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AN ANALYSIS OF THE FACTORS
INFLUENCING NEW ZEALAND'S TRADE WITH
CHINA: 1954 TO 1984

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ABSTRACT:

“Analysis of the Factors Influencing New Zealand’s Trade with China: 1954 to 1984”

In 2004 China became New Zealand’s fourth largest trading partner taking approximately 5% of New Zealand’s exports and 8% of New Zealand’s imports. This study analyses the economic and political background to the rise of China as a pivotal trading partner for New Zealand. The nature and pattern of New Zealand-China trade between 1954 and 1984 is examined with emphasis is given to factors that have assisted or hindered bi-lateral trade. Political factors are identified as the paramount influence on trade development and lead to the demarcation of three distinct periods of trading activity. Market forces, trade barriers, and transport issues are the other factors found to have influenced the pattern of trade between New Zealand and China over the subject period.

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LIST OF ABBREVIATIONS:

- AAFD: Cabinet files held at Archives New Zealand
- AATJ: Department of Trade and Industry files held at Archives New Zealand
- ABHS: Ministry of Foreign Affairs and Trade files held at Archives New Zealand
- AJHR: Appendices to the House of Representatives
- ANZUS Alliance: Australia, New Zealand, the United States of America
- BOP: Balance of Payments
- CCPIT: Commission of the China Council for the Promotion of International Trade
- CDV: Current Domestic Value
- CER: Closer Economic Relations (with Australia)
- Chinatex: China National Textiles Import-Export Corporation
- CIF: Cost Insurance and Freight
- CITIC: China International Trust and Investment Corporation
- CNCC: China National Chartering Corporation
- COCOM: Coordinating Committee for Multilateral Export Controls
- CORSO: New Zealand Council of Organisations for Relief Service Overseas
- COSCO: China Ocean Shipping Corporation
- CPNZ: Communist Party of New Zealand
- DTI: Department of Trade and Industry
- EA: Ministry of External Affairs files held at Archives New Zealand
- EEC: European Economic Community
- EMDTI: Export Market Development Taxation Incentive
- EU: European Union
- FOB: Free on board
- GATT: General Agreement on Tariffs and Trade
- GDP: Gross Domestic Product
- GSP: Generalised System of Preferences for tariffs
- H-O: Heckscher-Ohlin theory
- IC: Department of Industries and Commerce files held at Archives New Zealand
- IMF: International Monetary Fund
- JTC: Joint Trade Committee
- MFN: Most Favoured Nation status for tariffs

NAFTA: New Zealand Australia Free Trade Agreement
NPC: China Native Produce and Animal By-Products Import-Export Corporation
NZ: New Zealand
NZEIC: New Zealand Export Import Corporation
NZFP: New Zealand Forest Products
NZFS: New Zealand Forest Service
OECD: Organisation for Economic Cooperation and Development Factors Influencing
OPEC: Organisation of Petroleum Exporting Countries
PRC: Peoples Republic of China
RMB: Renminbi (translation means people's currency). The Yuan is the major denomination.
ROC: Republic of China (Taiwan)
SAP: Supporting Activities Programme
SCONZ: Shipping Corporation of New Zealand
US: United States of America
USSR: Union of Soviet Socialist Republics
WMC: Wool Marketing Corporation (of New Zealand)

1.0 INTRODUCTION:

1.1 RESEARCH QUESTION

In 1954 exports to the People's Republic of China¹ comprised just 0.01% of New Zealand's total exports while imports were 0.11% of the total. By 2004 the corresponding figures for exports and imports were 5.7% and 9.7%, making China New Zealand's fourth largest trading partner.² Such a high level of trade is impressive considering the significant long-running political, cultural, and economic differences between the two countries.³ Perhaps more impressive was the 2004 selection of New Zealand by the People's Republic of China (PRC) as the first country with which it will negotiate a Free Trade Agreement. The obvious question is how were the major historical differences overcome? On a more detailed level, what factors assisted New Zealand's trade with China, and what factors hampered it? This research aims to answer these questions and provide new insights into what is a highly important economic relationship by examining the formative period of the relationship between 1954 and 1984.

1.2 RESEARCH PARAMETERS

New Zealand's trade and general relations with China cannot but be affected by our collective pasts. But why has the period 1954 to 1984 been selected? Firstly, a 30 year period is sufficiently long to identify major trends in the trading relationship but not so long as to become unmanageable. From a Chinese perspective, the year 1954 represents the year that the Chinese Communist Party cemented its control over the whole of the Chinese mainland. It was also a year by which the Chinese economy had largely recovered from sustained periods of warfare, firstly with the Japanese, and then civil. From a New Zealand perspective, the year 1954 was the first full year in which the Korean War trade embargo on the PRC was lifted while 1984 stands out as a turning point in New Zealand's economic history. It was the year that the Fourth Labour Government swept into power and embarked on a series of unprecedented economic and social reforms whose breadth and depth is unlikely to be repeated. New Zealanders who can only

¹ For statistical and analytical purposes in this thesis, the People's Republic of China excludes the province of Taiwan and the special administrative regions of Hong Kong and Macau. The People's Republic of China is also sometimes referred to in Western literature as Mainland China, Communist China, or Red China.

² Statistics New Zealand, *Overseas Merchandise Trade*, Year ended December 2004.

³ Especially considering that New Zealand refused to recognise the People's Republic of China until 1972, some 23 years after its establishment.

recall New Zealand after 1984 would struggle to recognise many facets of the New Zealand economy and life in general that existed beforehand, while those that lived through the dramatic and sometimes traumatic changes recognised that their country had changed forever. From a trade perspective, 1984 was the end of an era in the New Zealand-China trading relationship. The protective cocoon of trade barriers that had protected New Zealand exporters since 1938 was dismantled, forcing New Zealand's many inefficient economic agents to compete on much more even grounds with overseas producers. The result was an unrelenting quest for efficiency and competitiveness in resource use, in both the public and private sectors. Government Departments and Enterprises that had been heavily involved in the development of trading relations between the two countries were restructured, downsized, merged, or even abolished. Their demise was also largely the demise of the detailed filing systems and information sources that accompanied them. For these reasons, 1984 is both a convenient and necessary place to terminate the research period.

Despite China only comprising approximately 2.5% of New Zealand's exports and 0.7% of imports in 1984, much of the groundwork that has propelled China to its lofty position as New Zealand's fourth largest trading partner was laid in the period 1954 to 1984. Coincidentally, this formative period is relatively neglected in terms of New Zealand's trade and economic history because it is overshadowed by the sweeping economic reforms of the Fourth Labour government. Turning back to New Zealand-China trade, it is well known that development of diplomatic recognition in 1972 enhanced two-way trade but it is often assumed that this was the starting point of significant trade rather than the culmination of years of behind-the-scenes work by both government agencies and private organisations. In addition, diplomatic recognition was not in itself sufficient for the thriving trade of recent times – it was merely the spark which ignited the wick of a long fuse. Accordingly, the period 1954-1984 not only provides fertile ground for research, but also a period of relative political and economic stability to enable meaningful and economic analysis to be conducted.

1.3 RESEARCH METHODOLOGY

The research approach to answer the research question is outlined in section 3.0 Methodology. In broad terms, existing literature on New Zealand-China trade and international trade is introduced before the New Zealand and China economies are analysed to identify areas of potential complementary trade. The trading histories and trends of both countries are then

introduced, together with the external and internal pressures and policies influencing the trading relationship, relevant cultural issues and problems, and finally individual organisations involved in New Zealand-China trade over the study period. Next a high level statistical analysis of New Zealand-China trade is conducted to highlight distinctive periods and trends. Three distinct periods are identified: (i) a period of back-door trading from 1954 until the establishment of diplomatic relations in late 1972; (ii) a period of front-door trading from 1973-78; and (iii) a period of open-door trading from 1979-84 following economic reforms in China. These three periods are then examined in detail using mostly primary sources to identify factors that assisted and hindered the development of trade between New Zealand and China. It is worth noting that the boundaries of all three periods were governed by political changes in either China or New Zealand.

1.4 FACTORS THAT ASSISTED OR HINDERED NEW ZEALAND-CHINA TRADE

This leads to the overriding theme of the thesis - that political factors played a huge role in the development of New Zealand-China trade. Chinese leaders routinely made the point that politics was inseparable from economics. Moreover, the highly centralised nature of the New Zealand economy meant that it too was significantly influenced by political decisions. As a result of these traits, it is not difficult to identify the influence of politics in New Zealand-China trade. In the back-door period, the dual Chinese political upheavals of the Great Leap Forward and Cultural Revolution proved a significant disruptive influence on Chinese foreign trade, which inevitably flowed through to New Zealand-China trade. Similarly, New Zealand's support of the United States in the Korean and Vietnam wars did little to engender friendly economic relations with the PRC. However, things began to change as US-Sino relations warmed in the early 1970s. In 1972 it was political events in New Zealand that dictated the development of trade - the election of the Third Labour Government dramatically sped up the process of diplomatic recognition, an event that fundamentally changed the New Zealand-China trade relationship. Government-to-government contact paved the way for the conclusion of a Most Favoured Nation trade agreement and saw the initiative for trade development shift fundamentally from private business to government agencies, most notably the Department of Trade and Industry and the New Zealand Export-Import Corporation. The Joint Trade Commission forum and ministerial exchanges also proved extremely effective in developing trade. The combination of business and government initiatives and hard work on both sides of the Pacific saw New Zealand-China trade expand dramatically from 1972 to 1984.

Despite the predominance of political factors in the development of New Zealand-China trade, economic factors were present and influential in all three periods. But they were only allowed to come to the fore when political dictates allowed. The pragmatic economic reforms of Deng Xiaoping in the open-door period provided such conditions. Economic motivations were allowed to play a greater role than in any period in the history of the PRC to that time. In particular, the establishment of four special economic zones and the opening of China's borders to foreign investment proved a major draw-card to many New Zealand businesses that had not previously been active in the China trade. Unfortunately the forecast riches to be reaped proved largely illusory while the risks of doing business in China were very real. New Zealand's exports to China gradually diversified but remained largely constrained to the traditional exports of wool and dairy supplemented by other raw materials. China's exports underwent a similar diversification but were dominated by textile products. Nonetheless, the initiative for developing New Zealand-China trade had switched back to the private sector in the open-door period.

While political factors played a huge role in the expansion of trade, there were several other factors that played a significant role in limiting trade. Of these the lack of shipping and the trade barriers imposed by both countries were the most significant. Shipping difficulties threatened to hamstring the burgeoning trade and were only overcome by the dedicated efforts of officials and businessmen on both sides of the Pacific. On the import side, poor marketing and the small size of the New Zealand market hampered Chinese exports to New Zealand. The other major hurdle was New Zealand's import licensing regime, but its effects were eased by the New Zealand Government granting special trade licences and the gradual scaling back of the system in favour of tariffs in line with New Zealand's GATT obligations.

The overriding conclusion of the thesis is that political factors thoroughly permeated New Zealand-China trade between 1954 and 1984. New Zealand's close alignment with United States foreign policy significantly hindered trade with China in the back-door period. Diplomatic recognition marked the start of the front-door period in which New Zealand received favourable treatment from the PRC. In many ways the development of trade with China after 1972 provided a model of how government-to-government contact could be utilised to develop trade between two very differently organised economies. It wasn't until Deng Xiaoping's reforms in the open-door period that economic factors pushed political influences to the back seat. But by this stage, relations between the two countries were so warm and mutually

respectful that differences were discussed openly and invariably resolved to the satisfaction of both countries. As a result, the growth of New Zealand-China trade over the subject period exceeded the growth in both country's exports and imports by a considerable margin. The exemplary political relations established between 1972 and 1984 also provided ideal conditions for the PRC becoming New Zealand's fourth largest trading partner by 2004. China is undoubtedly one of New Zealand's greatest trade success stories.