation.¹⁰⁰

China's relationship with Vanuatu provides an example of how the PRC is pursuing its strategic objectives in the South Pacific. Vanuatu, which recognizes the PRC, was also the first state to support China's territorial claims in the South China Sea.¹⁰¹ Vanuatu is rated as having a moderate risk of debt distress, and has accepted hundreds of millions of dollars in Chinese development loans in recent years.¹⁰² The island nation has a population of 270,000 and foreign debt worth US\$440 million, nearly half of which is owed to China.¹⁰³ Chinese development projects in Vanuatu have included government buildings, a convention center, a major sports stadium, an education facility, and an official residence for the Vanuatu president. China has provided military aid to the island nation, such as the donation of fourteen military vehicles in 2017.¹⁰⁴ Beijing also funded the development of Vanuatu's Luganville wharf, which is now the largest in the South Pacific, and rated to accept cruise liners.¹⁰⁵ The wharf's geostrategic location, large investment, low profitability, and potential military application all lend the project a striking resemblance to the Hambantota Port acquisition in Sri Lanka. Australian intelligence

services announced that Chinese and Vanuatu officials have discussed the development of a PLA military base in Vanuatu, although both states deny this claim.¹⁰⁶ In Vanuatu, as it did in Sri Lanka, China appears to be employing debt trap diplomacy and vanity projects to pursue its geostrategic ambitions.

New Zealand has taken some steps to play a leadership role in the South Pacific. In 2018, the Ministry of Foreign Affairs and Trade unveiled its Pacific Reset strategy by which it seeks to re-establish New Zealand's leadership position in the Pacific through an increased investment in foreign aid and diplomatic efforts.¹⁰⁷ Without naming China specifically, the minister acknowledges that external stakeholders with "deeper pockets than us" are building influence over Pacific Island states.¹⁰⁸ New Zealand maintains defense ties with a number of Pacific Island states, with whom it has undertaken peacekeeping operations, humanitarian aid and disaster relief operations, and security cooperation. New Zealand also accepts military officers from Pacific Island states on military career courses through its Mutual Assistance Program. New Zealand's efforts have been coordinated with Australia, which has unveiled a plan that involves greater diplomatic engagement, military support, aid, and investment loans.¹⁰⁹ More can be done to challenge China's employment of competitive strategies and sharp power techniques in the South Pacific. While New Zealand welcomes greater Chinese engagement in the region, the government has been reluctant to speak out against Chinese actions that are likely to drive instability, increase debt to unsustainable levels, and undermine sovereignty or effective governance.

New Zealand should coordinate its messaging with Australia to challenge China's influence in the South Pacific. New Zealand and Australia provide the Pacific Island nations with alternatives to Chinese investment and military engagement, but these efforts are largely reactive

in nature and operate at a disadvantage.¹¹⁰ Neither country has the resources to out-compete China on its own terms, while the imperative to promote effective governance and sustainable growth saddles the two countries with constraints not felt by the PRC. This makes China the preferred investment partner for a growing body of Pacific Island nations. Deterred perhaps by fear of Chinese trade retaliation, both governments have been silent about the reasons for their renewed focus on the South Pacific.¹¹¹ This reticence benefits China more than it does New Zealand and Australia, by allowing the PRC to shape the regional narrative. By contrast, both states have been willing to voice their concerns about China's clear violations of international law in the South China Sea.¹¹² This has occurred through official policy statements, as well as a relatively muted joint statement issued by the two prime ministers.¹¹³ Countering China's narrative is the crucial missing component of New Zealand's Pacific Reset and Australia's "Step Up to the Pacific" campaigns. The New Zealand government's reluctance to bear the economic costs of Chinese trade retaliation is understandable. However, it can help to shape the regional narrative through public discourse, issuing joint statements with Australia, and supporting statements in multinational platforms such as the Pacific Islands Forum, Association of South East Asian Nations, and the United Nations.

Towards a National Security Strategy

The challenges posed by China bring to light a key deficiency in New Zealand's governing process: the lack of a national security strategy. Although individual ministries and departments periodically release strategic white papers, New Zealand does not produce and publish a national security strategy document. National Security Policy is developed within the Department of the Prime Minister and Cabinet (DPMC), although this is not released to the public and appears to be a reactive process of identifying and mitigating specific threats.¹¹⁴ Alan

Stolberg identifies three primary reasons why a national security strategy document plays a valuable role in the national pursuit of foreign policy objectives: resourcing, coordination, and communication.¹¹⁵ Resourcing ensures that strategic aims are prioritized and funded accordingly. Coordination ensures that a whole of government approach is adopted, with an appropriate degree of vertical and horizontal integration. Communication is essential for both government departments and the public to understand the government's national aspirations, the challenges it perceives, and the approach it will take to overcome these challenges. This aspect of national strategy is sorely lacking in New Zealand, as successive governments have been reluctant to articulate the challenges to sovereignty, stability, and prosperity posed by a resurgent China. For example, without a national security strategy document, the limited actions taken by the current government, and China's disproportionate response, were thus devoid of context and consequently prone to become mischaracterized in public discourse.¹¹⁶

Based on a reading of bipartisan government policies over the last two decades, Carol Abraham argues that New Zealand pursues the "twin outcomes of a high standard of living in a secure, globally interdependent economy and an international role as a trusted partner and interlocutor."¹¹⁷ This description provides a starting point from which overarching policy objectives might be determined. Like China, New Zealand should formulate a strategic approach that best fits its values, interests, and geostrategic situation. New Zealand's small size, liberal democratic system of government, and heavy reliance on international trade all have a significant influence on how it pursues its strategic objectives. As a small state, New Zealand benefits from global institutions and the international rule of law. These serve to regulate the actions of larger powers and thus protect New Zealand's sovereignty and interests abroad.

New Zealand has the potential to play more of a leadership role within the international community. As a wealthy and stable democracy, New Zealand has the resources and mandate to make a positive contribution to global peace and stability, and has done so continually for several decades now. Additionally, as a relatively non-aligned state, New Zealand can build on its reputation for pursuing an independent and values-driven foreign policy. As the global system enters another era of great power competition, New Zealand can play a role in preserving the sovereignty and independence of Pacific Island nations, while serving as an example for other small states around the world. Thomas Mahnken argues that “small states are able to impose diplomatic and political costs upon their adversaries... by bringing together like-minded states to oppose coercion. More importantly, they will need to undertake methods to mitigate the costs that others can impose upon them.”¹¹⁸ New Zealand’s ability to rally other small states around the rules-based international order and resist the growing systemic pressure to bandwagon with or balance against aggressive superpowers may become a significant source of national power.

CONCLUSION

Although New Zealand has enjoyed substantial benefits from its close economic ties with China, the relationship is not without risk. China's multifaceted interventionist actions are challenging the rules based international order upon which New Zealand relies for its security, prosperity, and independence. China's strategic approach, which is characterized by competition, three-dimensional integration, and the co-optation of private enterprise, has become increasingly aggressive since the accession of Xi Jinping. This poses a number of challenges which successive New Zealand governments have been reluctant to address. China's use of sharp power threatens to erode New Zealand's democratic institutions. China's use of corporate power and its willingness to employ trade retaliation pose a threat to New Zealand's prosperity and independence. Within the South Pacific, China's employment of competitive strategies in pursuit of influence, resources, and military access are likely to exacerbate the drivers of regional instability. Meanwhile, government self-censorship gives China freedom to maneuver and allows it to control the regional narrative. New Zealand should adopt a comprehensive, cross-government defense of its sovereignty and values against the threat posed by China's increasingly aggressive and interventionist foreign policies. This new approach should bring together multiple elements of statecraft to protect New Zealand's democratic institutions, preserve its economic base, and support regional stability. New Zealand is not alone in facing up to this challenge, and a number of best practices can be drawn from other western democracies such as Australia, the United States, the United Kingdom, and Canada. This challenge demonstrates why small states need grand strategy. By formulating a national security strategy, New Zealand can build public awareness of the challenges it faces, articulate its goals, understand the character of its strategic approach, and make better use of its levers of national power.

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