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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.

2.0 LITERATURE REVIEW:

2.1 LITERATURE ON SINO-NEW ZEALAND TRADE

Surprising little has been written about the New Zealand's trade with China over the period 1954-1984, given China's meteoric rise as a trading partner for New Zealand. However, the potentially useful literature that does exist falls into one or more of the following categories:

- (i) New Zealand general or economic histories
- (ii) Chinese general or economic histories
- (iii) Histories of New Zealand's international relations
- (iv) Histories of China's international relations
- (v) New Zealand-China bilateral relations

There are many reasons for the lack of a detailed examination of New Zealand's trade history with China for much of the post 1945 era, not least of which is New Zealand's high dependency on traditional allies, mainly the United Kingdom and the United States of America. New Zealand was also not immune from the anti-communist stance that pervaded the Western world during the cold war. Anxious not to upset the United States on which New Zealand had become reliant for security and protection, successive governments adopted a policy of non-recognition of Communist China in favour of the Nationalists in Taiwan. Consequently, it is understandable that there was relatively little trade with China and therefore relatively little literature on the trading relationship.

Even when interest in our economic relations with China began to pick up, published literature on the New Zealand-China economic relations remained patchy. It was not until the 1990s and the emergence of regional economic groupings such as APEC that significant amounts of literature on the New Zealand-China relationship were published. Moreover, this literature looked more towards the future of the relationship rather than to its foundations and history. Accordingly, there is a significant gap to be filled by research based principally on primary information sources. Despite the overall paucity, the most important literature from the five potential categories will be examined in turn before the economic theories of international trade are introduced.

2.1.1 NEW ZEALAND GENERAL AND ECONOMIC HISTORIES

International trade does not occur in a vacuum. Economic policies that impact on international trade often have political and social factors as their point of origin. For this reason, general and economic histories of New Zealand provide valuable background to New Zealand-China trade. Until relatively recently New Zealand had relatively few academic general histories. Keith Sinclair's *A History of New Zealand*⁴ of 1959 (and subsequently updated) and Bill Oliver's *The Story of New Zealand*⁵ remained the main academic works until 1981 when *The Oxford History of New Zealand*,⁶ edited by Bill Oliver and Bridget Williams was published. Significant strides were made in the 1990s with the publication of an expanded and updated version of *Oxford History of New Zealand*,⁷ this time edited by Geoffrey Rice, and James Belich's *Making Peoples*.⁸ Even more recently, Belich's *Paradise Reforged*⁹ and Michael King's *The Penguin History of New Zealand*¹⁰ have advanced the knowledge base. However, with the exception of the *Oxford History of New Zealand*, these works tend to concentrate on social and political developments rather than economic ones, and are therefore of limited use in examining New Zealand's trading relations.

Fortunately, New Zealand economic history post World War II has been well covered through the work of Gary Hawke and Brian Easton.¹¹ Hawke's *The Making of New Zealand*¹² covers the period 1890 to 1968 and remains the most accessible and authoritative source on the period. Although there is no specific mention of China, its potential as a market for diversifying exports is implicit. His chapter titled 'Economic Trends and Economic Policy, 1938-1992' in *The Oxford History of New Zealand*¹³ is also excellent for its concise survey of the major trends and the importance of the protection measures introduced by the first Labour government in 1938.

⁴ Sinclair, K. (1959). *A History of New Zealand*, London: Oxford University Press.

⁵ Oliver, W.H. (1960). *The Story of New Zealand*, London: Faber.

⁶ Oliver, W.H. with Williams, B.R. (eds). (1981). *The Oxford History of New Zealand*, Wellington: Oxford University Press.

⁷ Rice, G.W. (ed). (1992). *The Oxford History of New Zealand, Second Edition*, Auckland: Oxford University Press.

⁸ Belich, J. (1996). *Making peoples : a history of the New Zealanders : from Polynesian settlement to the end of the nineteenth century*, Auckland: Penguin Press.

⁹ Belich, J. (2001). *Paradise Reforged : a history of the New Zealanders from the 1880s to the year 2000*, Auckland: Penguin Press.

¹⁰ King, M. (2003). *The Penguin History of New Zealand*, Auckland: Penguin Books (NZ) Ltd.

¹¹ New Zealand economic history prior to WWII has been covered by Condliffe, J.B. (1930). *New Zealand in the Making: A Survey of Economic and Social Development*, London: Allen & Unwin.

¹² Hawke, G.R. (1985). *The Making of New Zealand: An Economic History*, Cambridge: Cambridge University Press.

¹³ Rice, G.W. (ed.). (1992). *The Oxford History of New Zealand, Second Edition*, Auckland: Oxford University Press.

Taking a more technical approach, Brian Easton's *Stormy Seas: The Post-War New Zealand Economy*¹⁴ seeks to explain New Zealand's relatively poor economic performance since World War II. Easton provides many useful insights into the structural changes that occurred in the New Zealand. Easton's writings are most useful because they often provide a perspective that differs significantly from the 'conventional wisdom' of commentators and politicians.

Another useful work is W.B (Bill) Sutch's *The Quest for Security in New Zealand: 1840 to 1966*.¹⁵ Sutch's work takes on additional importance given his role as Secretary of the Department of Industries and Commerce from 1958 to 1965, a pivotal position for the regulation and development of the New Zealand economy. Sutch unashamedly favoured interventionist and protectionist policies that are often termed import-substituting industrialisation. Full employment was the paramount goal in Sutch's work and in his view this would be achieved by targeted economic controls and the diversification of New Zealand's productive base. Above all, he was highly critical of previous governments and believed that their 'colonial' policies had contributed to New Zealand's economic and foreign policy dependence on United Kingdom and the United States. In his view, the New Zealand had to develop and adhere to a more independent and self-sufficient path if the living standards of New Zealanders were to be maintained or enhanced.

The United Kingdom's application to join the European Economic Community represented the greatest peacetime threat to the New Zealand economy in its short history. In this context it is hardly surprising that the country was flooded with publications and opinions on what this meant for New Zealand. It is not practical to detail all of these publications here, suffice to say many of them ably highlighted the structural weaknesses of New Zealand's economy and with almost universal agreement that diversification of export markets was paramount for New Zealand's economic future.¹⁶

There are also a number of more specific writings. Ralph Lattimore and Paul Wooding's chapter 'International Trade' in *A Study of Economic Reform: The Case of New Zealand*,¹⁷ provides an excellent summary and analysis of New Zealand's international trade policy from 1888 to 1996. While concentrating on developments after 1984, it describes the period up to 1979 as one of a

¹⁴ Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press.

¹⁵ Sutch, W.B. (1966). *The Quest for Security in New Zealand 1840 to 1966*, Wellington: Oxford University Press.

¹⁶ For examples see works by F.W Holmes, B. Easton, and B. Philpott.

¹⁷ Siverstone, B. & Boallard, A. & Lattimore, R. (eds.). (1996). *A Study of Economic Reform: The Case of New Zealand*, Amsterdam: Elsevier Science B.V.

strong import substitution and the period 1979-84 as one of cautious reform. The other chapters in this publication are also useful because they provide a robust analysis of the post-1984 reforms on the New Zealand economy in comparison to earlier reforms. Peter Lane and Paul Hamer, *Decade of Change: Economic Growth and Prospects in New Zealand 1960-70*,¹⁸ provides a good summary of the major trends and issues facing the economy in the 1960s. Lane's chapter on external trade is particularly interesting for its discussion on trends in New Zealand's trade over the decade, including protection measures. Sir Frank Holmes has also published extensively on specific issues, particularly New Zealand's economic relationship with Australia and the Pacific¹⁹.

In terms of New Zealand's trade policy, Paul Wooding's chapter 'Liberalising the International Trade Regime' in *Economic Liberalisation in New Zealand*²⁰ provides a good introduction to the New Zealand's historical protection measures. Duncan, Lattimore, and Bollard's 1992 monograph *Dismantling the Barriers: Tariff Policy in New Zealand*²¹ details key changes to New Zealand's tariffs, particularly after 1984. On a more detailed level, Peter Lane's PhD thesis examines the nature and effects of New Zealand's protection measures from 1938 to 1968 and concludes that: 1) domestically produced goods were generally not price competitive; 2) growth in New Zealand industry and the economy as a whole was independent of protection measures, although the protection measures may have been a large determinant on the direction of growth; 3) protection was unsuccessful in resolving New Zealand's balance of payments problems; and 4) the protection measures selected by New Zealand involved significant bureaucratic costs.²² A complete picture of New Zealand economic policy as it affected New Zealand-China Trade can be achieved by augmenting these sources with various other reports and research on specialist areas.

¹⁸ Lane, P. & Hamer, P. (eds.). (1973). *Decade of Change: Economic Growth and Prospects in New Zealand*, Wellington: A.H. & A.W. Reed Ltd.

¹⁹ Some examples include Holmes, F.W. (1978). *Australian relationships with New Zealand*, Wellington: New Zealand Planning Council, Castle, L.V & Holmes, F.W. (eds.). (1976). *Co-operation and development in the Asia-Pacific region: relations between large and small countries: papers and proceedings*, Tokyo: Japan Economic Research Centre. Holmes, F.W. (1976). *The Impact of Inflation*, Wellington: Victoria University Press, Holmes, F.W. (1962). *Planning for growth in a freer economy*, Wellington: Whitcombe & Tombs.

²⁰ Bollard, A. & Buckle, R. (eds.). (1987). *Economic Liberalisation in New Zealand*, Wellington: Port Nicholson Press.

²¹ Duncan, I. & Lattimore, R. & Bollard, A. (1992). *Dismantling the Barriers: Tariff Policy in New Zealand*, Wellington: New Zealand Institute of Economic Research.

²² Lane, P.A. (1974). 'An examination of the methods and effects of restricting external trade with particular reference to the New Zealand experience (1938-68)', PhD Thesis, Palmerston North: Massey University. It should however be noted that Lane emphasizes that the relative success of the protection measures comes down to value judgements rather than objective analysis in many cases.

2.1.2 CHINESE GENERAL AND ECONOMIC HISTORIES

The language problem restricts the author to English histories, but this potential limitation is alleviated by the many general and economic histories of the People's Republic of China. While not all of these can be discussed here, some of the useful works are introduced. Foremost among these is Maurice Meisner's *Mao's China and After*²³ which provides an excellent background to the proclamation of the PRC and the underlying ideologies along with the major developments since proclamation. On the economic side, Christopher Howe's *China's Economy: A Basic Guide*²⁴ is an excellent introduction to China's economy before 1949 and the subsequent transformation. Angus Maddison's *Chinese Economic Performance in the Long Run*²⁵ provides a much needed historical context and includes many invaluable data series. Other useful contributions are David Pyle's *China's Economy*²⁶ and Chu-yuan Cheng's *China's Economic Development: Growth and Structural Change*²⁷ which provides an excellent thematic approach up to its publication year of 1982. In terms of China's forestry, an area with significant potential for New Zealand exporters, S.D Richardson's 1966 survey titled *Forestry in Communist China*²⁸ was a remarkable piece of work for its day and remains invaluable. In terms of exporting and selling to China, Massimino's *How to Sell to the People's Republic of China*²⁹ highlights some of the potential issues facing New Zealand exporters.

There are also a number of informative publications on China's trade. Lian-Lin Hsiao's *China's Foreign Trade Statistics 1864-1949*³⁰ remains the pre-eminent source of statistics and information on pre-communist era trade. On the pre-modernisation period, Gene Hsiao's *The Foreign Trade of China*³¹ provides a good overview of the policy and practice up to 1977. *China Trade: Prospects and Perspectives*³² covers the four modernisations and Xiao-guang Zhang's *China's Trade Patterns and International Comparative Advantage*³³ takes a more technical approach to analysing the driving forces behind China's trade in the modern era. The

²³ Meisner, M. (1999). *Mao's China and After*, 3rd Edition, New York: The Free Press.

²⁴ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd.

²⁵ Maddison, A. (1998). *Chinese Economic Performance in the Long Run*, Paris: OECD.

²⁶ Pyle, D.J. (1997). *China's Economy*, London: Macmillan Press Ltd.

²⁷ Cheng, C. (1982). *China's Economic Development*, Boulder, Colorado: Westview Press Inc.

²⁸ Richardson, S.D. (1966). *Forestry in Communist China*, Baltimore: The Johns Hopkins Press.

²⁹ Massimino, S.T. (1980). *How to Sell to The People's Republic of China*, London: Oyez Publishers.

³⁰ Hsiao, L. (1974). *China's Foreign Trade Statistics, 1864-1949*, Cambridge, Massachusetts: Harvard University Press.

³¹ Hsiao, G.T. (1977). *The Foreign Trade of China*, London: University of California Press.

³² Buxbaum, D.C. & Joseph, C.E. & Reynolds, P.D. (eds.). (1982). *China Trade*, New York: Praeger Publishers.

³³ Zhang, X. (2000). *China's Trade Patterns and International Comparative Advantage*, London: Macmillan Press Ltd.

combination of these sources provides a good base from which to analyse China's foreign trade when augmented with primary sources.

2.1.3 HISTORIES OF NEW ZEALAND'S INTERNATIONAL RELATIONS

A useful starting point is Richard Kennaway's *New Zealand Foreign Policy 1951-72*³⁴ which details developments in the area up to 1972 and includes a chapter on New Zealand's policy towards China. His central argument is that New Zealand's policy towards China was strongly influenced by New Zealand's relations with the United States, an argument that has merit given New Zealand's period of non-recognition closely mirrored that of the United States. The other major consideration for both National and Labour governments was the question of what to do about relations with Taiwan. New Zealand's policy remained one of developing and improving official relations and private relations with the Peoples Republic of China. This position was fully outlined and argued by Prime Minister Sir Keith Holyoake's *New Zealand and China*.³⁵ Kennaway, John Henderson, and Keith Jackson edited *Beyond New Zealand: The Foreign Policy of a Small State*³⁶ which included a small section of four pages on New Zealand-China relations, concentrating on the changing perception of China from a New Zealand perspective across the decades, mainly from a defence perspective. It is argued that during the 1950s China was viewed as the latest victim of communist expansion, in the 1960s as an aggressive and expansionistic communist country, while in the 1970s China became the source of much interest and admiration as a result of its economic transformation. *Beyond New Zealand II: Foreign Policy into the 1990s*³⁷ essentially updated the former in light of the end of the cold war and the breakdown of the ANZUS treaty.

Writing in 1971, Ian Templeton emphasised the Taiwan question in New Zealand's relations with China.³⁸ He believed that New Zealand was genuinely concerned for Taiwan as a fellow small country whose interests were largely being subjugated to those of the much larger People's Republic of China. Moreover, he suggested that New Zealand's diplomatic recognition would have occurred much earlier than 1972 had the Communist Chinese been prepared to be more

³⁴ Kennaway, R. (1972). *New Zealand Foreign Policy 1951-1971*, Wellington: Hicks Smith & Sons Limited.

³⁵ Holyoake, K.J. (1971). *New Zealand and China*, Wellington: Ministry of Foreign Affairs.

³⁶ Henderson, J. & Jackson, K. & Kennaway, R. (eds). (1980). *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen Publications (NZ) Limited.

³⁷ Kennaway, R. & Henderson, J. (eds). (1991). *Beyond New Zealand II: Foreign Policy into the 1990s*, Auckland: Longman Paul Limited.

³⁸ Templeton, I. (1971). 'New Zealand and China: A Perspective', *Pacific Community*, vol.3, October 1971, pp.87-99.

flexible and provided some avenue for a degree of autonomy and recognition for Taiwan. Templeton foresaw the substantial change in New Zealand's attitude towards the PRC that was likely to occur as a result of Labour's victory in the 1972 election but regretted the cessation of diplomatic ties with Taiwan that would occur as a result of the PRC's unwavering maintenance of what has come to be known as the 'One China' policy.

More recently, Malcolm McKinnon's *Independence and Foreign Policy: New Zealand in the World Since 1935*³⁹ charts the development of New Zealand foreign policy from its origins with the election of the first Labour government in 1935 to about 1990. Although primarily concerned with the development of New Zealand foreign policy under Labour and National governments, McKinnon touches on the differences and commonalities in their policies towards the People's Republic of China.

2.1.4 HISTORIES OF CHINA'S INTERNATIONAL RELATIONS

Chinese foreign policy is an extremely complex field due to the frequent dominance of political ideology over pragmatism. Moreover, the significant ideological revisions and counter-revisions that occurred over the subject period make it a potential minefield for the uninitiated. Fortunately there are some excellent guides. Foremost among these is Robinson and Shambaugh's *Chinese Foreign Policy: Theory and Practice*⁴⁰ which covers the major relationships and trends admirably. Other useful sources include Denny Roy's *China's Foreign Relations*⁴¹ and Joseph Camilleri's *Chinese Foreign Policy: The Maoist Era and its Aftermath*⁴² while the Sino-Soviet split is covered in ample detail in *China and the Soviet Union 1949-84*.⁴³

2.1.5 NEW ZEALAND-CHINA BILATERAL RELATIONS

Some of the more recent contributions under this category focus on the future of New Zealand's relations with China rather than the past. A prominent example is Lindsay Watt's *New Zealand*

³⁹ McKinnon, M. (1993). *Independence and Foreign Policy: New Zealand in the World Since 1935*, Auckland: Auckland University Press.

⁴⁰ Robinson, T.W. & Shambaugh, D. (eds.). (1994). *Chinese Foreign Policy: Theory and Practice*, Oxford: Oxford University Press.

⁴¹ Roy, D. (1998). *China's Foreign Relations*, London: Macmillan Press Ltd.

⁴² Camilleri, J. (1980). *Chinese Foreign Policy: The Maoist Era and its Aftermath*, Oxford: Martin Robertson & Company Ltd.

⁴³ Day, A.J. (ed). (1985). *China and the Soviet Union 1949-84*, Harlow, Essex: Longman Group Ltd.

and China Towards 2000.⁴⁴ Published in 1992 as a collaboration between the Ministry of External Relations and Trade (now Ministry of Foreign Affairs and Trade) and Victoria University, the book seeks to explore some of the issues in the China-New Zealand and so improve the understanding of a lay audience. Another example is *New Zealand and China Present and Future*⁴⁵ which broadly covers the history and future of the bilateral relationship. Of particular interest is Tim Beal's chapter titled 'New Zealand and Greater China: Changing Patterns of the Direction of Trade', which surveys the long-term trends in New Zealand's trading relationship with China, Hong Kong, and Taiwan - albeit with a strong bias towards the 1990s and the future. A useful aggregation of trade statistics from 1859 to 1996 is included as an appendix.

In terms of the historical relationship, perhaps the most useful source is *New Zealand and China*,⁴⁶ a collection of papers from Otago University's twenty first Foreign Policy School in 1986 and edited by Ann Trotter. The collection is immensely useful because it covers the full spectrum of New Zealand-China relations written by experts in the fields. C.J. Elder and M.F. Green's paper 'New Zealand and China' remains the most detailed source on relations prior to 1949. The essence of the chapter is that relations between the two countries can be distilled into five distinctive periods:

- (i) Limited relations prior to 1850;
- (ii) Developing contacts 1850-1900;
- (iii) A broadening relationship 1900-1935;
- (iv) Years of growth 1935-50;
- (v) Wasted years 1950-1972;

While this chapter discusses trade amongst political and cultural developments, E.A. Woodfield's chapter 'The New Zealand-China Trade Relationship' concentrates solely on economic relations. As a Deputy Secretary of the Department of Trade and Industry, Woodfield distils the official view on trade relations with China together with future prospects. This is complemented nicely by Victor Percival and Howard Scott's chapter 'China New Zealand Trade: Difficulties and Successes as viewed from the Perspective of the Old China Hand' which provides practical advice on how to conduct business with China.

⁴⁴ Watt, L. (1992). *New Zealand and China Towards 2000*, Wellington: Victoria University of Wellington.

⁴⁵ Beal, T. & Zhang, Y. (eds.). (1996). *New Zealand and China: Present and Future*, Wellington: Victoria University of Wellington.

⁴⁶ Trotter, A. (1986). *New Zealand and China: Papers of the Twenty-First Foreign Policy School*, Dunedin: University of Otago.

From an official perspective, the 1986 Foreign Affairs and Defence Committee inquiry into *The New Zealand China Relationship*⁴⁷ recommended a significant strengthening of diplomatic, economic, and cultural relations while also providing a concise history of both official and unofficial relations. Another highly significant work is a 1988 MPhil thesis by Zhang Beihua of Waikato University entitled 'Sino-New Zealand Relations 1792-1987'.⁴⁸ The thesis provides an excellent summary of the major developments in the diplomatic, economic, and cultural fields over the designated period. However, it does not attempt a detailed survey of economic relations by looking at the roles and policies by the New Zealand Department of Industries and Commerce or the Chinese Ministry of Foreign Trade and Economic Development. No use of Department of Industries and Commerce or Ministry of Foreign Affairs files was made and therefore little mention is made of the often subtle factors that assisted and hindered bilateral trade over the subject period. Nonetheless, the thesis remains the most piece of relevant work in relation to the key research questions.

Other theses of note include Roy Shuker's 1971 thesis 'New Zealand Policy and Attitudes Toward Communist China: A Study in the Evolution and Influence of the American Alliance'⁴⁹ and Damien Smith's 'Official Attitudes Toward China Between 1945 and 1957: The Development of the Non-Recognition Policy',⁵⁰ written in 1997. While providing useful background to the development of New Zealand's diplomatic policies towards China, they deal predominantly with the diplomatic debate that led to New Zealand's policy of non-recognition rather than New Zealand-China Trade. Moreover, the time periods considered do not extend beyond the 1950s. Susie Ong's chapter in *New Zealand and Asia: Perceptions, Identity and Engagement*⁵¹ followed a similar path. Claire-Lucia van der Beek's 1980 MA thesis titled 'New Zealand and China: The Problems and Effects of Recognition'⁵² provided a more recent perspective, but also concentrated on diplomatic relations. In particular, it focused on the problems involved in establishing diplomatic relations with China and the reasons for New

⁴⁷ New Zealand Parliament, Foreign Affairs and Defence Select Committee. (1986). *Report of the Foreign Affairs and Defence Select Committee on Inquiry into the New Zealand – China Relationship*, Appendix to the journals of the House of Representatives of New Zealand, 0110-3407 ; I 5A.

⁴⁸ Zhang, B. (1988). 'Sino-New Zealand relations 1792-1987', MPhil Thesis, Hamilton: University of Waikato.

⁴⁹ Shuker, R.G. (1971). 'New Zealand Policy and Attitudes Toward Communist China: A Study in the Evolution and Influence of the American Alliance', MA Thesis, Wellington: Victoria University.

⁵⁰ Smith, D. (1997). 'Official Attitudes Toward China Between 1945 and 1957: The Development of the Non-Recognition Policy', MA Thesis, Palmerston North: Massey University.

⁵¹ Ong, S. (1999). 'Between Great United Kingdom and the United States: New Zealand and the Recognition of China in the 1950s' in Zhang, Y. (ed). (1999). *New Zealand and Asia: Perceptions, Identity and Engagement*, Auckland: Asia 2000 Foundation of New Zealand.

⁵² Van Der Beek, C.L. (1980). *New Zealand and China : the problems and effects of recognition*, MA Thesis, Dunedin: University of Otago.

Zealand's belated diplomatic recognition in 1972. She concluded recognition occurred against the backdrop of: 1) rapidly improving Sino-US relations; 2) greater flexibility in international politics; 3) the realisation that China was neither a Soviet puppet nor a serious threat to New Zealand's security; 4) New Zealand's reorientation of outlook towards the Asia-Pacific region; and 5) the importance of China in the Asia Pacific region and the importance of drawing China into constructive co-operation. One of the most interesting conclusions of the thesis was van der Beek's dismissal of the view that election of the Third Labour government was a significant factor in New Zealand's recognition of the PRC or that Labour followed a more independent foreign policy than National. Finally, Li-Yang's 1993 research report 'Trade Perspective with the People's Republic of China: A New Zealand Perspective'⁵³ details the Chinese business customs and culture with a view to providing a 'how-to' guide. While it contains much useful information on conducting business in China, it is set in the context of conducting business in the 1990s rather than the subject period of 1954-84.

David McCraw's article 'New Zealand's Second Labour Government and the Problem of the Recognition of China'⁵⁴ concludes that Nash's government was constrained from its announced policy of recognition by New Zealand's alliance with the United States. John McKinnon's contribution to *New Zealand in World Affairs 1972-99*⁵⁵ titled 'Breaking the Mould: New Zealand's Relations with China' follows on from Kennaway as a summary of bi-lateral relations since 1972. Of particular interest is his succinct section of the major economic developments after the establishment of diplomatic relations in 1972. McKinnon grapples with the complexities of New Zealand-China trade and still manages to adequately cover the important developments to 1990 in barely six pages. He concludes that the 19 years from 1972 to 1990 had compensated remarkably well for the 23 years of separation from 1949 to 1972. New Zealand's competent handling of Chinese sensitivities and the ability of two very different countries to find common ground paved the way for significant economic benefits in the form of increased bilateral trade.

⁵³ Yang, L. (1993). *Trade Perspective with the People's Republic of China: A New Zealand Perspective*, MBS Research Report, Palmerston North: Massey University.

⁵⁴ McCraw, D. (1979). "New Zealand's Second Labour Government and the Problem of the Recognition of China", *Australian Journal of Politics and History*, 25(2), pp.178-185.

⁵⁵ Brown, B. (ed.). (1999). *New Zealand in World Affairs 1972-1990*, Wellington: Victoria University Press.

The New Zealand Asia Institute published *China and New Zealand: A Thriving Relationship Thirty Years On*⁵⁶ in 2003 to mark the anniversary of the establishment of diplomatic relations. While there is little new material in the publication, it is a useful compilation and Bryce Harland's observations of the relationship as New Zealand's first Ambassador to Beijing help put the evolving relationship into context. Rewi Alley is a rare link between the New Zealand and Chinese cultures. Numerous works have been published on his life and work and these all serve as useful sources.⁵⁷ Similarly, Warren Freer's *A Lifetime in Politics*⁵⁸ provides some interesting background information and anecdotes on the New Zealand China relationship from pre-recognition days right up to 1981. The combined weight of these secondary sources together with the significant primary sources provides the necessary information base from which to address the key research questions.

2.2 INTERNATIONAL TRADE THEORY

As with any economic paper, consideration must be given to the body of economic theory that has been developed in relation to the research question. International Trade has spawned many theories, but over time it has been possible to discern two main subdivisions: 1) classical trade theory; and 2) neoclassical trade theory. This section discusses the major theories as they are applicable to New Zealand-China trade.

2.2.1 THE DEVELOPMENT OF INTERNATIONAL TRADE THEORY

While economic theories of international trade have been around as long as the trade itself, the first collection of economic thought to gain a degree of acceptance was Mercantilism. Mercantilist thought developed in Europe between the sixteenth and eighteenth centuries. Unsurprisingly it reflected the economic and political attitudes of the time, amongst them the rise of the nation-state. In this context, the central theme of Mercantilism is that national strength is enhanced by the degree that exports exceed imports, i.e. a positive balance of trade. More

⁵⁶ Kember, J. & Clark, P. (eds). (2003). *China and New Zealand: A Thriving Relationship Thirty Years On*, Auckland: New Zealand Asian Institute.

⁵⁷ For example see: Brady, A. (2003). *Friend of China - The Myth of Rewi Alley*, London: RoutledgeCurzon; Reynolds, P. (1997). *Rewi Alley: From Canterbury to China*, Christchurch: Christchurch-Gansu Friendly Relations Committee of the Christchurch City Council; Newnham, T.O. (1997). *Rewi: The Story of Rewi Alley*, Auckland: Graphic; and Chapple, G. (1980). *Rewi Alley of China*, Auckland: Hodder and Stoughton.

⁵⁸ Freer, W. (2004). *A Lifetime in Politics: The Memoirs of Warren Freer*, Wellington: Victoria University Press.

particularly, the financial strength of a country depends primarily on its stock of precious metals, mainly gold and silver, which were the store of wealth at that time. Government intervention in economic affairs was justified and encouraged on the basis that it could assist the accumulation of precious metals (specie). This nationalistic view has led to Mercantilist thought is often being termed as the political economy of nation building.

Implicit in the Mercantilist view of the world is that trade is a *zero-sum game*. An increase in one country's specie had to come at the expense of another country's holdings. In the hostile and competitive world during the mercantilist era, governments sought to turn the game in their favour through the imposition of tariffs and subsidies, granting exclusive trading rights for geographical areas to specific companies, and controlling the use and exchange of precious metals. On the domestic front, Mercantilism advocated the control of industry and labour for national advantage. In line with the mercantilist theory that commodities were valued according to their relative labour content, wages were kept low and large families were encouraged to maintain productivity. Mercantilist thought began to fade in the eighteenth century as political structures changed and market structures began to take over from state monopolies with the widespread strengthening of the profit motive.

2.2.2 CLASSICAL TRADE THEORY

Leading the challenge to the mercantilists were early classical writers such as David Hume and Adam Smith. Hume's *Political Discourse* of 1752 argued that a nation could not continue to accumulate specie without damage to its international competitiveness because the increase in specie would increase the money supply leading to an increase in its input prices.⁵⁹ In the deficit country the opposite would happen as the decrease in specie would decrease its input prices and increase its international competitiveness. Adam Smith further challenged mercantilist thought by arguing that a nation's wealth was dependent on its productive capacity rather than its stock of specie. In contrast to interventionist mercantilism, Smith believed that productive capacity was best cultivated in an environment where people were free to act in their own best interests. Self-interest and the profit motive were the basis for growth in productive capacity while competition would act as an 'invisible hand' to regulate the economy. In such an environment, countries should specialise in and export those commodities in which they were more efficient at

⁵⁹ The relationship between money supply and prices has since been formalised into theories such as the quantity theory of money. An explanation of this theory can be found in any intermediate or higher level economics textbook.

producing (i.e. those they had an *absolute advantage* in). Smith argued that in a two economy-two good model where each country has absolute advantage in different goods, such trade can be demonstrated to be mutually advantageous and a *positive-sum game*. This result was a powerful argument for the expansion of international trade and the removal of the impediments introduced when Mercantilist thought predominated.

The movement for free trade and against mercantilism was given tremendous momentum by David Ricardo, whose 1817 work *The Principles of Political Economy and Taxation* argued that the mutually beneficial gains from trade were not restricted to cases of mutual absolute advantage. Ricardo started by recognising that while Smith's idea of absolute advantage could explain the pattern of trade and production within a country where factors of production were perfectly mobile, in an international context where factors of production were immobile gains from trade could be made on the basis of *comparative advantage* (i.e. one country's opportunity cost of production is lower than another's). Because of the relative cost differences, both countries can benefit from trade. To demonstrate his point, Ricardo used the following assumptions⁶⁰:

- (i) Each country has a fixed endowment of resources, and all units of each particular resource are identical.
- (ii) The factors of production are completely mobile between alternative uses within a country.
- (iii) The factors of production cannot move across international borders.
- (iv) The relative value of a commodity is based solely on its relative labour content i.e. a labour theory of value is employed.
- (v) The level of technology is fixed for both countries, although it can differ between countries.
- (vi) Unit costs of production are constant.
- (vii) There is full employment.
- (viii) The economy is characterised by perfect competition.
- (ix) There are no government-imposed obstacles to economic activity.
- (x) Internal and external transportation costs are zero.

⁶⁰ Appleyard, D.R. & Field, A.J. (2001). *International Economics, 4th Edition*, New York: McGraw-Hill.

Unsurprisingly, the simple Ricardian model has been extended and tested by economists in various ways over time. In particular, the role and effect of wages, productivity, transport costs, and the exchange rate on trade patterns has been analysed extensively. One of the classic analyses is MacDougall's 1951 study⁶¹ of British and American exports. According to Ricardian theory, the value of American exports should be greater than that of United Kingdom whenever the productivity ratio between the two countries is greater than the ratio of wages between the two countries. MacDougall's study and the subsequent similar studies of Stern⁶² and Balassa⁶³ confirmed that this was the case, thereby lending support to Ricardian theory. Stephen Golub⁶⁴ updated and extended MacDougall's study with 1990 data and also found support for Ricardian theory. However, while these studies tend to support Ricardian theory, the theory is insufficient to explain international trade due to the large number of simplifications and limitations applied.⁶⁵ Resource endowments, productivity, technology, and costs all change over time, suggesting a more flexible and dynamic model is required.

2.2.2 NEOCLASSICAL TRADE THEORY

The first major response of neo-classical economists to the limitations of Ricardian theory was the Heckscher (1919)⁶⁶ and Ohlin (1933)⁶⁷ theory (H-O hereafter). Using modern economic techniques, these two Swedish economists developed a theory of international trade based around relative factor intensities and the following simplifying assumptions:

- (i) There are two countries, two homogenous goods, and two homogenous factors of production whose levels are fixed and assumed to be relatively different for each country. This scenario is commonly referred to as a 2x2x2 model.
- (ii) Technology/production functions are the same in both countries.
- (iii) Constant returns to scale of production are present in both countries.
- (iv) The two commodities being produced *have different factor intensities* required for production and these intensities are constant for all factor price ratios.

⁶¹ MacDougall, G.D.A. (1951). "British and American Exports: A Study Suggested by Theory of Comparative Costs, Part I", *Economic Journal*, vol.61, no.244, pp.697-724.

⁶² Stern, R.M. (1962). "British and American Productivity and Comparative Costs in International Trade", *Oxford Economic Papers*, vol.14, no.3, pp.275-296.

⁶³ Balassa, B. (1963). "An Empirical Demonstration of Classical Comparative Cost Theory", *Review of Economics and Statistics*, 45, no.3, pp.231-238.

⁶⁴ Golub, S.S. (1990). "America-Firsters Have It Backward", *Wall Street Journal*, 16 January 1996, p.A14.

⁶⁵ The labour theory of value and constant costs assumptions are the most limiting.

⁶⁶ Heckscher, E.F. (1919). "The Effect of Foreign Trade on the Distribution of Income", *Ekonomisk Tidskrift*.

⁶⁷ Ohlin, B. (1933). *Interregional and International Trade*, Cambridge, MA: Harvard University Press.

- (v) The tastes and preferences of consumers in both countries are identical. Also, the two products are consumed in the same quantities irrespective of income.
- (vi) Markets in both countries are perfectly competitive.
- (vii) The two factors are perfectly mobile within each country but are not internationally mobile.
- (viii) No transportation costs exist.
- (ix) There are no barriers to free trade.

This set of assumptions leads to the conclusion that the production possibilities frontier will differ between the two countries solely on the basis of differing factor endowments. The H-O theorem provides ‘A country will export the commodity that uses relatively intensively its relatively abundant factor of production, and it will import the good that uses relatively intensively its relatively scarce factor of production’.⁶⁸ A related theory is the Factor Price Equalisation Theorem that posits ‘In equilibrium, with both countries facing the same relative (and absolute) product prices, with both having the same technology, and with constant returns to scale, relative (and absolute) costs will be equalised. The only way that this can happen is if, in fact, factor prices are equalised’.⁶⁹ If both countries specialise in the product that uses their abundant factor relatively more intensively, then the introduction of trade will increase the prices of the respective products until both countries face the same relative product prices. These price increases signal producers to produce more of the product that uses their abundant factor relatively more intensively and it is inevitable that the price of the product that uses the abundant factor less intensively will fall on the domestic market. Because the demand for factors of production is derived demand, changes in the prices of the end products have an impact on factor prices.

An important extension which fits neatly into the H-O framework is the Stolper-Samuelson⁷⁰ theorem which holds that ‘with full employment both before and after trade takes place, the increase in the price of the abundant factor and the fall in the price of the scarce factor because of trade imply that the owners of the abundant factor will find their real incomes rising and the owners of the scarce factor will find their real incomes falling’.⁷¹ In light of this theory, it is not surprising that the owners of the abundant factor tend to support free trade while the owners of

⁶⁸ Appleyard, D.R. & Field, A.J. (2001). *International Economics, 4th Edition*, New York: McGraw-Hill, p.124.

⁶⁹ Appleyard, D.R. & Field, A.J. (2001). *International Economics, 4th Edition*, New York: McGraw-Hill, p.126.

⁷⁰ Stolper, W.E. & Samuelson, P.A. (1941). “Protection and Real Wages”, *Review of Economic Studies*, 9, pp.58-73.

⁷¹ Appleyard, D.R. & Field, A.J. (2001). *International Economics, 4th Edition*, New York: McGraw-Hill, p.129.

the scarce factor tend to favour trade protection policies. Another extension is known as the Rybczynski theorem⁷² which holds that an increase in a country's endowment of a factor will cause an increase in output of the good which uses that factor intensively, and a decrease in the output of the other good.

As with Ricardian theory, several of the assumptions of the H-O model do not hold true in real world conditions. Tastes and preferences vary across countries, relative factor intensities vary over time, transport costs are unavoidable, imperfect competition exists, and some factors of production are internally immobile. In terms of empirical evidence, Wassily Leontief's test led to what has become known as the Leontief Paradox⁷³ - analysis of United States input-output tables to establish the relative capital/labour ratios released by reducing imports and exports by \$1 million each resulted in a finding that contradicted the H-O theory. Various explanations of the paradox have since been advanced but none has proved completely convincing. Other tests of H-O theory have provided mixed results.⁷⁴ Despite the very real limitations and conflicting empirical evidence surrounding the H-O theory, a wholly superior theory has yet to emerge. Accordingly, the H-O model remains the mainstay of international trade theory.

2.3 CONCLUSION

The relative lack of literature on New Zealand's trading relationship with China provides both opportunities and problems. On the opportunity side, it indicates considerable scope for a detailed analysis of the New Zealand-China trading relationship to substantially advance the knowledge base in line with the key research questions. On the negative side, the lack of secondary literature necessitates increased reliance on primary sources, something which is more costly in terms of financial and research time inputs. However, primary research can turn up new material and insights overlooked by other researchers.

In terms of trade theory, the major explanations of international trade have been introduced as essential background to explaining New Zealand-China trade over the subject period.

⁷² Rybczynski, T.M. (1955). "Factor Endowment and Relative Commodity Prices", *Economica*, 22, no.84, p.336-341.

⁷³ Leontief, W. (1953). "Domestic Production and Foreign Trade: The American Capital Position Re-Examined", *Proceedings of the American Philosophical Society*, 97, p.332-349.

⁷⁴ Appleyard, D.R. & Field, A.J. (2001). *International Economics, 4th Edition*, New York: McGraw-Hill, p.130.

Discussion of trade policy instruments such as tariffs, quotas, import licences, foreign exchange markets is left for later chapters as the need arises.

3.0 METHODOLOGY

The relative lack of secondary information on the subject has necessitated much of the thesis being based on primary sources. Archives New Zealand hold virtually all government records including substantial collections from:

- Ministry of External Affairs
- Ministry of Foreign Affairs
- Ministry of Foreign Affairs and Trade
- New Zealand Export Import Corporation
- Department of Trade and Industry
- Department of Industry and Commerce
- Prime Ministers Department

While these collections contain excellent information from the various government entities involved in trade with China over the years, there were some hurdles to be overcome. The first of these is that much of the information from approximately 1973 onwards remains restricted/classified. It was therefore necessary to apply for access from the relevant controlling Government organisations. Secondly, information contained at Archives New Zealand is scattered across more than 100 separate files. Accordingly data collection is a time consuming process.

In terms of thesis structure, Chapter 4 describes the two economies at the start of the study period in 1954. Based on the characteristics of the economies, potential complementary and non-complementary trade was then identified in accordance with the theories of comparative advantage and Heckscher-Ohlin. Next, the key historical influences on and nature of New Zealand's and China's trade in 1954 is surveyed to identify key trading partners and commodities that will influence trade over the next 30 years. From this point, a quick statistical summary of New Zealand-China trade 1954-1984 is used to identify major themes and patterns which can be developed in later chapters of the thesis.

4.0 NATURE OF THE ECONOMIES IN 1954

The basic structures of the economies of China and New Zealand in 1954 created both opportunities and difficulties for the development of trade between the two countries. Chapter 2 introduced the two major theories of international trade: 1) Ricardian comparative advantage; and 2) Heckscher-Ohlin. Comparative advantage holds that countries can obtain gains from trade in the absence of absolute advantage if they produce commodities in which their relative disadvantage in terms of opportunity costs of production is lower. Heckscher-Ohlin theory predicts that countries will export the commodity that uses relatively intensively its relatively abundant factor of production, and import the good that uses relatively intensively its relatively scarce factor of production. This chapter will introduce the nature of the New Zealand and Chinese economies with particular emphasis on the applicability of the comparative advantage and Heckscher-Ohlin theories of trade.

4.1 NATURE OF THE NEW ZEALAND ECONOMY

4.1.1 INTRODUCTION

New Zealand's economic development to 1954 was based on four fundamental facts: 1) New Zealand was a small country comprising only 0.18% percent of the world's land mass;⁷⁵ 2) New Zealand was isolated from major centres of population and trading routes; 3) New Zealand's population was extremely small, comprising only 2.1 million people or 0.09% of the world's population in 1954;⁷⁶ and 4) New Zealand had largely a European (British) culture. These four facts have dictated New Zealand's economic development since the large-scale migration of Europeans, almost entirely from Britain, in the nineteenth century. Most of the British immigrants came to New Zealand seeking a 'better life' built around individual land ownership, something which was out of the reach of most of them in their home country. The establishment of representative government in 1854 and the overcoming of Maori resistance allowed the British settlers to pursue economic and social policies that sought to transform New Zealand from a Polynesian society into a 'better Britain'.⁷⁷

⁷⁵ CIA World Fact Book, 2004, <http://www.cia.gov/cia/publications/factbook/>

⁷⁶ International Monetary Fund. (2002). *International Financial Statistics*, September 2002 (CD-ROM).

⁷⁷ See Belich, J. (2001). *Paradise Reforged : a history of the New Zealanders from the 1880s to the year 2000*, Auckland: Penguin Press, p.76.

4.1.2 NEW ZEALAND'S PRIMARY PRODUCTION

Initial economic activity centred on extractive activities such as whaling, gold mining, kauri gum, and timber logging. New Zealand was effectively a 'colony of exploitation'.⁷⁸ As these activities were unsustainable, emphasis shifted to sources of sustainable production such as wool, canned meat, grain, and the supply of fresh food to Australia. Despite almost three quarters of the South Island and about one fifth of the North Island comprising largely unproductive mountainous terrain, the majority of the remainder was well suited to pastoral production, aided by a very temperate climate. Huge areas of native forest were cleared to make way for pasture in the second half of the nineteenth century. New Zealand's exports, and to a slightly lesser extent production, became increasingly concentrated on the 'big three' pastoral products of wool, meat, and dairy products.

4.1.3 DEVELOPMENT OF EXOTIC FORESTS IN NEW ZEALAND

Before the arrival of Europeans, much of New Zealand was still covered in natural forest. In addition to a significant timber export trade, low-lying areas were quickly cleared to make way for settlement and pastoral farming. Despite the Government retaining significant areas of mountainous forest, the problem of a rapidly decreasing timber stock was recognised in 1919 when the Forests Branch of the Lands Department changed its focus from price and export controls towards a coordinated approach for the sustainable use of the national forest for future generations. Implicit in this approach were fears of a timber famine and the desire to make New Zealand self-sufficient in timber. Key elements were the establishment of a State Forest Service and the protection and demarcation of existing forests. While the State Forest Service initially concentrated on managing natural forests, the continued depletion of indigenous forests and the difficulty in cultivating indigenous trees, together with their long growing period, meant that it was not long before the service concentrated on a substantial programme of exotic afforestation. A planting boom from 1925 to 1935 established many of the large exotic plantations that contributed an increasing proportion of New Zealand's timber supply by 1954. Of these the Kaiangaroa plantation in the Bay of Plenty was by far the largest, totalling over 250,000 acres by

⁷⁸ Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press, p.43.

1938. By 1951 state forests comprised 62.2% of the potentially harvestable stock with the remainder made up of Maori land, unoccupied Crown land, and private freehold land.⁷⁹

Despite the planting boom, ill-conceived attempts to control timber prices and the immaturity of exotic plantations meant that depletion of indigenous timbers continued at an alarming rate. The 1956 *New Zealand Official Yearbook* noted that establishment of further exotic forests was a priority because 'Current timber demands are depleting the virgin indigenous forest at such a rate that without other provision being made New Zealand would soon be faced with a permanent timber famine and would have to rely entirely on imports'.⁸⁰ During the 1950s, New Zealand imported between 30 and 60 million board feet per annum (0.07 to 0.14 million cubic metres),⁸¹ although much of this was hardwood to supplement dwindling indigenous stocks. It was not until the late 1950s that exotic timber finally overtook indigenous timber in production volume and not till a second planting boom in the 1960s that New Zealand had reached a point that allowed the export of significant quantities of timber products.

4.1.4 NEW ZEALAND'S LIMITED INDUSTRIAL PRODUCTION

New Zealand's concentration on pastoral products in the late nineteenth and early twentieth centuries resulted in a very narrow industrial base by the time of the Great Depression. Much of New Zealand's industry revolved around further processing of primary produce, examples being dairy factories, freezing works, and woollen mills. The introduction of import and exchange rate controls in response to a balance of payments crisis in 1938 was to have profound consequences for New Zealand's long-term industrial development. For the best part of five decades they provided a degree of protection for New Zealand industry that encouraged diversification of the industrial base. The policy that the controls ushered in is perhaps best termed import-substituting industrialisation. However, to 1954 most of this diversification came from within traditional exports of wool, meat and dairy products through the emergence of new variants such as milk powder and other 'solid non-fat products'. The most notable exception to this trend was the forestry industry which developed after World War II and included the establishment pulp and paper mills in Tokoroa and Kawerau in 1953 and 1955 respectively. The overall structure of the New Zealand economy is summarised in the following table:

⁷⁹ NZ Department of Statistics. *New Zealand Official Yearbook 1956*, p.539. Note: excludes forested areas classified as Scenic Reserves and National Parks.

⁸⁰ NZ Department of Statistics. *New Zealand Official Yearbook 1956*, p.538.

⁸¹ NZ Department of Statistics. *New Zealand Official Yearbook 1961*, p.451.

Table 4.1a.

New Zealand Sectoral Share of Gross Domestic Product
(%)

	Primary Sector	Secondary Sector	Service/Tertiary Sector
1919/20	29.8	25.6	na
1929/30	26.2	30.3	na
1938/39	26.1	29.7	44.7
1952/53	26.0	28.2	45.8
1959/60	22.3	29.0	48.7

Source: Compiled from Easton (1997).⁸²

Table 4.1a indicates that the industrial/secondary sector of the New Zealand economy did not change markedly in its contribution to GDP from the Great Depression until 1960, and remained low compared to many other industrialised countries. However, this is not to say that the sector did not expand – its total productive value and share of employment certainly did expand but this was offset by strong overall growth in GDP. The overriding trend was the decline in the contribution of the rural sector and the increase of the contribution of the service sector, largely due to the urbanisation of the population.

4.1.5 NEW ZEALAND'S IMPORTS

New Zealand's lack of a substantial and varied industrial base and its limited range of raw materials also necessitated the importation of the capital goods and many essential raw materials. Prominent items that had to be imported included transport equipment, motor vehicles, metals, electrical equipment, fertiliser, fuels, and other chemicals. Table 4.1b provides the breakdown according to Standard International Trade Classification Sections in 1954:

Table 4.1b.

New Zealand Imports by SITC Section in 1954

	New Zealand £(000)	% of Total Imports
Section 0 – Food	20,207	9.48%
Section 1 – Beverages and Tobacco	4,621	2.17%
Section 2 – Crude Inedible Materials Except Fuels	8,385	3.93%

⁸² Primary sector comprises agriculture together with other primary industries including extraction activities, water, gas, and electricity. Secondary industry includes manufacturing and construction activities. Service sector includes wholesale/retails trade, restaurants, hotels, transport, communication, financial and business services, and other services.

Section 3 – Mineral Fuels and Lubricants	14,964	7.02%
Section 4 – Animal and Vegetable Oils and Fats	423	0.20%
Section 5 – Chemicals	13,237	6.21%
Section 6 – Manufactured Goods	72,762	34.14%
Section 7 – Machinery and Transport Equipment	61,489	28.85%
Section 8 – Miscellaneous Manufactured Articles	16,481	7.73%
Section 9 – Miscellaneous Transactions and Commodities	584	0.27%
Total	213,153	100.00%

Source: New Zealand Official Yearbook, 1956.

4.1.6 NEW ZEALAND'S CAPITAL SHORTAGE

Another factor that has remained relatively unchanged throughout New Zealand's economic history has been the country's continued reliance on external sources of capital. While New Zealand recorded a favourable balance of merchandise trade in all but three years between 1940 and 1960, its small economic base and poor savings history consigned it to being a habitual importer of financial capital. During the first half of the twentieth century, overseas borrowing was dominated by the public sector, but by 1954 the tide had turned with private far exceeding public borrowing. Table 4.1c summarises the situation in 1954.

	Receipts £(000)	Payments £(000)
Exports	221,154	
Licensed imports		47,810
Decontrolled imports		166,377
Government imports		20,212
Other imports		3,460
<i>Total Merchandise</i>	<i>221,154</i>	<i>237,859</i>
Transport – Freight, fares etc	1,593	3,071
Travel – Private and business	1,756	5,550
Insurance	575	2,044
International Investment Income	6,917	8,749
Government Transactions	1,621	10,139
Miscellaneous Transactions	7,615	13,893
Private Capital Transfers	8,798	2,852
Government Capital Transfers	21,207	3,300
Local Authority Capital Transfers		425
<i>Total Capital Transfers</i>	<i>30,005</i>	<i>6,577</i>
Unidentified	48	

Grand Totals	271,284	287,880
Source: Compiled from <i>New Zealand Official Yearbook 1956</i> .		

Of particular interest in this table are the Government Capital Receipts figure of £21,207,000 and Private Capital Receipts of £8,798,000, which represent borrowing abroad.

4.1.7 NEW ZEALAND AS A HIGH WAGE ECONOMY

While data is available on the average income of New Zealanders based on tax assessments, the same cannot be said for China, making comparisons between the two countries difficult. But because GDP can be measured by summing incomes to the various factors of production, we can use real GDP per capita as a proxy for average wages, as shown in table 4.1d below.

	1950	1955
Australia	1836	2079
Japan	412	673
New Zealand	1890	2131
United Kingdom	1350	1779
USA	1933	2477

Source: Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.1, Center for International Comparisons at the University of Pennsylvania

When New Zealand's real GDP per capita income is compared to the high income countries above, it is clear that New Zealand was a high wage economy in 1954.

4.2 NATURE OF THE CHINESE ECONOMY

4.2.1 INTRODUCTION

In many respects, the Chinese economy in 1954 could not have been more different from New Zealand's. China was the fourth largest country in terms of land area and the largest in terms of population. It comprised 6.3%⁸³ of the world's total land area and was therefore 34 times larger

⁸³ CIA. *World Fact Book*, 2004, <http://www.cia.gov/cia/publications/factbook/>.

than New Zealand. China's population of 602 million in 1954 represented over a quarter of the world population and was 287 times greater than New Zealand's 1954 level. China was also part of the Eurasian continent and had land borders with 15 other countries.

Like New Zealand, China was a predominantly mountainous country with such areas occupying about two thirds of the land area. In general, the climate of China is similar to that of the continental United States with the majority of the country falling into subtropical or temperate zones. While New Zealand also falls predominantly into these zones, its averages temperatures and rainfall are generally significantly higher. China is also a distinctly continental country with the accompanying climatic extremes and regional variations due to the presence of continental air flows and areas of frigid and tropical zones. Geologically, China is incredibly diverse. This diversity provided China with a wide array of mineral and energy resources and meant that China had the potential to become the world's largest economy, a position it occupied until 1890.⁸⁴

4.2.2 CHINA'S AGRICULTURAL PRODUCTION

In 1954, agriculture was by far the most important sector of the Chinese economy. But high population growth and a period of prolonged warfare had caused widespread productive inefficiencies, preventing China from being self-sufficient in basic food products. Conscription and the general dispersion of the labour force during the Civil and Japanese wars meant that 1949 agricultural output had fallen to about two thirds of the previous highest level.⁸⁵ Lacking modern machinery and farming methods, Chinese agriculture relied upon uneconomic land fragmentation and an elaborate cycle of labour intensive tasks. Investment from the 1920s to the 1940s was insufficient to cover depreciation of the capital stock,⁸⁶ particularly with regard to transport infrastructure, irrigation, and land reclamation.

As a first step to recovery, the new government embarked upon a series of land and economic reforms which had, by 1952, largely restored the Chinese economy to pre-war levels. The country had regained self-sufficiency in food production, albeit at a very low standard of living compared to Western nations. Prominent arable crops were maize, rice, sugar, nuts, soya beans,

⁸⁴ Maddison, A. (1998). *Chinese Economic Performance in the Long Run*, Paris: OECD, p.11.

⁸⁵ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p. xxi.

⁸⁶ Liu, T.C. & Yeh, K.C. (1965). *The Economy of the Chinese Mainland: 1933-59*, Princeton: Princeton University Press, pp.77-78.

tea, tobacco, wheat, potatoes and citrus fruits while meat production was predominantly pork. In 1954 China's sheep numbers actually exceeded those of New Zealand by 48.15 million to 38.01 million.⁸⁷ Occasional localised food shortages were experienced in the early 1950s, but these were attributable to bureaucratic mismanagement or natural disasters rather than permanent deficiencies. Nonetheless, the Chinese economy remained underdeveloped, with the primary sector comprising 50.5% of China's GDP in 1952⁸⁸ as opposed to New Zealand's 26.2% in 1952/53.⁸⁹ Approximately 89% of the Chinese population lived in rural areas in 1954⁹⁰ compared to 30.4% in New Zealand in 1951.⁹¹

4.2.3 CHINA'S INDUSTRY

While a process of limited industrialisation had begun during the First World War, it was limited to Manchuria and treaty port cities such as Shanghai and Tientsing where foreign powers had introduced it for their own ends. Out of a population of some 540 million in 1949, a maximum of 2 million people were employed in industry.⁹² Secondary industry comprised only 11.6% of GDP⁹³ in 1952 as opposed to New Zealand's 28.2%.⁹⁴ In terms of employment, secondary industry's share was only 7.0%.⁹⁵ China's tertiary industry comprised 29.8% of GDP⁹⁶ in 1954 while the comparable figure for New Zealand was 45.8%.⁹⁷ China's industrial products were almost entirely for domestic consumption and were of such a nature and quality that they were unlikely to be demanded by overseas consumers.

4.2.4 CHINA'S FORESTRY

⁸⁷ Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000* (4th edition), Basingstoke: Palgrave MacMillan, p.297-307.

⁸⁸ State Statistical Bureau of the People's Republic of China and the Institute of Economic Research of Hitotsubashi University. *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

⁸⁹ Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press, p.140.

⁹⁰ Peoples Republic of China State Council and State Statistical Bureau. (1982). *Almanac of China's Economy 1981 with Economic Statistics for 1949-1980*, New York: Modern Cultural Company Ltd, p959.

⁹¹ New Zealand Department of Statistics. (1952). *New Zealand Yearbook*, Wellington: NZ Department of Statistics.

⁹² Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p. xxii.

⁹³ Maddison, A. (1998). *Chinese Economic Performance in the Long Run*, Paris: OECD, p.69.

⁹⁴ Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press, p.140.

⁹⁵ Maddison, A. (1998). *Chinese Economic Performance in the Long Run*, Paris: OECD, p.69.

⁹⁶ State Statistical Bureau of the People's Republic of China and the Institute of Economic Research of Hitotsubashi University. *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

⁹⁷ Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press, p.140.

The only major primary product in which China was manifestly deficient was timber. The best study of China's forests was published in 1966 and estimated China had 96 million hectares of natural forests with a growing stock of 8000 million m³, 75% of which was potentially accessible, mainly in the northeast of the country.⁹⁸ Forests were estimated to occupy approximately 10% of China's land area. In comparison, New Zealand had 6.43 million hectares of forest in 1951, occupying 23.9% of New Zealand's land area.⁹⁹ But the real problem for China was that its modest forest resources were dwarfed by its huge population, and one that was growing at approximately 2% per annum.¹⁰⁰

4.2.5 CHINA'S DEMAND FOR CAPITAL GOODS

As a rapidly industrialising country, China had a nearly insatiable demand for capital goods. They made up 54.2%¹⁰¹ of China's imports in 1954, the vast majority sourced from the Soviet Union, which was one of China's few friends following the Korean War and COCOM sanctions.¹⁰² Other major imports included essential raw materials such as timber, fertiliser, rubber, cotton, oil and fuel. Imports of agricultural and industrial intermediate goods were also significant.

4.2.6 CHINA AS A LOW WAGE ECONOMY

Because GDP can be measured by summing incomes to the various factors of production, we can use real GDP per capita as a proxy for the average wage of the population. Given that the Chinese economy in 1954 was still recovering from a prolonged period of war and economic chaos, its per capita income was very low by Western standards.

	Per Capita Gross Domestic Product (US\$ at Current Prices)	
	1950	1955
Australia	1836	2079
China		125
Japan	412	673

⁹⁸ Richardson, S.D. (1966). *Forestry in Communist China*, Baltimore: The Johns Hopkins Press, p.162.

⁹⁹ NZ Department of Statistics. *New Zealand Official Yearbook 1956*, p.539.

¹⁰⁰ United Nations estimate, 1964.

¹⁰¹ Ibid.

¹⁰² The Coordinating Committee for Multilateral Export Controls (Cocom) sought to embargo the export of strategic goods and commodities to the Communist Bloc from 1949 to 1994.

New Zealand	1890	2131
Taiwan		244
United Kingdom	1350	1779
USA	1933	2477

Source: Alan Heston, Robert Summers and Bettina Aten. *Penn World Table Version 6.1*, Center for International Comparisons at the University of Pennsylvania (CICUP), October 2002.

Based on the above, it is clear that China was a low wage economy in 1954 compared to New Zealand and many other Western nations.

4.3 CONCLUSIONS

4.3.1 POTENTIAL COMPLEMENTARITY

Given the nature of the Chinese and New Zealand economies, there were clear opportunities for complementary trading. On one side of the Pacific Ocean lay New Zealand, a well developed and efficient capital intensive agricultural producer with relatively high labour costs and a high standard of living. On the other side of the Pacific lay China, a rapidly developing labour intensive manufacturer with low labour costs and standard of living. An obvious path for trade in line with the theories of comparative advantage and relative factor intensities would be for New Zealand to have exported raw materials such as wool and logs, which were expensive to process efficiently at home. China could process these raw materials using its low labour costs into a refined form that could be used within China or re-exported to other countries. China could also supply many other manufactured goods that were demanded by New Zealanders but which could not be produced efficiently in New Zealand. In addition, China produced foodstuffs that could not be grown in New Zealand, most notably tropical foods.

Of all New Zealand's potential exports to China, forest products had the greatest potential for growth. Although New Zealand was not completely self-sufficient in 1954, the trees planted during the first planting boom of 1925-1935 were nearing maturity. Together with the considerable afforestation planned for the 1960s, this would see New Zealand become a major exporter of forestry products. China was an obvious market for these products because in 1954 its forest reserves were manifestly inadequate for its huge population. China's per capita growing stock was estimated in 1966 to be between 8 and 5.5 cubic metres, compared to the USSR's 337. Figures for New Zealand are difficult to come by because of the immaturity of exotic forests, although the per capita figure for indigenous forests alone was greater than 20

cubic metres.¹⁰³ New Zealand also had substantial facilities for the production not only of logs, but also sawn timber, wood pulp, paper, and kraft liner board. In addition to forestry, other New Zealand raw materials and semi-processed materials that had strong prospects for export to China included wool, tallow, hides and skins, and casein. Moreover, China was in clear need of agricultural and pastoral expertise and techniques, an area in which New Zealand was widely regarded as leading the world.

Within this context, there were clear opportunities for mutually beneficial trade between China and New Zealand. Furthermore, if China's per capita standard of living increased, something which virtually all economic indicators were pointing to in 1954, there was huge potential for sales of New Zealand meat and dairy products.

4.3.2 POTENTIAL NON-COMPLEMENTARITY

Despite the apparently favourable outlook for trade, there were some significant limitations. Firstly China, like New Zealand in 1954, was an exporter of agricultural products and therefore a competitor in markets such as Hong Kong. Secondly, New Zealand's core processed animal products of butter, sheep meat, and beef were out of the reach of all but a few Chinese because of their low standard of living (refer to Table 4.2a). Moreover, in contrast to some of New Zealand's other export markets, China could largely feed itself. Thirdly, China in 1954 was in the very early stages of industrialisation with its accompanying teething and production quality issues – initially China had few goods that were demanded by New Zealanders. Fourthly, like New Zealand, China was also a net importer of capital and capital goods. And finally, New Zealand will probably always be more dependent on international trade than China because of its lack of a significant internal market and variety of raw materials. New Zealand was therefore much more susceptible to international economic conditions and political changes within China.

¹⁰³ Based on figures provided in NZ Department of Statistics. *New Zealand Official Yearbook 1961*, p.451.

5.0 NEW ZEALAND AND CHINA AS TRADERS IN 1954

Trade with China prompted the first sustained European presence in New Zealand. Chinese willingness to accept sealskins as payment for the tea leaves led to the first gang of sealers being dropped off by the *Britannia* in Dusky sound in 1792. Subsequent gangs arrived in the same area in 1795, 1801, and 1803 before spreading further south and east between 1803 and 1810.¹⁰⁴ Despite this very early trade link between New Zealand and China, the trading interests of the two countries were directed in opposing directions over the following 160 years. This chapter looks at the nature and reasons for this apparent divergence.

5.1 NEW ZEALAND'S TRADE

From the arrival of the first Europeans, New Zealand was highly dependent on trade. Its isolation, limited human and capital resources, and lack of a significant manufacturing sector meant that New Zealand had to sell its pastoral products to pay for the manufactured consumer and capital goods that could not be produced domestically.

5.1.1 RELIANCE ON UNITED KINGDOM AS AN EXPORT MARKET

New Zealand's comparative advantage in the production of meat, wool, and dairy products, together with the constraints of limited human and capital resources, and a small home market, led to increasing specialisation in pastoral commodities, as indicated in Table 5.1a. Pastoral exports became increasingly dominant as gold mining, grain production, forestry, and other miscellaneous exports all declined over the first half of the twentieth century.

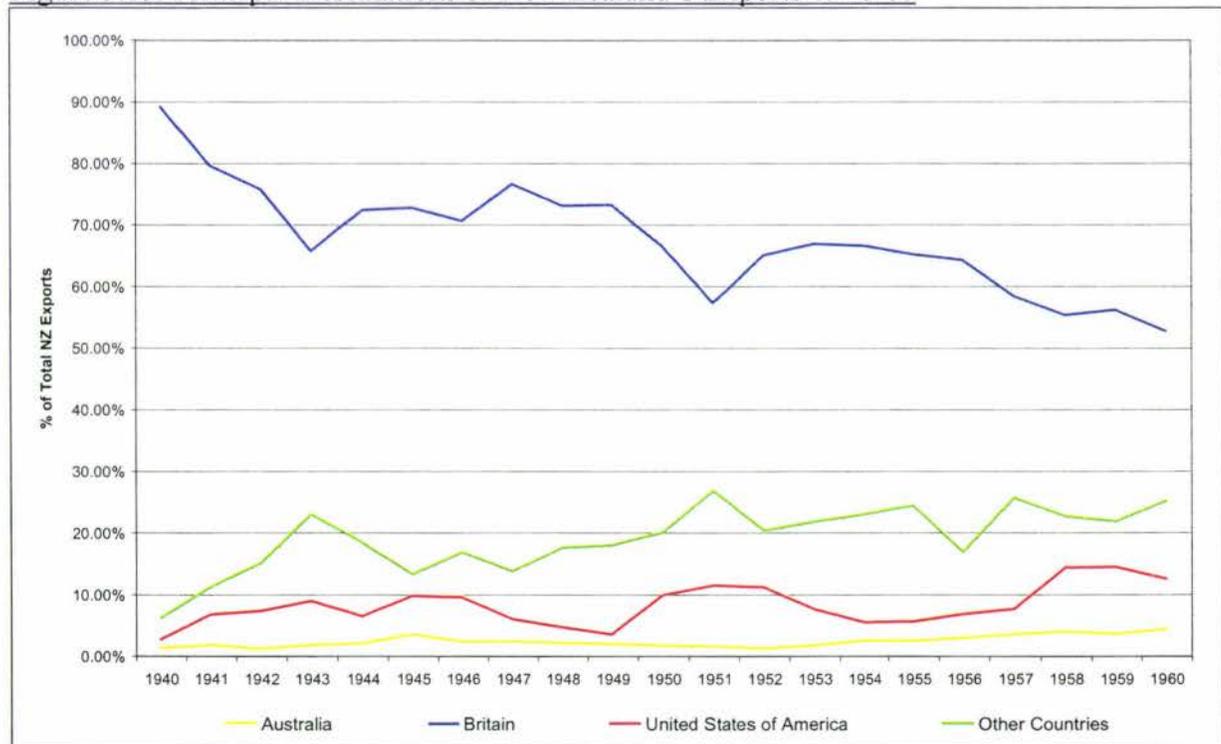
Year	Wool	Meat	Dairy	% made up by wool, meat, dairy produce
1910	37.86%	18.67%	13.73%	70.27%
1920	26.02%	27.88%	22.08%	75.98%
1930	14.15%	21.98%	38.34%	74.47%
1940	23.12%	28.85%	36.95%	88.92%
1950	40.89%	17.72%	29.95%	88.56%

¹⁰⁴ King, M. *The Penguin History of New Zealand*, Auckland: Penguin Books (NZ) Ltd, p.118.

1960	34.15%	27.07%	26.29%	87.51%
Source: NZ Department of Statistics: <i>Report on and Analysis of External Trade Statistics</i> , various years.				

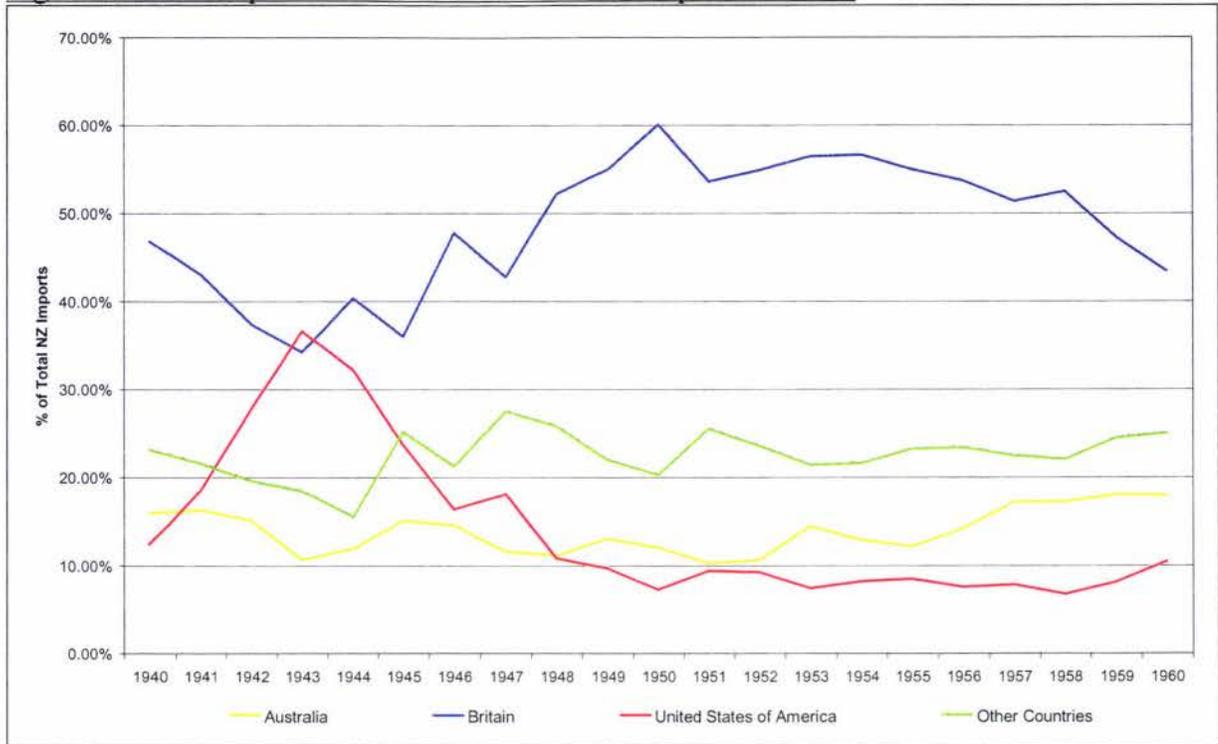
Britain's inability to feed its large population and the advent of refrigeration from 1882 provided New Zealand pastoralists with a dream market for their products. The reliance was intensified through New Zealand's close allegiance to Britain in the two world wars and as a member of the Sterling Area. New Zealand's production was increasingly concentrated on wool, meat, and dairy products tailored for British tastes. In 1954 exporting largely meant sending pastoral products to Britain. For virtually any year between 1870 and 1954, 70% or greater of New Zealand's exports would be to Britain (see figure 5.1a). On the import side (see figure 5.1b), an average 50% of New Zealand's imports were sourced from Britain. This is not to say that New Zealand did not trade with other countries - a significant amount of trade was conducted with Australia and the United States amongst others, but the general pattern of trade was for New Zealand's highly profitable trade with Britain to offset the unfavourable balances of trade incurred with these other countries. The situation in 1954 is illustrated in figure 5.1c.

Figure 5.1a: Principal Destinations of New Zealand's Exports 1940-60



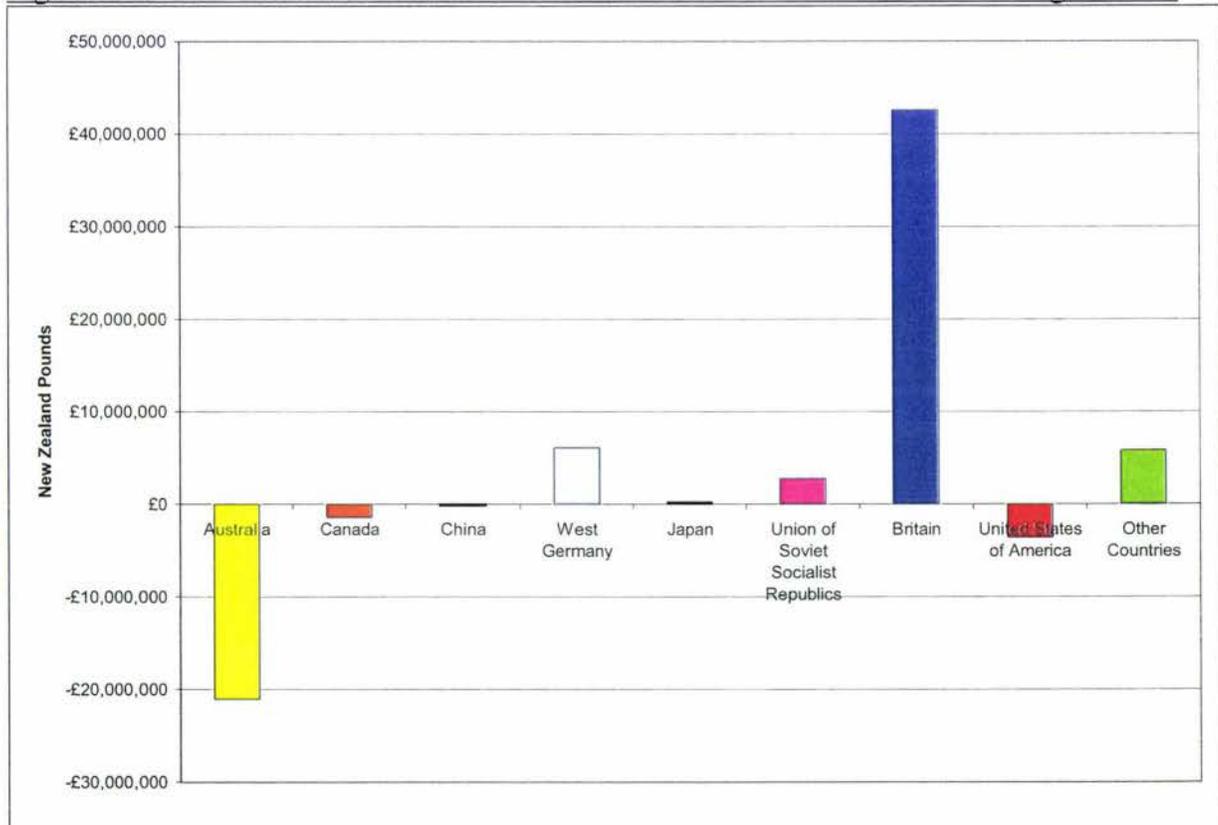
Source: *Official New Zealand Yearbook*, various years. Data is January years.

Figure 5.1b: Principal Sources of New Zealand's Imports 1940-60



Source: *Official New Zealand Yearbook*, various years. Data is January years.

Figure 5.1c: New Zealand's Balance of Merchandise Trade With Selected Trading Partners



Source: *Official New Zealand Yearbook 1956*. Data is for January year.

Trade with Britain underpinned New Zealand's robust economic growth in the first half of the twentieth century. But this growth came at a significant cost – the lack of diversification in the

direction and composition of trade left the New Zealand economy extremely vulnerable to forces that were beyond its control. Any change in British trade policy or international commodity prices would have serious repercussions for the highly specialised New Zealand economy. This vulnerability did not go unnoticed during the shocks accompanying World War I and the Great Depression, and as early as 1938 the first Labour government attempted to diversify New Zealand's production by promoting industrialisation through the introduction of import protection measures. Manufacturing was seen as the long-run engine of growth after World War II, with powerful commentators such as Bill Sutch arguing for increased industrial diversification. But the profitability of pastoral trade with Britain limited diversification – in 1954 the major problem for New Zealand's exports was considered to be the slow growth of the British economy.

5.1.2 RECIPROCAL TRADE WITH THE 'WORKSHOP OF THE WORLD'

New Zealand's large favourable balance of merchandise trade allowed it to purchase essential machinery and intermediate goods from Britain which was, even in the early twentieth century, the largest supplier of such products in the world economy. Despite the tight import licensing and exchange control regime initiated in 1938,¹⁰⁵ virtually all transport equipment, motor vehicles, metals, electrical equipment, and other essential chemicals and producer items continued to be sourced from Britain. Other essential raw materials were purchased as required, but strong preference was given to purchasing from other sterling area countries due to Britain's large trade imbalance with dollar countries. New Zealand was not immune from similar balance of payments problems - restrictions were further tightened in 1954 following an upsurge in the demand for imports. Overall, New Zealand's dependence on Britain for strategic imports and investment capital had changed little since World War II, although there were some signs of increasing foreign investment from United States and Australian interests.¹⁰⁶

5.1.3 SHIPPING LINKS

Shipping problems long proved an obstacle to New Zealand-China trade – a Department of Industries and Commerce Bulletin published in 1929¹⁰⁷ noted shipping as the greatest barrier to

¹⁰⁵ The import licensing and exchange control regime had been initiated in 1938 after a serious balance of payments blow-out.

¹⁰⁶ For example, see *New Zealand Official Yearbook 1956*.

¹⁰⁷ Department of Industries and Commerce Bulletin, *Trade with the Far East*, No.1, September 1929.

trade in terms of high freight costs, lack of space, and the delays and damage to goods in transshipment.¹⁰⁸ These ailments could be resolved via a direct cargo service, the absence of which was estimated to add at least £2 per ton to Asia.¹⁰⁹ Yet the lack of such a service, even in 1954, is hardly surprising given that New Zealand's shipping links were largely directed towards Britain and Australia because of their role as New Zealand's pre-eminent trading partners. 28.4% of the net tonnage cleared for export was directed towards Britain and 32.7% towards Australia.¹¹⁰ In terms of imports, 27.0% was entered from United Kingdom and 28.8% from Australia.¹¹¹ A glaring aspect of the shipping statistics in 1954 was the distinct lack of shipping to Asian countries. Japan was New Zealand's largest trading partner in the area but ranked a paltry 15th in terms of export value – the net tonnage of exports cleared for Japan represented just 1.46% of the total while imports entered were just 1.65%.¹¹² Shipping and trade with China was so miniscule as not to rate a mention in shipping statistics.

5.1.4 TRADE PROTECTION IN NEW ZEALAND

The first Labour Government viewed the Great Depression and the accompanying high unemployment as a foreign contagion, and was anxious to avoid a repeat. It announced the following principles for coming regulations:

1. Overseas funds were to be safeguarded.
2. Provision was first to be made first for essential imports.
3. The selection of goods to be made with a view to coordinating the use and increase of production of consumer goods in New Zealand and to promote internal development.
4. Preference was to be given to goods of United Kingdom origin.
5. Trade agreements based on specified foreign exchange were to be promoted.
6. New Zealand was to be insulated from unfair competition.

¹⁰⁸ Elder, C.J. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.29.

¹⁰⁹ Elder, C.J. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.29.

¹¹⁰ Calculated from New Zealand Department of Statistics, *New Zealand Official Yearbook 1956*, p.357. However, it should be pointed out that a high proportion of the tonnage cleared for Australia would have had United Kingdom as the final destination.

¹¹¹ Department of Statistics, *New Zealand Official Yearbook 1956*, p.357. Once again the role of Australia as a transshipment destination should not be overlooked.

¹¹² Department of Statistics, *New Zealand Official Yearbook 1956*, p.357.

7. The standard of living was to be steadily improved without the depletion of overseas funds.¹¹³

These principles were given effect on 5 December 1938 when the government responded to a balance of payments crisis by introducing: (i) *The Export Licences Regulations* to ensure that overseas currency arising from their sale be sold to the Reserve Bank; (ii) *The Import Control Regulations* restricting imports; and (iii) *The Sterling Suspension Notice* removing the statutory obligation to exchange sterling for Reserve Bank notes.¹¹⁴ Although the controls had been promulgated primarily to remedy a balance of payments crisis, they represented a new era and a significant discontinuity in the country's history as the historical paradigm of free trade was abandoned in favour of insulation. The Labour government asserted that the controls would foster New Zealand industry while simultaneously telling trading partners that this was not the case.¹¹⁵ They were also well aware that New Zealand's real income would reduce if local industry grew only if cheaper imports were excluded.¹¹⁶ The controls ushered in an era of government intervention in the New Zealand economy in line with the principles of Keynesian economics. It was an era that was to last until 1984.

Despite improvements in New Zealand's balance of payments and overseas reserves through the war years and the late 1940s, import licensing was retained. However, the election of the National Government in 1949 resulted in a relaxation of import licensing. National established the Import Advisory Commission to review the import licensing system, believing it had led to rising costs and inefficiency. Between 1950 and 1957 the number of item codes controlled was reduced from 950 to just 209.¹¹⁷ Over the same period, the value of licensed private imports as a percentage of all imports fell from 99.5% to 13.0%.¹¹⁸ Exchange controls were removed in 1950. A subsequent balance of payments crisis suggested that National had jumped the gun in removing controls. Over coming decades, controls were tightened or loosened as economic conditions required until they were finally abolished in 1987.

¹¹³ Lane, P.A. (1974). 'An examination of the methods and effects of restricting external trade with particular reference to the New Zealand experience (1938-68)', PhD Thesis, Palmerston North: Massey University, pp.195-196.

¹¹⁴ *New Zealand Gazette: Special Supplement*, 6 December 1938.

¹¹⁵ Hawke, G.R. (1985). *The Making of New Zealand: An Economic History*, Cambridge: Cambridge University Press, p.166.

¹¹⁶ Hawke, G.R. (1992). 'Economic Trends and Economic Policy 1938-1992' in Rice, G.W. (ed.), *The Oxford History of New Zealand, Second Edition*, Auckland: Oxford University Press, p.412.

¹¹⁷ Deane, R.S. & Nicholl, P.W.E. & Walsh, M.J. (1981). *External Economic Structure and Policy*, Wellington: Reserve Bank of New Zealand, p.430.

¹¹⁸ Deane, R.S. & Nicholl, P.W.E. & Walsh, M.J. (1981). *External Economic Structure and Policy*, Wellington: Reserve Bank of New Zealand, p.430.

Import licensing and exchange control were not the only forms of protectionism employed in New Zealand in 1954. An explicit ad valorem duty had been used since 1851 while a general tariff was introduced in 1864. The tariff underwent numerous changes, the most important occurring in the 1920s when rates were increased and preference for British goods was introduced. A full revision was conducted in 1934 and the tariff remained virtually unchanged until 1957.

By the 1950s, the emphasis of New Zealand's trade protection had shifted from preservation of overseas foreign exchange reserves to the diversification of New Zealand industry through import substitution. This change in orientation had been pushed by many influential businessmen, economists, and commentators since the mid-1930s. However, the effects of this protection on industry diversification were limited - it was difficult to restrict total imports because refusing entry to essential materials or intermediate goods could cause unemployment. Seeing that they could not import final consumer goods, many foreign manufacturers set up finishing operations in New Zealand, i.e. there was a strong bias toward finishing production rather than activity that encompassed the full production process. The New Zealand automotive assembly industry was a prime example – manufacturers imported kitset cars to be assembled by New Zealand workers.

While total production and the number of manufacturers rose, their size in terms of number of employees remained smaller than was the norm overseas. The World Bank noted that because of protection, most industries operated on a small scale with high costs.¹¹⁹ The OECD went further by commenting that 'a number of enterprises have been developed whose viability under a more competitive climate would be open to serious doubt'.¹²⁰ Moreover, the protection offered to New Zealand industry was haphazard/uneven, and ultimately artificial. Attempts to even the playing field tended to create new anomalies that were in turn exploited by New Zealand businesses. The premiums paid by import licence holders reflected their ability to raise prices by virtue of their monopoly or near-monopoly position.

From an international perspective, import licensing restricted the ability of many countries to export to New Zealand. Attempts to export commodities to New Zealand where these commodities were produced domestically were simply refused import licences. Foreign

¹¹⁹ World Bank, 1968.

¹²⁰ OECD, Economic Survey, 1975, p.31.

manufacturers wishing to sell their product in New Zealand were forced to develop close working relationships with importers. These factors made New Zealand difficult to trade with, although the New Zealand protection measures were moderate by the standards of many other countries in 1954.

5.1.5 ANTI-CHINESE SENTIMENT IN NEW ZEALAND

In addition to the lack of shipping links, New Zealand-China trade was likely to be severely retarded by the lack of cultural links and a historically strong undercurrent of anti-Chinese sentiment within New Zealand. Significant numbers of Chinese immigrated to New Zealand during the South Island gold rush of the 1860s and 1870s. According to the 1874 Census, 6.06 percent of Westland's population and 4.19 percent of Otago's were Chinese.¹²¹ Despite being generally law-abiding and hardworking citizens, many New Zealanders believed the Chinese to have a drug-addled and immoral culture that was a threat to their way of life. There was also the implicit threat of the 'yellow peril' - the millions of Chinese thought to be descending through South East Asia to the sparsely populated South Pacific. Anti-Chinese lobby groups sprung up in various parts of the country, many with prominent politicians actively involved.

Parliament responded to this populist xenophobia by passing several pieces of legislation that were specifically designed to discourage further Chinese immigration. The most notorious of these was the Chinese Immigrants Act of 1881 which levied a poll or entry tax £10 for all Chinese immigrants to New Zealand, regardless of their port of origin. The tax was raised to £100 in 1896, an extraordinary amount at a time when average weekly wage was little more than a pound. A 1908 amendment added the requirement that Chinese immigrants had to read an English paragraph of 100 words before being admitted.¹²² The combination of these two measures effectively prevented Chinese immigration. Cabinet administered the coup de grace in 1926 by suspending the granting of permanent residence to Chinese. It was not until 1944 that the poll tax was finally abolished.

Despite the official change in policy, many New Zealanders retained a strong mistrust of Asiatic people. While the emphasis shifted somewhat from Chinese to Japanese peoples following the threat of Japanese invasion during World War II, the development of the Iron Curtain in Europe

¹²¹ King, M. (2003). *The Penguin History of New Zealand*, Auckland: Penguin Books (NZ) Ltd, p.208.

¹²² King, M. (2003). *The Penguin History of New Zealand*, Auckland: Penguin Books (NZ) Ltd, p.208.

and the associated anti-communist fervour, together with China's involvement in the Korean War, meant that most New Zealanders remained highly suspicious if not hostile towards China in 1954. Furthermore, travel to and communication with China became increasingly difficult in the early 1950s. However, being familiar with some of the hangover effects of colonialism, some New Zealanders sympathised with the colonial exploitation China had suffered.

5.2 CHINA'S TRADE

5.2.1 CHINA'S TRADITIONAL HOSTILITY TO TRADE

China has long had a culture of self-sufficiency and hostility towards foreign trade and those pursuing it. One reason for this was that the Chinese managed largely to do without international trade for thousands of years – China's large land area and abundance of most essential resources meant that the only trade required was internal. If external trade was to occur, the Chinese believed it must be on their terms – often this meant that trade was to be in a tributary form and restricted to specific areas of the country such as the port of Guangzhou (Canton). But production over the eighteenth century failed keep pace with an estimated doubling of the population. Inevitably the economic situation of the Chinese peasant deteriorated which, together with the costs of foreign expansion, rampant corruption, and foreign pressure forced the Qing Dynasty (1644-1912) to open limited parts of the economy to foreign traders. Britain was the major trader to benefit, largely through the illegal opium trade from India which was significant by 1800, although France and the United States were also active traders.

Britain's victory in the First Opium War of 1839-43 together with Britain and France's victory in the Second Opium War of 1856-60 forced the Chinese to sign what they came to call the 'unequal treaties' in 1860. These treaties had five major components: 1) all Chinese ports were opened to foreign trade and foreign residents; 2) Hong Kong and Kowloon were permanently ceded to Britain; 3) foreign residents were subject to the laws of their home country as opposed to Chinese law; 4) Chinese duties on imported goods were limited to 5% of their value; and 5) a most favoured nation clause was included to the effect that the extension of privileges by China to one party was automatically extended to all others.

The 'unequal treaties' provided the basis for Western relations with China until 1943 and handicapped Chinese economic activity by prohibiting the protection of Chinese industry from

imports. They gradually dismantled China's network of tributary states in Asia and paved the way for the take over of the Chinese economy by foreign interests. European and Japanese interests established substantial bases in the treaty ports and in the twentieth century foreign interests began to establish industrial bases in east China, particularly Manchuria. These foreign enterprises often proved a double-edged sword – on one hand they distorted China's economic development for their own ends, while on the other hand they created a technology stock that China was to draw on in later years.

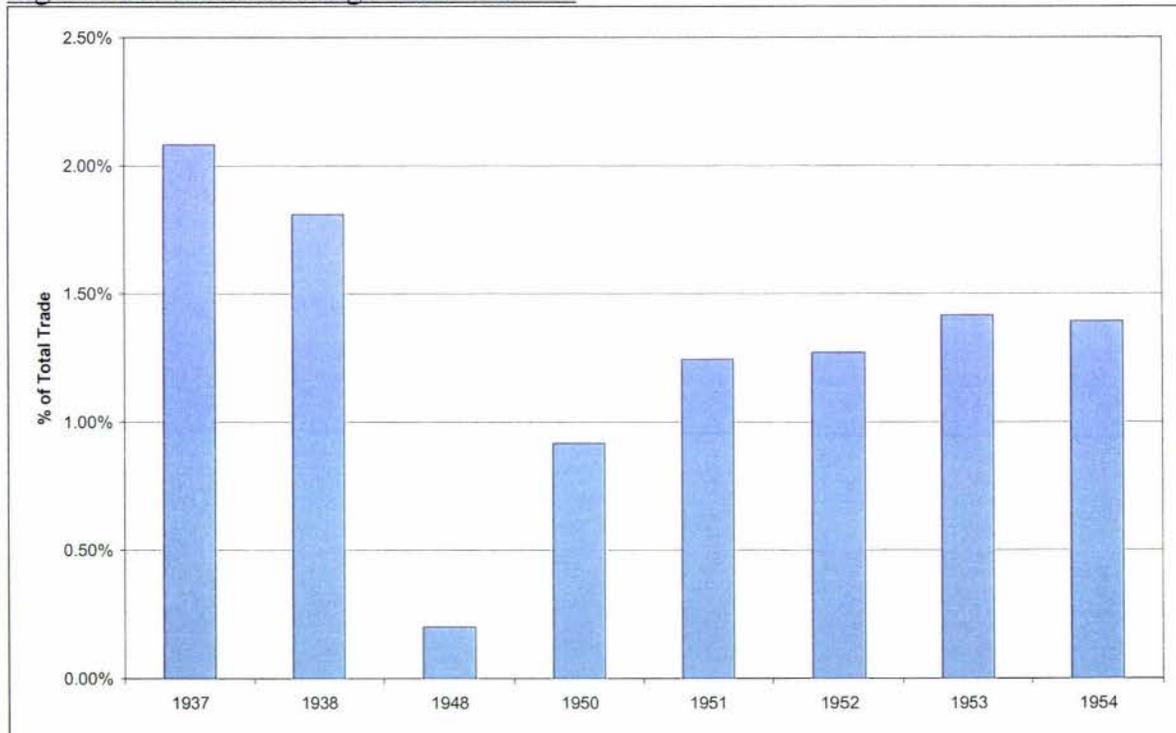
5.2.2 INCESSANT WARFARE AND ITS IMPACT ON TRADE

Japan and Russia joined the rush to carve up China, precipitating numerous conflicts in the late nineteenth and early twentieth centuries. Military defeats and internal uprisings forced the Qing dynasty to cede power to a revolutionary assembly in 1912, leading to the establishment of the Republic of China under the Kuomintang nationalist government. However, the Kuomintang's power was limited and ineffectual until 1927. A wave of anti-imperialism swept China in the wake of World War I with many Chinese rejecting the self-interest of capitalism in favour of Soviet-styled socialism, culminating in the formation of the Chinese Communist Party in 1921 with Mao Zedong as one of its founders. Although the Communists were admitted to the Kuomintang in 1923, its leader Chiang Kai-Shek launched a bloody purge of Communists in 1927 in an attempt to reunify China under the Kuomintang's exclusive control. This sparked a Communist rebellion which after initially going underground in central China, emerged to undertake the 'long march' to northwest China. From the outset of the rebellion, Mao recognised that unlike Russia, China was an agricultural country with only a small industrial base. The seeds of revolution would therefore need to be sown amongst the rural peasantry rather than the urban proletariat. The Communist revolution was therefore more of a peasant revolt than a proletarian revolution. The Communists increased their control over rural areas of China during Sino-Japanese war (1937 to 1945). Following the Japanese surrender, the Communists and the Kuomintang fought a bitter civil war which turned in the Communists' favour by 1948, forcing the Kuomintang to flee to Taiwan in 1949. Meanwhile, the Communists declared the People's Republic of China (PRC) on 1 October 1949 with Mao Zedong as Chairman of its Communist Party. By 1954 the Communists had established effective control over the whole of mainland China and promulgated a constitution that entrenched the hegemony of the Chinese Communist Party. However, the presence of the remnants of the Kuomintang on

Taiwan and their insistence that they remained the rightful government of China continued to create animosity and the possibility of armed conflict.

Inevitably the chaos caused by the almost constant state of war over several decades severely impacted on foreign trade. Invading powers frequently redirected production in line with their interests and shipping was often a dangerous proposition. Perhaps more importantly, the civil war and the proclamation of the PRC led to a large outflow of refugees together with their capital and skills to Taiwan and Hong Kong. Ultimately these disruptions had a dramatic negative effect on China's foreign trade, as indicated in figure 5.2a below. Foreign trade in 1948 was a small fraction of what it had been in 1938. As China became more insular under the Communists, Hong Kong and Taiwan increasingly became China's contact points with the outside world.

Figure 5.2a: China's Foreign Trade 1937-54



Source: Compiled from Beal, T. (ed.). (1996). *New Zealand and China : Present and Future*.

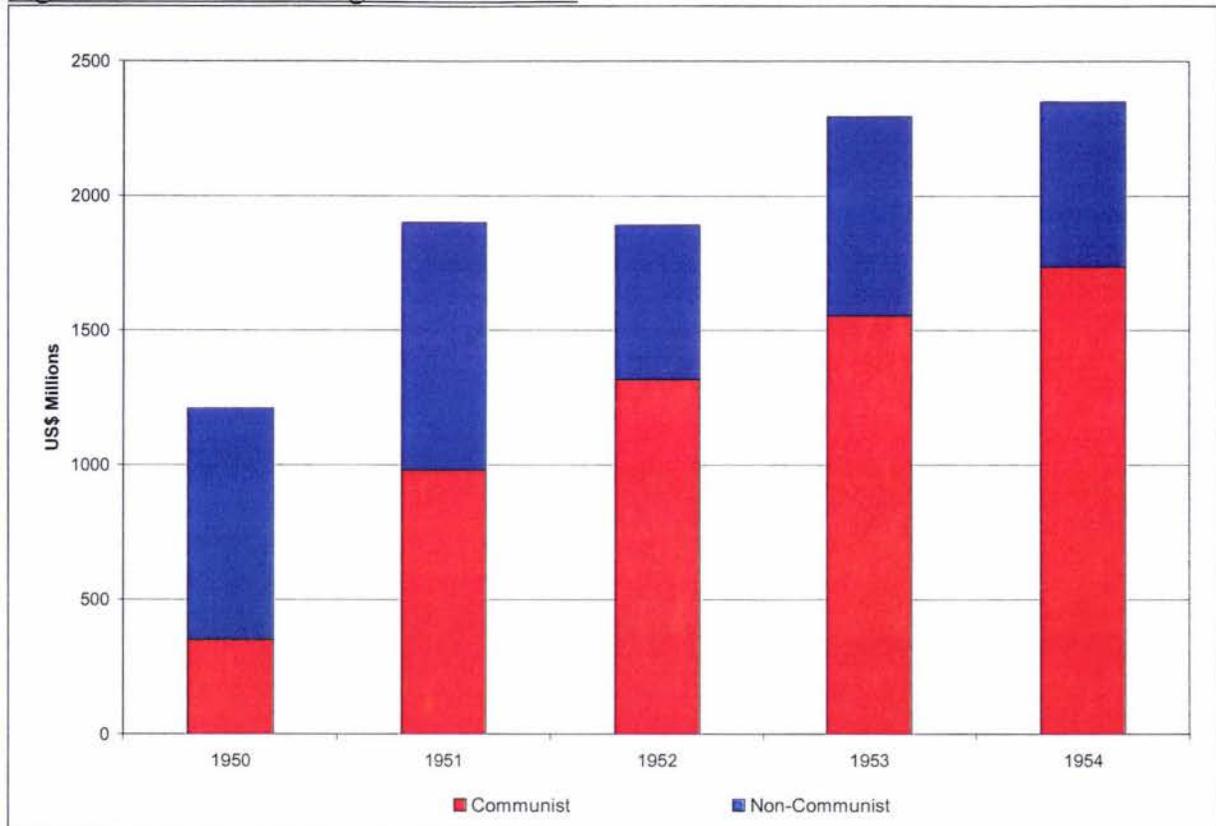
5.2.3 ANTI-IMPERIALISM AND THE PROCLAMATION OF THE PRC

Although the PRC was proclaimed along Marxist-Leninist lines, its underlying structure and circumstances demanded a uniquely Chinese form of socialism. Naturally Chairman Mao's thought dominated Chinese Communism. Having witnessed frequent humiliations at the hands of foreign powers and attempts at westernising China in the first half of the twentieth century,

Mao was determined to make China self-sufficient and to end imperialist interventions. Nationalism and anti-imperialism were founding cornerstones of the PRC, along with repression of subversive elements and Marxist-Leninist socialism. More particularly, Mao considered that imperialism was the principal cause of war. He also feared that foreign trade and investment would make China dependent on foreign powers and allow them to use their influence to weaken China. Foreign entrepreneurs that did not flee after the proclamation of the PRC in 1949 found their businesses brought under joint state-private control, quickly progressing to total state control through outright seizure and intimidation for those deemed superfluous. Those entrepreneurs for whom the state had further use were 'favoured' with forced compensatory payments. The exports that did occur were merely seen as a means of paying for imports and in both cases were tightly controlled by state-run Export-Import Corporations.

Mao preferred creating a uniquely Chinese model of nation building as opposed to copying the experiences of other countries, but in reality Chinese economic policy in the 1950s closely resembled that of Russia after its revolution. The refusal of many Western countries to diplomatically recognise the PRC meant that the Communist regime was generally isolationist in nature, with the exception of its relations with the USSR, which became China's paramount ally and largest trading partner. The increase in Soviet influence and trade is shown in the increase in the proportion of communist trade in Figure 5.2b below. While China did not turn its back completely on trade with Western nations, only trade that was absolutely necessary to meet China's economic objectives was undertaken and even then it had to be carried out in accordance with the Chinese principle of 'equality and mutual benefit'. In other words, China had reverted to the principle of conducting foreign trade on its own terms.

Figure 5.2b: China's Foreign Trade 1950-54



Source: US Government. (1975). *People's Republic of China - International Trade Handbook*.

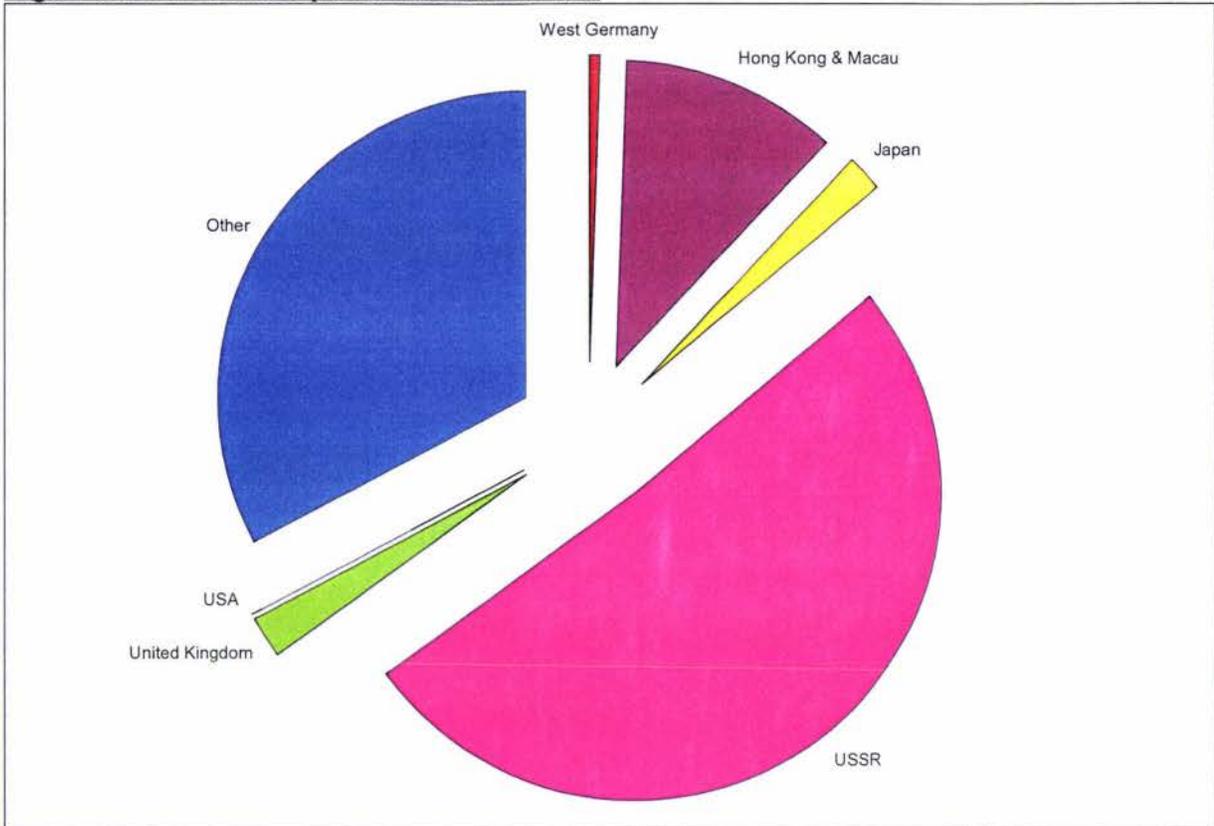
5.2.4 CHINA'S EXPORTS AND IMPORTS

Agricultural and sideline products made up some 48.3% of China's exports in 1954¹²³ with a high proportion going to Hong Kong, as indicated in figure 5.2c below. Rice, soy beans, hog bristles, nuts, tung oil, grains, and tea were all prominent exports. While China was generally self-sufficient in agricultural products, it was not uncommon for it to export food or other products for reasons of prestige when domestic shortages existed. China only bought those imports which the Government believed it needed, mostly through inter-governmental bilateral trading agreements. 89.4% of China's imports in 1952 were capital goods, the vast majority of which were sourced from the USSR, as indicated by figure 5.2d below, while the remaining 16.6% were consumer goods.¹²⁴

¹²³ Editorial Board of the Almanac of China's Foreign Economic Relations and Trade: *Almanac of China's Foreign Economic Relations and Trade 1987*, Hong Kong, China Resources Advertising Co.

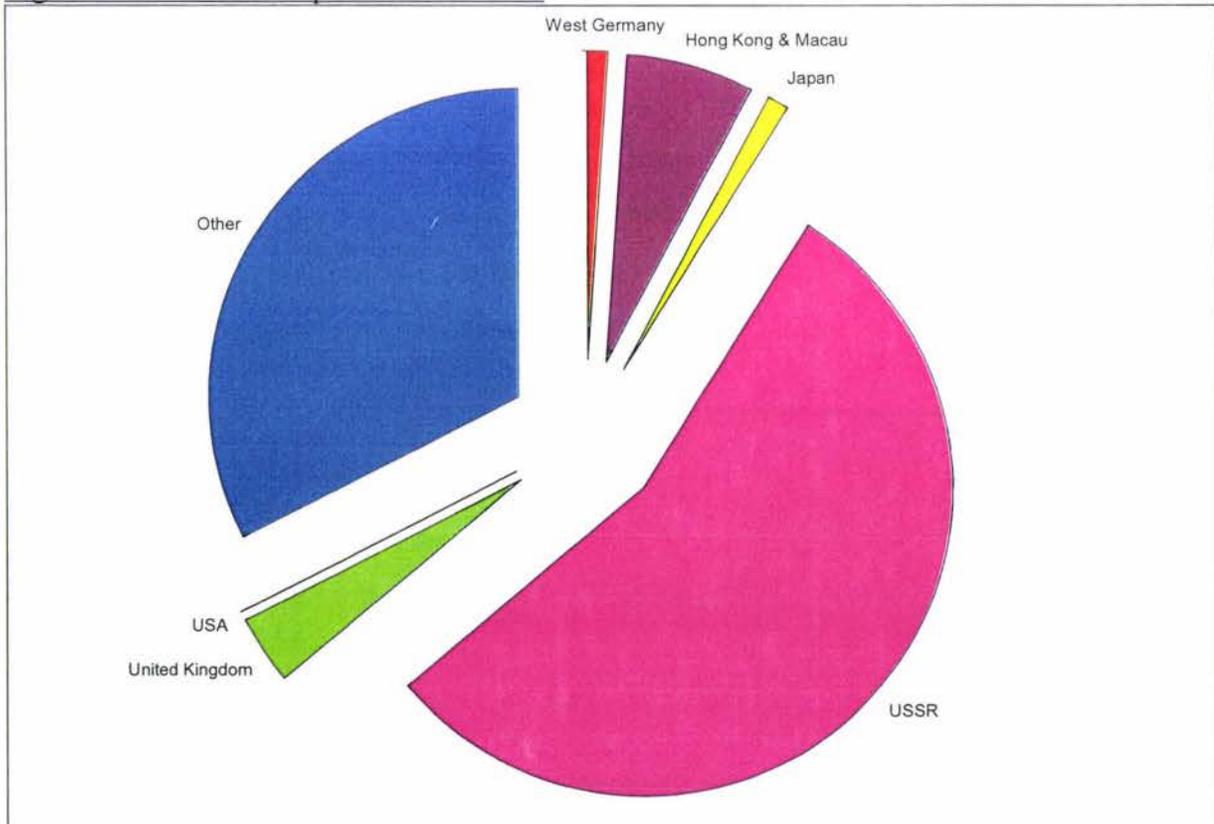
¹²⁴ Hong, M. (ed.). (1990). *Modern China's Economy and Management*, Beijing: Foreign languages Press, p.152.

Figure 5.2c: China's Export Destinations 1954



Source: Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000* (4th edition).

Figure 5.2d: China's Import Sources 1954



Source: Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000* (4th edition).

5.2.5 CHINA'S CONTROLS ON EXPORTS AND IMPORTS

China's exports and imports were exclusively controlled by arms of the state. National commodity import and export plans were drawn up by Ministry of Foreign Trade and implemented through ten major state trading corporations delineated according to commodity groups:

- (i) China National Cereals, Oils, and Foodstuffs Import and Export Corporation
- (ii) China National Chemicals Import and Export Corporation
- (iii) China National Light Industrial Products Import and Export Corporation
- (iv) China National Machinery Import and Export Corporation
- (v) China National Metals and Minerals Import and Export Corporation
- (vi) China National Native Produce and Animal By-Products Import and Export Corporation
- (vii) China National Textiles Import and Export Corporation
- (viii) China National Instruments Import and Export Corporation
- (ix) China National Technical Import and Export Corporation
- (x) China National Arts and Crafts Import and Export Corporation

Any foreign trader attempting to sell to China was forced to approach one of the state trading corporations. More often than not, attempts to introduce new products to China were met with the response that China has no demand for such products. In this way, China was able to operate a cast-iron import licensing/quota system. In addition, shipping duties were payable on items imported to China and customs tariffs were applied to imported commodities according to their perceived essentialness. In very broad terms, raw materials, heavy equipment, and construction needs were subject to lower tariff rates than consumer goods. Rates ranged from 5% to 400%.¹²⁵ China operated a two-column tariff: lower tariffs were applied countries that had negotiated commercial treaties with the PRC; general/higher rates are applied to other countries. From a practical viewpoint, tariffs and duties did not play a large part in purchase decisions as they were merely credited to one state department from another. The landed cost of the goods was a key decision criterion. Foreign traders were never allowed to communicate directly with the 'end user' of their products – all such enquiries had to be routed through the appropriate Corporation.

¹²⁵ AATJ 113/1 PART 15.

The state controlled China National Chartering Corporation (CNCC) held a monopoly over shipping to China in much the same way as the state trading corporations. Exports to China were sold free on board with the CNCC responsible for arranging shipping. Upon arrival in China, the Commodity Inspection Bureau checked the imports according to customs requirements and the quality specifications of the contract. Domestic transportation to end users was the responsibility of the China National Foreign Trade Transportation Corporation. Imports from China were arranged inclusive of transport and insurance costs (CIF), with the CNCC often acting as carrier.

5.2.6 CHINA'S ATTITUDE TOWARDS NEW ZEALAND

In 1954, New Zealand was scarcely on the radar of the PRC. In the twenty years from the first issue of the *Beijing Review*¹²⁶ in 1952, until 1972, there were only four articles that mentioned New Zealand.¹²⁷ As a small country in the remote South Pacific, New Zealand was neither a significant friend of China nor a major adversary. New Zealand did not possess any export commodities for which China had pressing need (unlike Australia's grain) and China's diplomacy was concentrated on the bipolar relations between the United States and the USSR. China's analysis of the world, and therefore New Zealand, would have been framed in the context of five predicates it shared with Stalinist USSR:

- 1) The world is divided into two inherently hostile and warring camps that mirror the basic class division of contemporary society.
- 2) The socialist camp and its allies (including the proletariat and other so called 'progressive' forces in imperialist states) are engaged in a worldwide, historical struggle against imperialism that will eventually lead to the victory of socialism.
- 3) Beneficial relations between socialist states and members of the imperialist camp are desirable, but such relations will always be limited by their instrumental and transitory character. Genuine, long-term co-operation with imperialist states is impossible given the historic conflict between the two opposing world systems.
- 4) Relations between socialist states are based upon a common identity rather than transitory interests. Socialist international relations are relations of a new type

¹²⁶ *Beijing Review* is China's authoritative official magazine for foreigners.

¹²⁷ Zhang, B. (1988). 'Sino-New Zealand Relations 1792-1987', MPhil Thesis, Hamilton: University of Waikato, p.20. Three of the articles related to reports on recognition while the fourth praised the New Zealand Communist Party for siding with the Chinese Communist Party rather than the Soviets after the Sino-Soviet split.

characterised by peace, long-term mutual interest, genuine cooperation, and fraternal solidarity.

- 5) Socialist states can forge coalitions with nationalist states and political movements even when these are non-socialist in character on the basis of shared opposition to imperialism.¹²⁸

For her part, New Zealand did little to discourage this notion by strongly orientating her diplomatic representation towards Commonwealth countries and having her defence policy increasingly influenced by the ANZUS treaty signed in 1952. At the level of the ordinary citizen, it is unlikely that many Chinese would have known anything about New Zealand, except perhaps if they knew something of Rewi Alley's activities in China. In the unlikely event they did know of New Zealand, they would most likely have considered it an imperialistic Western nation.

5.3 CHINA-NEW ZEALAND TRADE 1790-1954

Despite Chinese demand for sealskins prompting the first European settlement of New Zealand in 1792, and China being New Zealand's largest export market outside British territories when the first New Zealand trade statistics were published in 1859, trade between the two countries remained comparatively low for the next 180 years until the establishment of diplomatic relations in 1972. As we have seen from sections 5.1 and 5.2, the principal reason for this was that New Zealand's trade was directed towards Britain while China's trade was subjugated to the interests of foreign imperial powers. Between 1859 and 1954, exports to China never exceeded 1% of New Zealand's total exports, notwithstanding New Zealand's relatively close proximity to China. The trend over this period is given in Figure 5.3a below. However, this statement must be put into the context of the huge expansion of New Zealand exports after 1860 as New Zealand's population and shipping links with major export markets increased dramatically. Goods traded with China in the 1850s were generally from extractive industries – sealing, whaling, and timber for spars.¹²⁹ The increase in exports to China in the 1870s is directly attributable to the gold rushes while towards the latter part of the century, fungus and scrap iron became important.¹³⁰ In the early twentieth century these exports were gradually augmented and

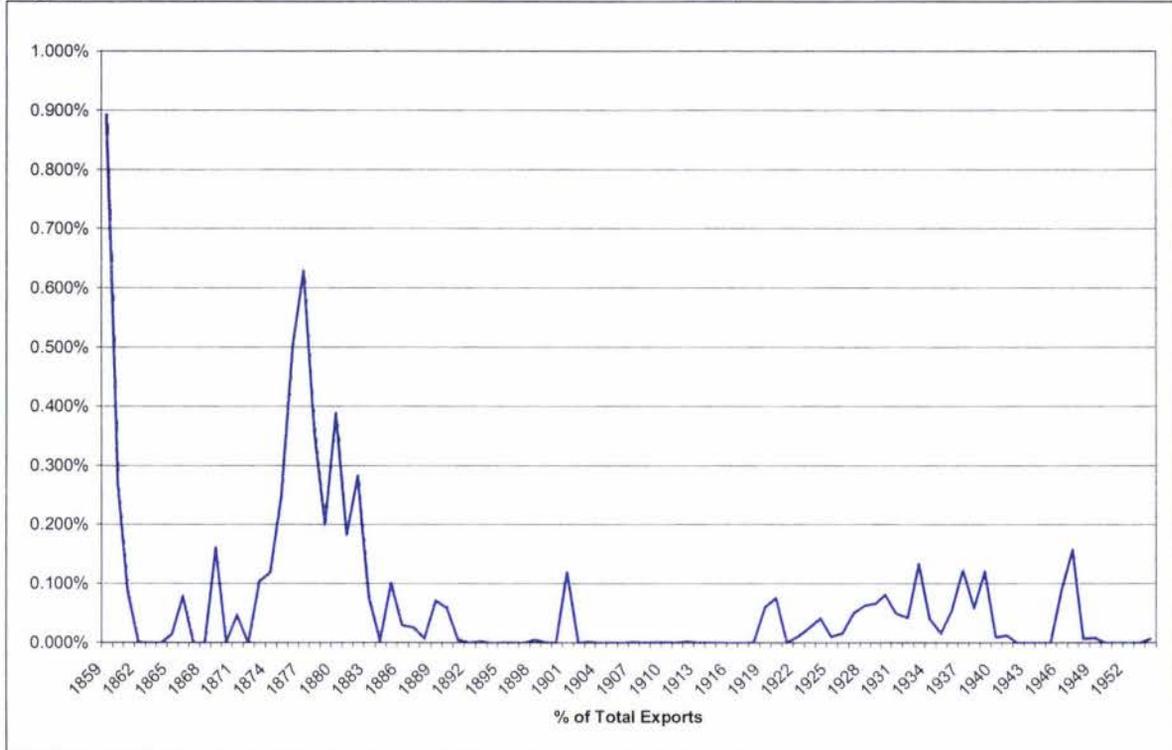
¹²⁸ Robinson, T.W. & Shambaugh, D. (eds.). (1994). *Chinese Foreign Policy*, Oxford: Oxford University Press, p.37-38.

¹²⁹ Elder, C.J. & Green, M.F. "New Zealand and China" in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.23.

¹³⁰ Ibid.

replaced with dairy and other pastoral products. The appointment of several New Zealand businessmen operating in China as honorary trade representatives in 1930-31 marked a modest attempt by the New Zealand government to develop trade with China, although New Zealand exports remained limited to 1954.

Figure 5.3a: New Zealand's Exports to China 1859-1954



Source: Beal, T. (ed.). (1996). *New Zealand and China : Present and Future*.

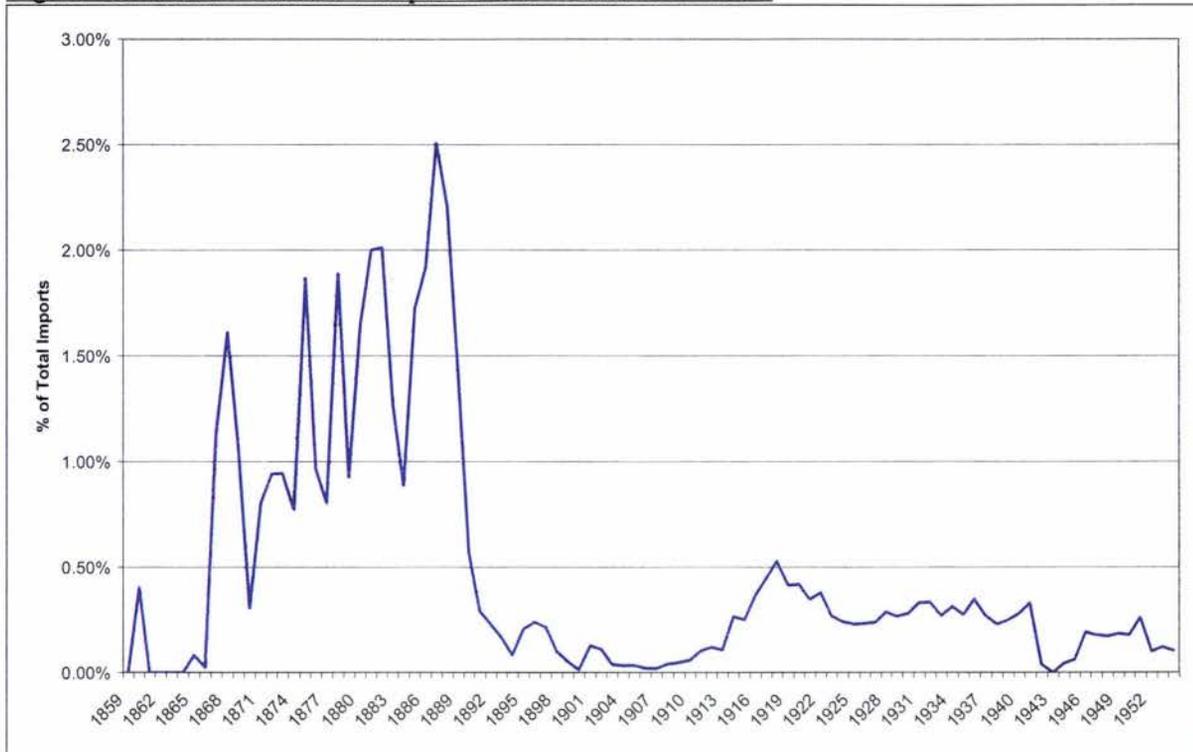
In terms of imports, China had always been a much more important market for New Zealand. Figure 5.3b (below) shows the long-term trend. Imports from China peaked at 2.51% in 1887, a figure that was not to be exceeded until 1993. Tea was by far the largest import, comprising 76% of imports in 1870, 90.9% in 1880, and 55% in 1890.¹³¹ However, Ceylon and India had virtually replaced China in the early twentieth century.¹³² Other exports to New Zealand included nuts, spices, oils, fireworks, silk, cloth, sewing supplies, and food items.¹³³ World War I saw an increase in opportunities for China to export to New Zealand, but this largely evaporated with the coming of the Great Depression and China's Civil War. Imports from China also remained limited through the remainder of the period to 1954.

¹³¹ Ibid, p.24.

¹³² Ibid.

¹³³ Ibid.

Figure 5.3b: New Zealand's Imports from China 1859-1954



Source: Beal, T. (ed.). (1996). *New Zealand and China : Present and Future*.

Despite a promising start, New Zealand-China trade had declined to such an extent that by 1954 that neither country realistically regarded the other as a market of importance.

5.3.1 FORMAL NEW ZEALAND-CHINA AGREEMENTS

In 1928 the United Kingdom and the Republic of China extended reciprocal most-favoured-nation (MFN) status to each other under an exchange of letters that included Commonwealth countries such as New Zealand. Although there were legal issues over whether the Republic of China legally covered the People's Republic of China,¹³⁴ a country which New Zealand did not recognise, for 'practical convenience' the New Zealand government continued to extend MFN status to the PRC.¹³⁵ For import licensing purposes, China was treated as a 'non-scheduled'¹³⁶ country and therefore not discriminated against in any way.

¹³⁴ The Government of the Republic of China escaped to the island of Taiwan at the end of the Chinese Civil War.

¹³⁵ ABHS 950 40/11/Part 2

¹³⁶ Imports from dollar area countries were scheduled/limited.

5.4 CONCLUSIONS

In 1954, New Zealand and China were directing their trade in different directions. New Zealand remained strongly dependent on Britain as a market for its pastoral exports. China, having just recovered from a substantial period of war and economic turmoil, was looking to cement the position of its Communist Party and turned towards the USSR as its pre-eminent trading partner. In addition to the opposing directions of trade, there was a substantial difference in the level of dependence on international trade. China's huge population provided it with a significant internal market and accordingly its economy was nowhere near as dependent on international trade as New Zealand's. Total trade¹³⁷ as a percentage of GDP was a mere 9.5% in China in 1952 as opposed to New Zealand's 67.6%.¹³⁸ China's trade policy over the period 1954 to 1984 was to be dominated by a conflict between a strong cultural dislike of trade in favour of self-sufficiency, and the necessity of trade to gain access to new ideas, methods, technology, and the few essential raw materials which could not be extracted from its own territories. In contrast, New Zealand was unequivocally reliant on international trade for a large proportion of its national income, consumer goods, and capital goods. The relative reliance on international trade for the two countries over time is provided in Table 5.4a below.

Total Trade as a % of GDP		
	New Zealand	China
1952	67.6%	9.51%
1957	51.5%	9.78%
1962	37.2%	7.04%
1965	38.2%	6.90%
1970	37.8%	5.01%
1975	37.8%	9.69%
1978	41.1%	9.80%
1980	48.6%	12.62%
1985	52.3%	23.05%

Calculated from:
 - State Statistical Bureau of the People's Republic of China: *China Statistical Yearbook 1998*.
 - IMF *International Financial Statistics*, September 2002.

The foregoing has touched on the problem of scale. Mathew Philips remarked in 1949 'The potentialities are too great for this prospective market to be ignored. For example, if every Chinese was to require one pound of butter a year, China would be able to dispose of New

¹³⁷ Total trade = exports plus imports.

¹³⁸ See table 5.4a.

Zealand's entire export of the stuff...'.¹³⁹ However, ignoring the potential trade and the problems in trading butter with China, with only 2.1 million people in 1954 and a limited range of export commodities, New Zealand was also going to struggle to attract the attention of the Chinese on purely economic grounds. Fortunately, there was a potential answer to this dilemma. International trade does not take place in a political vacuum – historically virtually all nations have used trade as leverage to achieve their diplomatic and political objectives. China was much more able and willing to use trade as a political weapon. In New Zealand, trade was unapologetically directed towards Britain and Commonwealth countries. However, New Zealand's size and narrow range of products and markets limited its ability to use trade for political purposes. The same could not be said for China in 1954. China's large centralised/command economy, together with Mao's fundamental proposition that politics always commands economics, meant that China was not shy of using trade as a weapon of war or to win friends. The right political overtures by New Zealand had the potential to reap large economic rewards from China. However, New Zealand's flag was firmly in the United States camp and that country viewed the PRC as a hostile and expansionist Communist country. A substantial change in foreign policy by one or both countries would be required for trade to flourish.

There was also the problem of the historical racial discrimination and cultural differences between the two countries. While there was no indication in 1954 that the Chinese Government bore a grudge over New Zealand's record of historical discrimination, the two cultures remained very different. Throw into the mix the lack of shipping links between the two countries in 1954, and the picture begins to look very grim indeed. A great deal of effort would be required from both China and New Zealand if trade was to expand.

¹³⁹ Mathews, P. (1949). *China and New Zealand*, Auckland: The Chinese Bookshop, p.6.

6.0 NEW ZEALAND-CHINA TRADE 1954 TO 1984

Before attempting to explain the trading pattern between 1954 and 1984, it is first necessary to describe the pattern. Statistics provide a road map of New Zealand-China trade while the low points and high points act as road signs indicating periods that require further investigation and/or explanation. Statistics detailing the value and composition of New Zealand China trade over the subject period are provided in Appendix 1. Reading pages and pages of statistics does little to enhance a casual readers understanding of the trading relationship so we must turn to graphical means to show important events and trends over time.

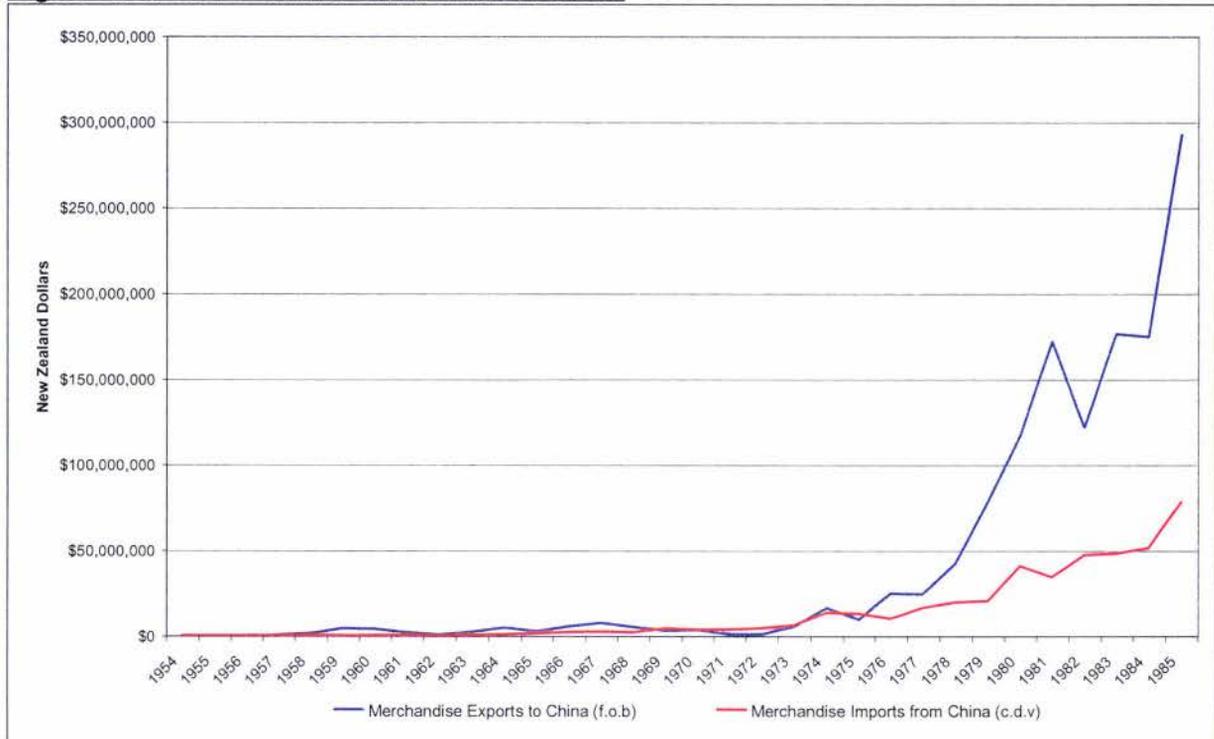
However, the statistics available have some limitations. Firstly, they are mostly from New Zealand or Western sources. The PRC did not publish comprehensive statistics over the relevant period, and those that were published were highly selective. For example, it is difficult to find official Chinese statistics relating to the Great Leap Forward or statistics detailing the direction of China's trade. Another potential problem is the role of Hong Kong – Chinese statistics will show exports to New Zealand as exports to Hong Kong if, as was highly likely between 1954 and 1984, they passed through Hong Kong. For these reasons, New Zealand export and import statistics have been used as the primary measure of New Zealand-China trade. While this is not ideal, New Zealand statistics are respected for their accuracy, and statistics on China's trade with other countries from non-governmental sources are incorporated wherever possible.

Secondly, there are some problems involved in analysing a long time period such as 1954 to 1984. A good example of this is the change in New Zealand's currency from the New Zealand pound to the New Zealand dollar in 1967. This required a conversion for some of the statistics used below based on the issue rate of 1 pound equals 2 dollars. Similarly, many of the most useful statistical series changed their calculation basis over the study period. Such inconsistencies have been adjusted for by using data from other series or publications to ensure comparability over the study period.

6.1 VALUE OF EXPORTS AND IMPORTS

A useful starting point for analysing the New Zealand-China trading relationship is a straight value trend for exports and imports:

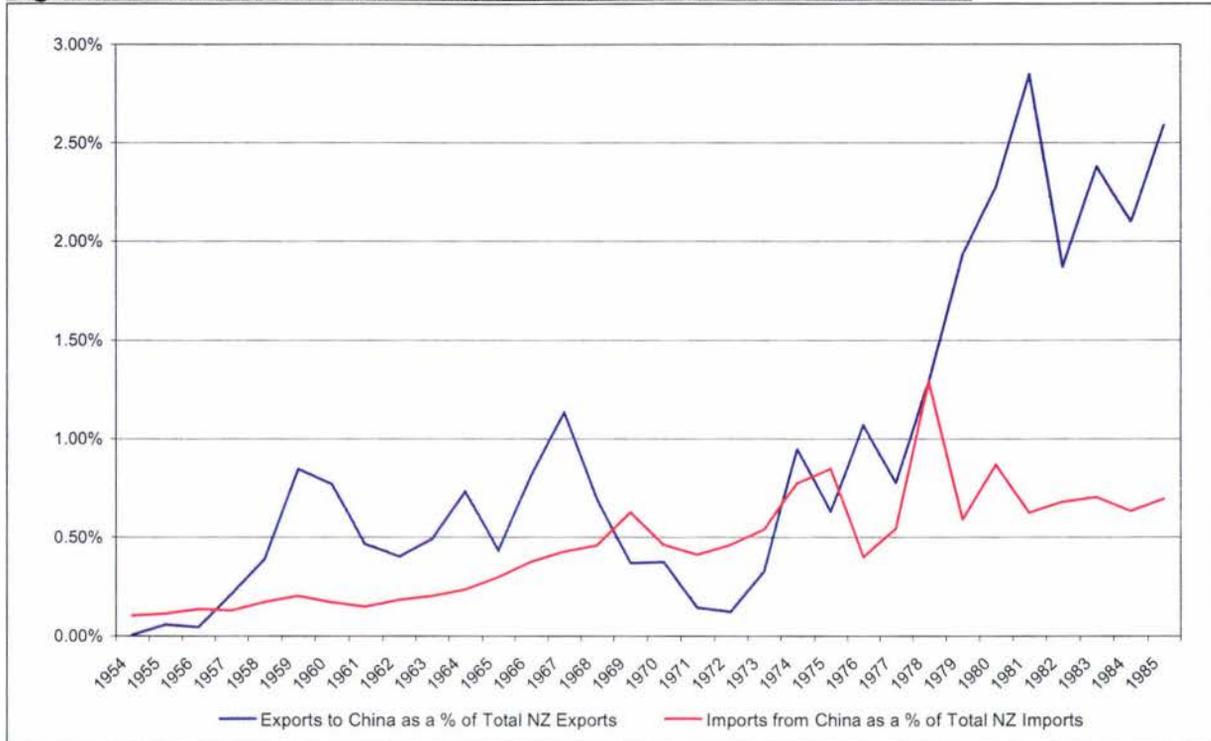
Figure 6.1a: New Zealand-China Trade 1954-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Clearly trade expanded dramatically over the period, especially after diplomatic relations were established in 1972, but the rapid expansion also makes it difficult to analyse the scale of earlier trade. One possible solution is to use a log scale but this cure is often worse than the initial ailment as it introduces further distortions and requires an underlying knowledge of logarithms. Another potential problem is that just analysing New Zealand-China trade ignores what is happening to the total trade of New Zealand, and indeed the world, which grew at an unprecedented rate after World War II. Both these problems can be overcome by expressing the trading relationship as a percentage of New Zealand's trade, as per Figure 6.1b.

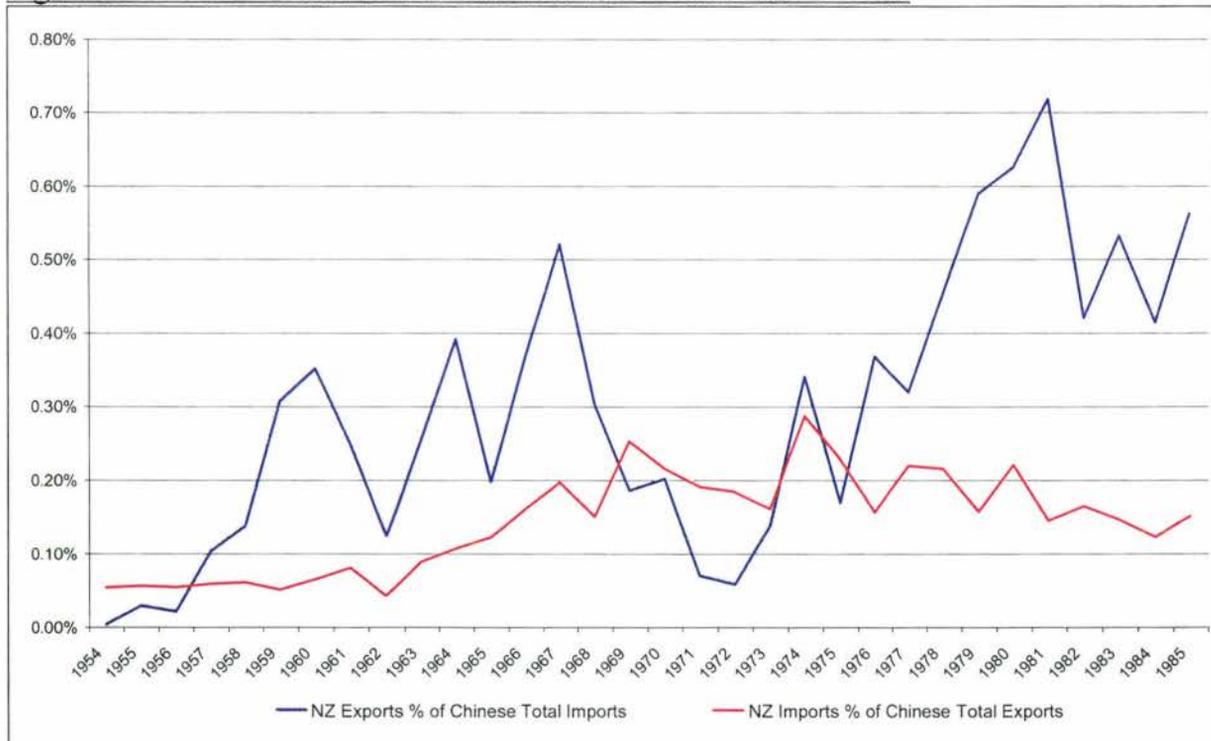
Figure 6.1b: New Zealand-China Trade as a % of Total New Zealand Trade



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

A crude approximation of the same graph can be developed to show New Zealand-China trade as a percentage to total Chinese trade:

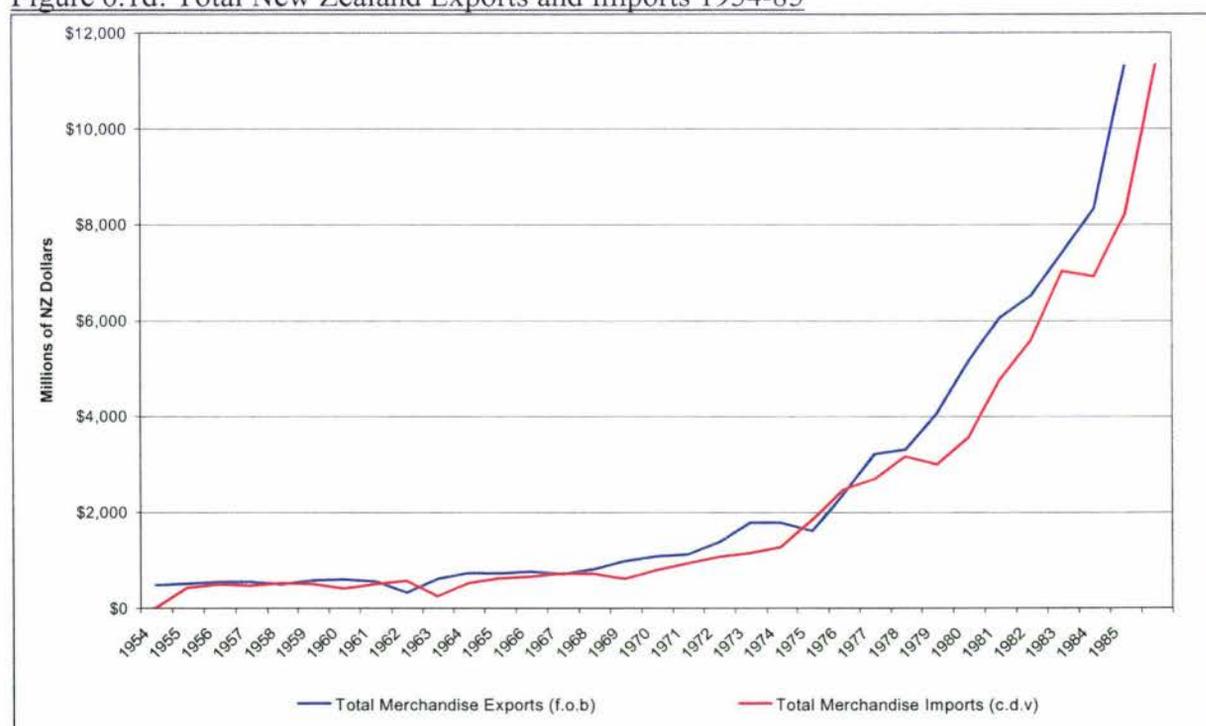
Figure 6.1c: New Zealand-China Trade as a % of Total Chinese Trade



Source: NZ Department of Statistics, *External Trade Statistics*, various years, Data is December years to 1961, 1962 is a statistical half year, and June years thereafter; IMF *International Financial Statistics 2002, Almanac of China's Foreign Economic Relations and Trade*, 1987. Average annual NZ:US exchange rates were used.

It is possible to see three distinct phases in the New Zealand China trading relationship over the study period: 1) the period 1954-1972 was a period of back-door trading, sometimes termed the ‘wasted years’,¹⁴⁰ due to the lack of diplomatic recognition and the problems that posed; 2) the period 1973-78 was a period of front-door trading and improving relations accompanying the establishment of diplomatic recognition; and 3) 1979-84 was a period of rapid expansion of trade following China’s adoption of the ‘four modernisations’ programme and a generally more pragmatic and open attitude towards foreign trade, hence it was a period of open-door trading. The three periods are more marked in New Zealand’s exports to China than imports from China which remained relatively low. However, the years 1966 to 1972 would appear to represent something of an anomaly as New Zealand exports to China as a percentage of total exports increased substantially before decreasing similarly. This highlights the importance of context when analysing statistics – the trend in total New Zealand trade and total Chinese trade also needs to be considered. Figures 6.1d and 6.1e show that both New Zealand and Chinese exports and imports increased over the period. The combination of a large increase in Total New Zealand exports and highly volatile wool exports to China meant that exports to China did not maintain their percentage of New Zealand exports.¹⁴¹

Figure 6.1d: Total New Zealand Exports and Imports 1954-85

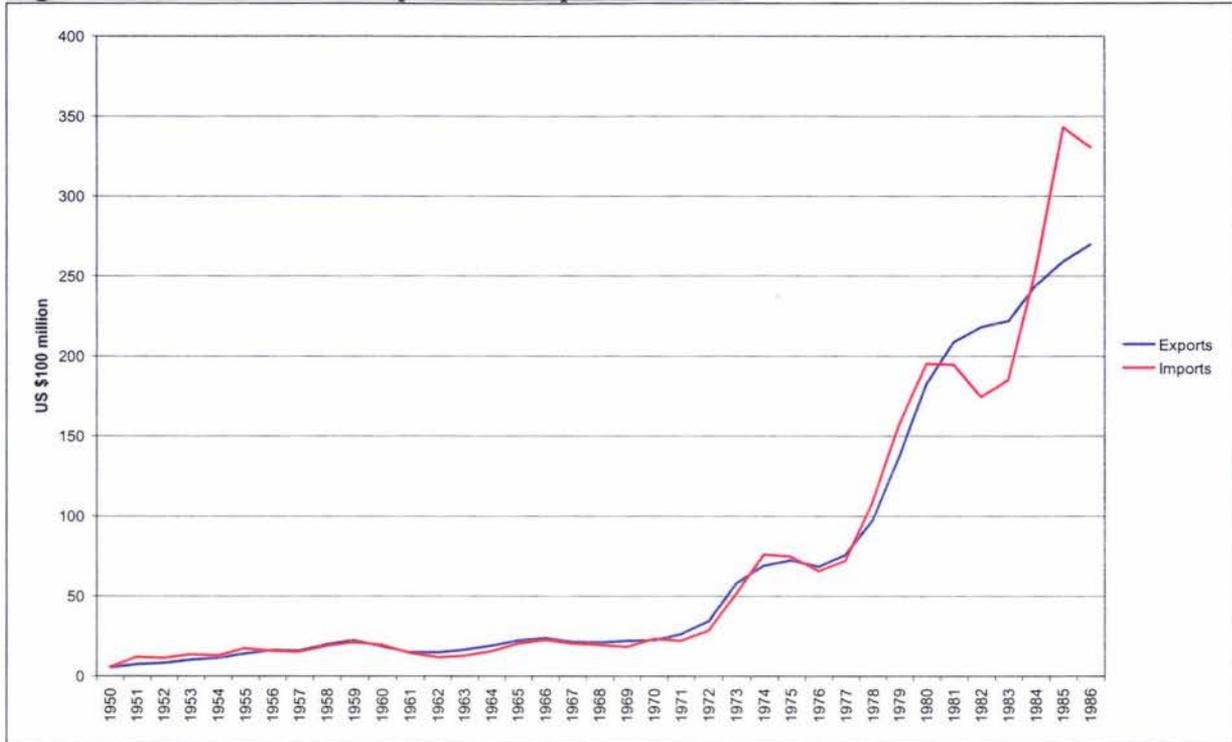


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

¹⁴⁰ Elder, C.J. & Green, M.F. ‘New Zealand and China’ in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago.

¹⁴¹ See Appendix 1 for the absolute figures.

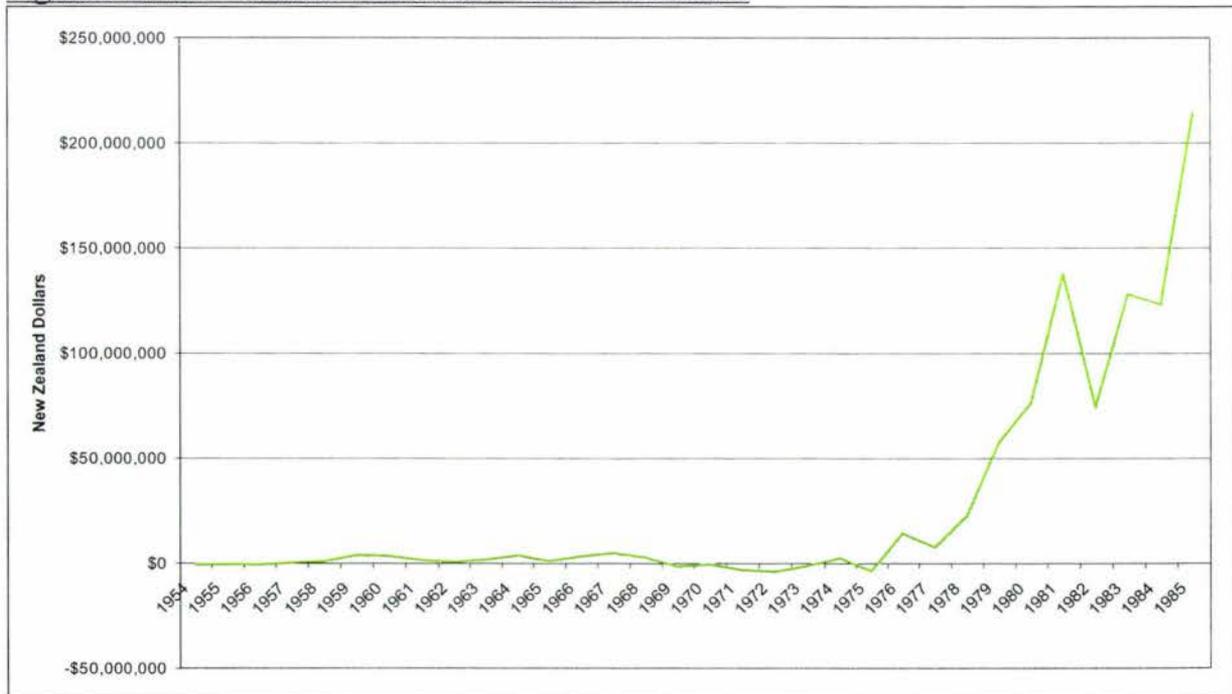
Figure 6.1e: Total Chinese Exports and Imports 1950-86



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*

New Zealand's balance of merchandise trade with China shows the dramatic change in bilateral trade from 1979.

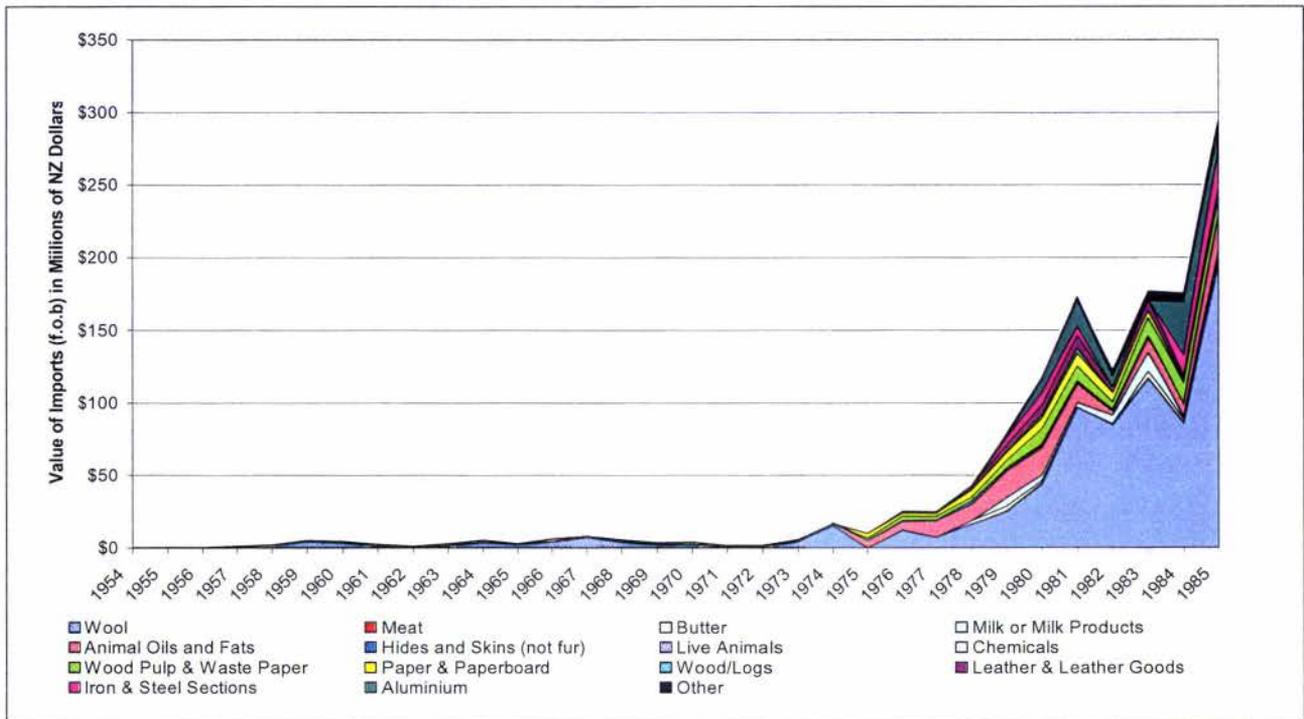
Figure 6.1f: New Zealand's Balance of Trade with China



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

6.2 COMPOSITION OF NEW ZEALAND EXPORTS TO CHINA

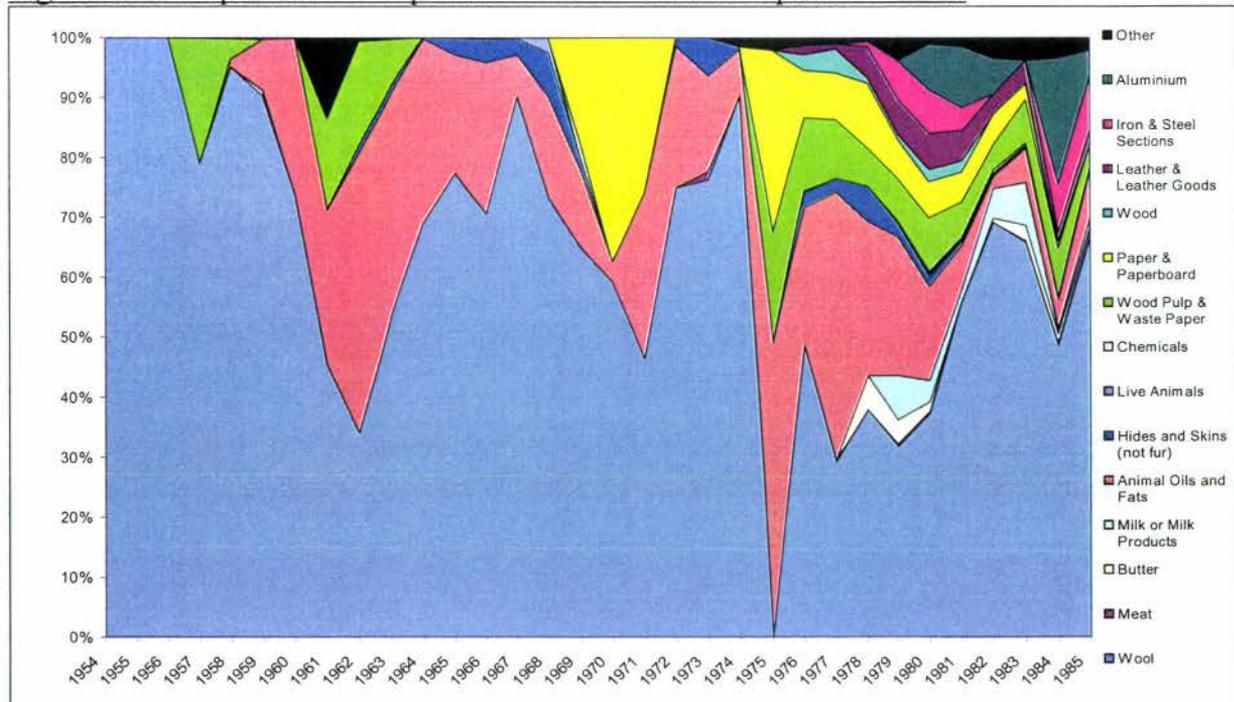
Figure 6.2a: Total New Zealand Exports to China by Composition.



Source: Statistics New Zealand, *External Trade Statistics*, various years. 1954-61 are January years, 1962 is a statistical half year, with 1963-85 June years.

The huge expansion in trade makes after 1978 makes it difficult to determine the composition of exports prior to this date. In proportional terms, New Zealand's exports were:

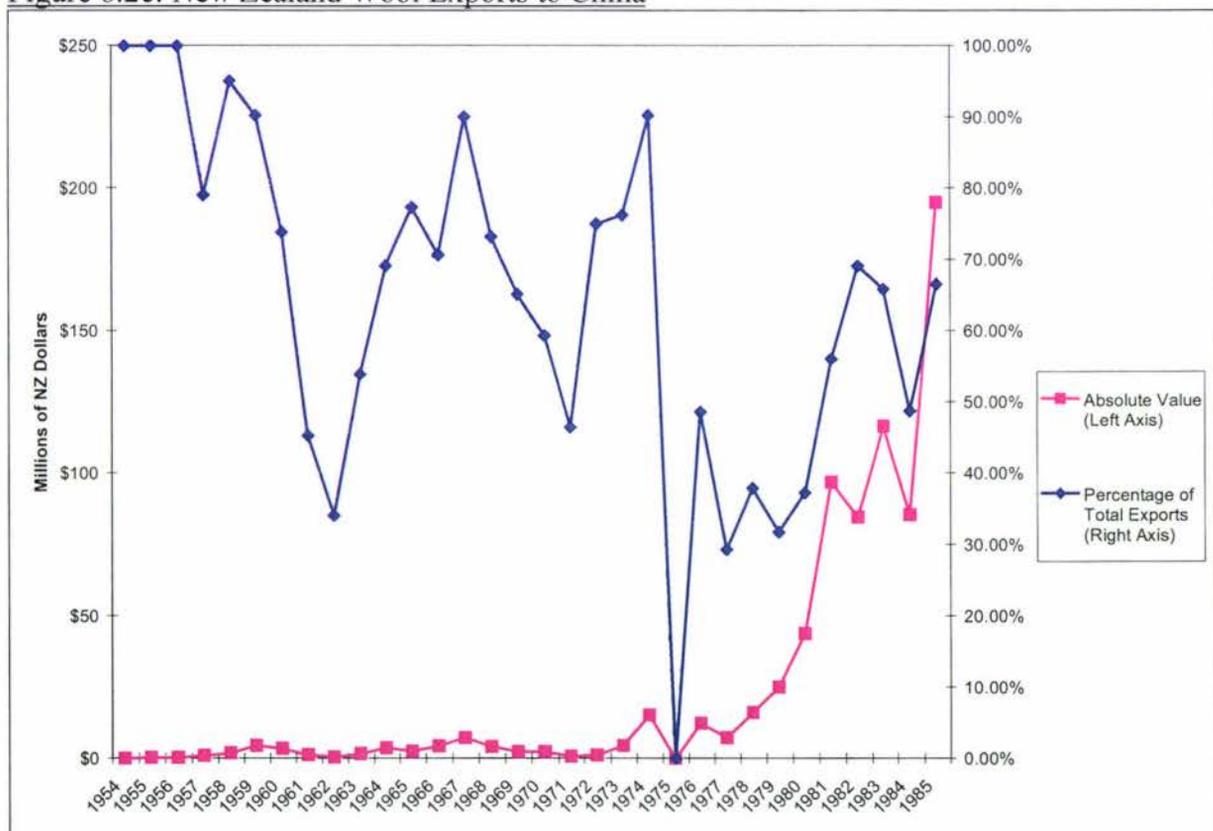
Figure 6.2b: Proportional Composition of New Zealand Exports to China.



Source: Statistics New Zealand, *External Trade Statistics*, various years. 1954-61 are January years, 1962 is a statistical half year, with 1963-85 June years.

Wool stands out as the largest New Zealand export commodity throughout the period 1954-84. China had a sizeable sheep flock, but it produced short staple wool which was almost entirely sold to Britain as that was the only country with the facilities to spin it. The other problem with Chinese sheep was that they could only produce about 25% of the wool yield of a New Zealand sheep¹⁴² and the wool was of a relatively poor quality. China gradually developed spinning technology capable of using domestically produced wool, but the overall quantities demanded by the rapidly industrialising society necessitated large imports. With Australia and New Zealand as the largest exporters of wool,¹⁴³ it was only natural that China should look to import from Australasia. Australia generally produces high quality fine wools that are well suited for clothing apparel while New Zealand produces high quality coarser and stronger wools suited to carpet manufacture, blankets, and knitwear. Virtually all of the wool exported to China was greasy/unscoured wool. Chinese purchases of wool fluctuated significantly from year to year depending on the prevailing world price along with domestic political and economic conditions as shown in Figure 6.2c.

Figure 6.2c: New Zealand Wool Exports to China



Source: Statistics New Zealand, *External Trade Statistics*, various years. 1954-61 are January years, 1962 is a statistical half year, with 1963-85 June years.

¹⁴² IC 1 113/1/3 PART 1

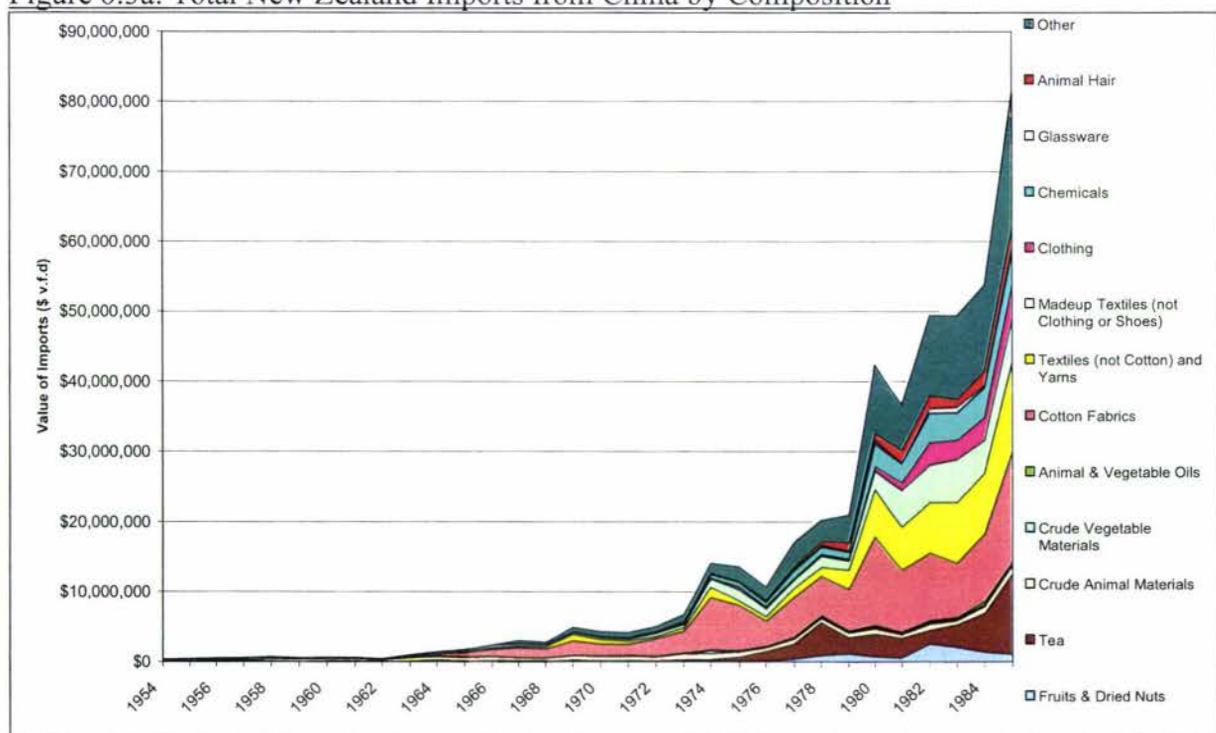
¹⁴³ Australia and the USSR produced more wool than New Zealand but much of the USSR's production was for domestic uses.

Tallow remained prominent throughout the period, occupying the number two spot for virtually every year up to 1980. This product is used almost exclusively in the production of soap products. Like wool, tallow exports fluctuated significantly depending on demand from Chinese end users and the price quoted by New Zealand suppliers. Wood pulp and waste paper were sold intermittently from 1957 while trade in newsprint and paperboard was initiated from 1969-71 and became significant from 1975. Sales of logs commenced in the same year. Initially much of the timber was used as pit props, with purchases of higher quality timber becoming dominant later in the period. Despite the concerted efforts of New Zealand interests, China did not purchase significant quantities of sawn timber until 1980. Hides and skins were exported to China most years although their share of total exports to China declined towards the end of the subject period. Dairy products and steel became major export earners from 1978 with aluminium becoming significant from 1980.

6.3 COMPOSITION OF NEW ZEALAND IMPORTS FROM CHINA

The total level and composition of New Zealand's imports from China are illustrated in figure 6.3a below.

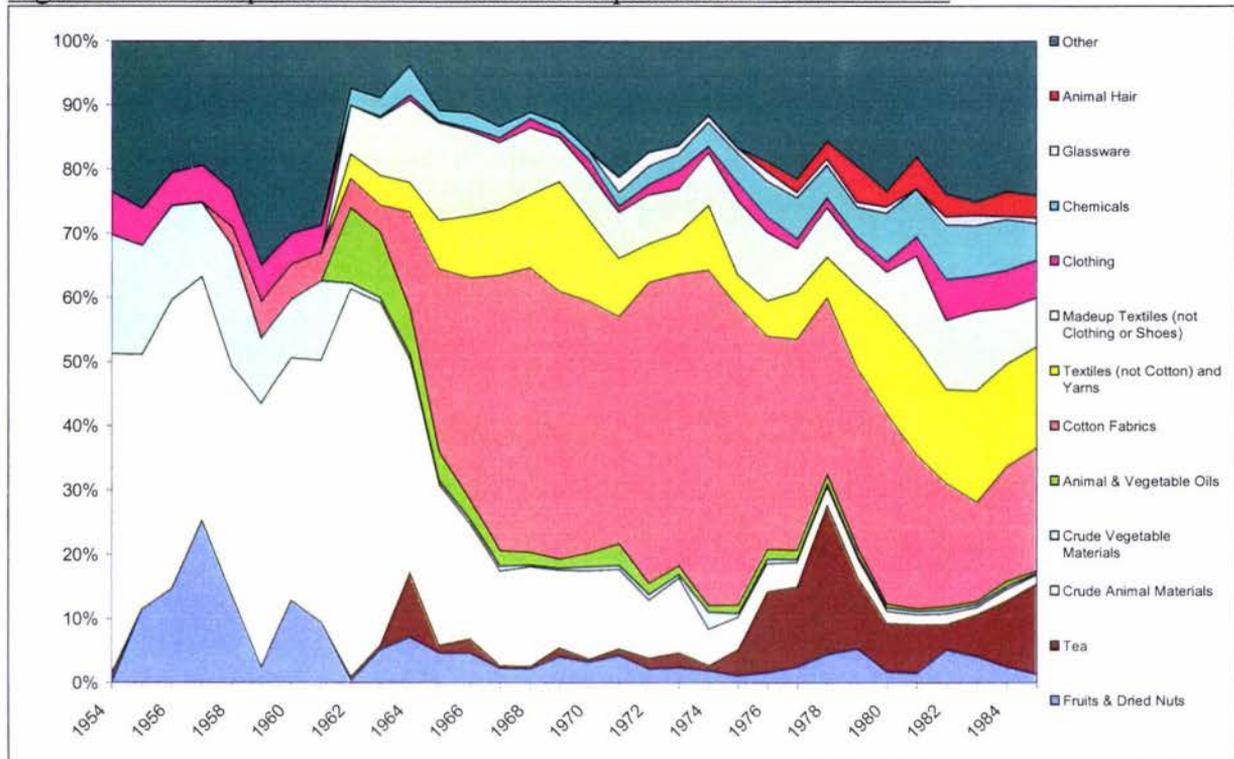
Figure 6.3a: Total New Zealand Imports from China by Composition



Source: Statistics New Zealand, *External Trade Statistics*, various years. 1954-61 are January years, 1962 is a statistical half year, with 1963-85 June years.

New Zealand's imports from China have always been far more diversified than exports to China. Once again the huge expansion in trade after 1978 makes it difficult to display the composition of exports prior to this date. Figure 6.3b shows the composition of New Zealand's imports from China in proportional terms.

Figure 6.3b: Composition of New Zealand Imports from China 1954-72



Source: Statistics New Zealand, *External Trade Statistics*, various years. 1954-61 are January years, 1962 is a statistical half year, with 1963-85 June years.

Crude materials such as pigs' bristles, kapok, tung oil, and various nuts dominated imports in the early part of the study period. From the mid-1960s there was a marked diversification away from primary produce towards textiles and fabrics. These items continued to make up the bulk of New Zealand's imports from China right up to 1984. Tea, clothing, animal hair, and glassware became important imports from the early 1970s. Significant imports of various chemicals and fertilisers commenced from the early 1960s and continued to increase at a moderate rate throughout the period. The highly varied nature of New Zealand's imports from China is reflected in the continuously significant level of 'other' imports.

6.4 CONCLUSIONS

Between 1954 and 1984 there were three distinct phases in New Zealand's trading relations with China:

- 1) The period 1954-1972 was a period of *back-door* trading by private enterprise due to the lack of official relations between the two countries
- 2) The period 1973-78 was a period of *front-door* trading and improving relations accompanying the establishment of diplomatic recognition late in 1972;
- 3) 1979-84 as a period of rapid expansion of trade following China's adoption of the 'four modernisations' programme and a generally more *open-door* or pragmatic attitude towards foreign trade.

The analysis contained in Chapters 7, 8, and 9 is aligned to these three phases to examine and explain the reasons for their occurrence.¹⁴⁴ Although dominated by wool, New Zealand's exports to China underwent significant diversification and expansion over the study period, and especially after 1980. New Zealand's imports from China have always been much more varied than her exports – the major trend has been the move away from imports of raw materials towards textiles and other manufactures.

¹⁴⁴ Some overlap between the three periods is inevitable because New Zealand statistics are collated for July to June years. Chinese statistics are collated on a calendar year basis.

7.0 1954 TO 1972: BACK-DOOR TRADING

Political considerations are rarely entirely divorced from economic considerations and this has been particularly true for the People's Republic of China (PRC), which placed great emphasis on government-to-government contact in its international economic relations. New Zealand's non-recognition of the PRC represented a huge obstacle to the development of bilateral trade. Trade in the back-door trading period only occurred through the dedicated efforts of private New Zealand businesses. This chapter examines each country's international relations and economic policies to explain the nature of bilateral trade over the period 1954-72.

7.1 NEW ZEALAND'S INTERNATIONAL RELATIONS

New Zealand's international relations after World War II were characterised by the existence of a dual dependence in the defence sphere between Britain and the United States of America. In the economic and cultural spheres New Zealand remained highly dependent on Britain and the Commonwealth. New Zealand's international relations, including relations with the PRC, were framed in Wellington's sometimes complementary and sometimes conflicting political relationships with Britain and the United States.

7.1.1 THE NON RECOGNITION POLICY AND ITS IMPACT

Britain's recognition of China in 1950 and New Zealand's non-recognition in line with American policy was a prominent example of the shift in New Zealand's alignment towards the United States. The fall of the heavily garrisoned British naval base at Singapore to the Japanese in 1942 demonstrated the limitations of British power in the Pacific. Japan's rapid advance through the Pacific had amply demonstrated that Australia and New Zealand were unable to defend themselves against the predations of larger countries. An additional protector was required. As an ally in World War II, the vanquisher of the Japanese, and a country with a virtual atomic monopoly, the United States of America was the obvious choice. In addition, Britain herself was now ultimately dependent on United States for her defence. A security guarantee by the USA became the ultimate prize for New Zealand's fledgling diplomatic service.

The growth of communism and in particular the invasion of South Korea by Communist North Korea in June 1950 led to the alignment of New Zealand, Australian and American interests.

Washington urgently wanted New Zealand and Australia to sign the Japanese peace treaty so it could reassign occupation forces to Korea. But New Zealand and Australia were reluctant to do so without a highly restrictive treaty or a security guarantee from the US. This factor, together with New Zealand and Australia's military assistance¹⁴⁵ and diplomatic support in the face of Commonwealth criticism of the United States' folly in provoking Chinese involvement in the Korean conflict, culminated in the signing of the ANZUS Pact in September 1951. Britain objected to not being an integral member. New Zealand had been willing to settle for a presidential declaration but accepted Australia's insistence on a comprehensive military alliance. Australia got what she wanted while the New Zealand Government was pleased that the treaty noted New Zealand's Commonwealth defence commitments, although there were continued reservations within the Department of External Affairs about the lack of British involvement in the treaty.¹⁴⁶

During the period New Zealand was courting the United States, New Zealand politicians and officials from the Ministry of External Affairs were anxious not do anything that could jeopardise either agreement. Recognising the PRC could certainly upset the Americans while non-recognition had very few tangible costs. London invited certain Commonwealth countries, including New Zealand, to consult on diplomatic recognition of the PRC both before and after its proclamation on 1 October 1949. The pros and cons of recognition were outlined in an External Affairs memorandum:¹⁴⁷

- (i) recognition was a matter of time only. There was no prospect, short of World War III, of re-establishment of Nationalist rule;
- (ii) recognition was not a matter of approving a regime's policies but of practical convenience;
- (iii) the Central Government of the People's Republic fulfilled international legal and customary requirements;
- (iv) the arguments over *de facto* or *de jure* recognition were academic as the PRC would only accept the latter;

¹⁴⁵ In line with tradition, New Zealand only agreed to send naval and ground forces after it became clear that Britain would do likewise.

¹⁴⁶ McGibbon, I. (1988). 'ANZUS ... beginning and end. The origins of the alliance'. *New Zealand International Review*, May 1988, p.9-15.

¹⁴⁷ PM/264/3/14. Vol. 2. File note 6/12/49. Cited in Elder, C.I. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.46-47.

- (v) Prime Minister Fraser's arguments about upsetting the Americans and stabbing old friends in the back were important but did not justify indefinite non-recognition;
- (vi) the Australian, British, and Canadian Ambassadors in China favoured recognition to protect real interests, including commercial. Trade was the reason for and key to British influence in China and should be sustained;
- (vii) non-recognition would leave the field to the Soviets. China's links had previously been with the West. China could still use Western help and should not be driven into Soviet hands. China had many natural points of conflict with the Russians. Recognition could help exploit these.

On balance, this memorandum and other intelligence papers favoured recognition.¹⁴⁸ However, the election of a National Government in 1949 forced a delay while National formulated their policy, a delay which was thought to be of little real consequence given New Zealand's lack of significant interests in China.¹⁴⁹ Britain's Labour Government formally notified New Zealand of its intention to recognise the PRC on 24 December 1949. Both major New Zealand political parties believed Britain was moving 'too far, too fast' and took no further action.¹⁵⁰ Although not as sought after as in Australia, the possibility of a security guarantee from the United States was never far from the minds of New Zealand politicians and diplomats alike. New Zealand troops fighting against Chinese troops in Korea bedded in the cold war exigencies which were to dominate thinking on the subject for the next two decades. The signing of the ANZUS Pact in 1951 reinforced New Zealand's adherence to the United States position of not accepting the PRC's invitation to establish diplomatic relations. Ultimately, the decision not to recognise the PRC kept the Americans on side at no obvious or significant cost to New Zealand in the short term.

Nevertheless, many New Zealand politicians and diplomats retained the view that recognition was only a matter of time, hoping that moves could be made after the cessation of hostilities in Korea. Minister of External Affairs, Clifton Webb, consistently pushed for recognition in the early 1950s, and was prepared to depart from the American line, only to be overruled by Prime Minister Sidney Holland.¹⁵¹ The 1953 ANZUS meeting in Washington saw the development of

¹⁴⁸ Elder, C.J. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.47.

¹⁴⁹ PM/264/3/14. Vol. 2. File note 13/12/1949. In any case, National had campaigned on an anti-communist platform.

¹⁵⁰ Elder, C.J. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.47.

¹⁵¹ Elder, C.J. & Green, M.F. 'New Zealand and China' in Trotter, A. (ed.). (1986). *New Zealand and China: The Papers of the Twenty First Foreign Policy School 1986*, Dunedin: University of Otago, p.50.

the joint position in which 'each Minister expressed the view of his government that under present circumstances no question of the recognition of Communist China or of the admission of its representatives to the United Nations could be entertained'. After Webb's departure from the External Affairs portfolio in November 1954, the standard New Zealand position became that China first had to demonstrate good faith and adherence to the rules of the United Nations.¹⁵²

The issue of Taiwan had always been inseparable from the 'China question' due to Chinese refusal to recognise any country that maintained official links with Taiwan. New Zealand had a degree of affinity with Taiwan flowing from its status as a small country and an ally in World War II. Consequently, both major parties required that Taiwan be accommodated in any settlement with the PRC. In a handwritten note to a Ministry of External Affairs discussion paper, Holland emphasised his desire to recognise both the PRC and Taiwanese regimes, at an appropriate time, but noted that time had yet to occur because recognition would cause the USA great displeasure.¹⁵³ The USA's pre-eminence in New Zealand's position was further evidenced in a June 1957 paper for the Commonwealth Prime Ministers Conference: 'In view of New Zealand's close relations with the United States, and our ultimate dependence upon the United States for our own security, the American policy on recognition and representation on China will continue to have a paramount influence on our own'.¹⁵⁴

Labour's election victory in 1957 gave new hope to those favouring recognition. Prime Minister and Minister of External Affairs, Walter Nash, was widely known to sympathise with the aspirations of the PRC. Labour's policy became that while it was committed to recognition and the inclusion of China in the UN, neither immediate nor unilateral recognition were part of its policy. This subtle attitudinal shift was given effect by New Zealand's abstention to a UN resolution proposing discussion on the question where opposition had previously been the norm. New Zealand explained that it would not oppose substantive discussion if others wanted it, even though it was not yet ready to change its own position.¹⁵⁵ A briefing paper for Nash's discussions with his Canadian equivalent saw the central issue of Far Eastern politics as 'the power struggle between the United States and Communist China' and noted that 'American policy has transformed the question of recognition from a relatively straightforward issue into part of that power struggle'. With its flag firmly in the American camp, there appeared little

¹⁵² For example see Holland press statement of 17/6/55 and NZPD 21/7/55.

¹⁵³ PM 264/3/14 vol. 11, 29/2/56.

¹⁵⁴ EA 1 264/5/1 Part 4 (Prime Ministers Dept.)

¹⁵⁵ *Ibid*, UN General Assembly 23/10/58.

leeway for New Zealand. In any event, the PRC's attempts to take control of offshore islands in the Taiwan Strait in 1958 and the suppression of Tibetan resistance in 1959 created an environment unfavourable to recognition. The return of National in 1960 and its strong support for traditional allies, together with the general lack of progress in Sino-US relations during the 1960s effectively ended debate on 'the China question' for that decade.

7.1.2 NEW ZEALAND'S EXPORT EMBARGO

Following China's intervention in the Korean War in late 1950, the United Nations General Assembly passed resolution 500(V) on 18 May 1951, recommending all member countries impose an export embargo on the PRC. The New Zealand Government took up the recommendation but went further by adopting a similar degree of control to that being exercised by Britain, and further still by prohibiting the export of wool to China. Wool was not considered one of the 'strategic goods'¹⁵⁶ targeted by the UN. This step represented an effort by Wellington to improve the effectiveness of UN style collective security at some cost to New Zealand's foreign exchange earnings. No exports to China were recorded for the years 1952 and 1953 although imports remained unaffected. The unilateral wool export embargo proved ineffectual as New Zealand wool could still reach China through Australia or United Kingdom and the ban was lifted in August 1953 following the end of the Korean War, although exporters were still required to obtain an export permit before shipping to China. In 1953 the Department of Industries and Commerce recommended to Cabinet that no change to New Zealand's trade arrangement was desirable or required for trade with China to expand.¹⁵⁷

7.1.3 NEW ZEALAND LINKS WITH CHINA

Despite non-recognition, the New Zealand Government never prevented travel or cultural links with China. It instructed the Reserve Bank to treat a delegation of New Zealanders wishing to attend the Peking Peace Conference of Asian and Pacific Peoples at the height of the Korean War as it would any traveller seeking foreign exchange.¹⁵⁸ Inevitably, however, positive links and interest in China diminished during the Korean War and the withdrawal of the last New Zealand missionaries and CORSO aid workers from China in 1951. The establishment of local New Zealand-China Friendship Society associations in Auckland, Wellington, and Christchurch

¹⁵⁶ The strategic goods specified generally had potential military applications.

¹⁵⁷ IC 1 113/1/1 Part 1

¹⁵⁸ CAB 70/2/1, vol. 1.

by 'old China hands' in 1952 sought to prevent further erosion by promoting mutual understanding and the development of trade and cultural relations between the two peoples.¹⁵⁹ It persistently called for recognition of the PRC only to be ignored by successive Governments. Nonetheless, the vast majority of visitors to China were members of the society, giving it a prominent position in New Zealand-China relations. It frequently organised trips for groups wishing to tour China and assisted in the establishment of sister city links.

In the absence of missionaries and aid workers, Rewi Alley became an important unofficial ambassador for New Zealand in China. Alley had travelled to China in 1925 and found work in the fire service and later as a factory inspector. As a humanitarian and social reformer, Alley had been appalled with working conditions and devoted the rest of his life to improving the quality of life of the average Chinese through worker cooperatives and education. Alley was a New Zealander of note back home despite his support of the Chinese Communist Party. Although his support of China's stance on Korea saw his strong following in New Zealand diminish dramatically, many New Zealanders visiting China sought him out for advice on their travels and activities.

Another organisation with close links to China was the Communist Party of New Zealand (CPNZ). Despite its extremely limited membership, the CPNZ was always received with disproportionate honour and attention in China. Its leader, V.G. Wilcox was the best-known New Zealander in China, surpassing even Rewi Alley, and was frequently received by Chairman Mao and Premier Zhou Enlai. Much of this treatment was due to the fact that CPNZ was one of the few communist parties to ally itself with Beijing rather than Moscow after the Sino-Soviet split. This alignment resulted in a steady exchange of delegates.

Another important New Zealander to visit China was Warren Freer, Labour MP for Mount Albert. Freer's unplanned visit to China in 1955 was the first by a Western politician since the proclamation of the PRC in 1949. The visit was strongly discouraged by Labour's leader Walter Nash, who viewed it as politically risky, but encouraged by National Prime Minister Sidney Holland, who promised that government members would not make political capital out of his visit. McCarthyism was in full swing in the United States and fears of 'reds under the bed' had taken root in New Zealand as with much of the Western world - the United States had gone as far

¹⁵⁹ These goals were pursued through education and promotion activities in New Zealand. The society's first national conference was held in 1958 but its membership remained low due to persistent suspicions that it was sponsored by the Chinese Communist Party.

as to impose a complete trade embargo on the PRC. Holland's assurance was in stark contrast to the significant price Freer was to pay for the visit within his own party. Once in China, Freer was treated as a guest of the Chinese Government which pulled out all stops once they realised Freer was merely curious about China and did not have an ulterior motive. He discussed potential trade with one of the Import-Export Corporations and discovered the Chinese were interested in purchasing woollen tops, vehicle tyres, and breeding sheep and cattle.¹⁶⁰ A brief meeting with Mao and Zhou Enlai was arranged, but more importantly, Freer became a friend of China and engendered much goodwill towards New Zealand over the coming decades. In 1956, former Labour party MP Ormond Wilson led a delegation that represented a diverse range of individual and professional interests to China. Thereafter the vast majority of New Zealanders to visit China were businessmen.

7.1.4 UNITED KINGDOM AND THE EEC

While the ANZUS Pact represented a significant orientation away from Britain in the defence area, New Zealand remained overwhelmingly dependent on Britain for its economic security. New Zealand's biggest economic shock since the Great Depression was unleashed in 1961 when Britain applied to join the European Economic Community (now the European Union).¹⁶¹ If successful in its application, it was feared that New Zealand exports to Britain could drop by 80 to 90% if pastoral products were banned from entering the EEC. Despite French President de Gaulle's veto, it was clearly a question of when rather than if Britain would join. Britain renewed its efforts to join the EEC in 1967 and continued these until its eventual entry in 1973. Economic commentators had called for diversification in New Zealand's export commodities and markets for some time. Virtually all assessments predicted that New Zealand's standard of living would drop substantially when United Kingdom joined the EEC. This forced both the Government and private sectors to pursue diversification vigorously. China was one obvious target.¹⁶²

7.1.5 WARMING OF RELATIONS

¹⁶⁰ Freer, W. (2004). *A Lifetime in Politics: The Memoirs of Warren Freer*, Wellington: Victoria University Press, p.79.

¹⁶¹ The EEC came into existence on 1 January 1958 under the Treaty of Rome signed in 1957 by France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg.

¹⁶² The possibility of increasing trade to the PRC following United Kingdom's 1961 application was raised by the New Zealand Trade Commissioner to Hong Kong in a letter to the Secretary of the Department of Trade and Industry, 3/8/1961. IC 1 113/1/1 PART 2.

Warming relations between the Western world and China, particularly the United States, saw a gradual warming of the New Zealand Government's attitude towards the PRC. At a Foreign Affairs meeting in 1970, it was agreed that New Zealand's main interest in recognising the PRC lay in the security situation between Beijing and Taiwan. New Zealand wanted to see the PRC included in the United Nations but not at the expense of Taiwan. It did not want to lead or lag Australia and the United States in recognising China.¹⁶³

7.2 CHINESE INTERNATIONAL RELATIONS

Sovereignty over the former territories of the Han dynasty, which included Tibet, Hong Kong and Taiwan, has been the primary aim of Chinese foreign policy since the proclamation of the PRC. Tibet was invaded and forced to embrace Chinese rule in 1950 while the Chinese lease of Hong Kong to the British expired in 1997. The return of Taiwan remains the major objective of Chinese foreign policy. These events and objectives would appear to conflict with the often repeated five principles of Chinese foreign policy:

- (i) mutual respect for sovereignty and territorial integrity
- (ii) mutual non-aggression
- (iii) non-interference in each other's internal affairs
- (iv) equality and mutual benefit
- (v) mutual co-existence¹⁶⁴

In line with these principles, the PRC has pursued what it calls an 'independent foreign policy' although the theory and the reality of this statement diverged at various times between 1954 and 1972. This section looks at Chinese international relations as they impacted on New Zealand-China trade.

7.2.1 SINO-SOVIET RELATIONS

In 1949, the worldwide communist community was more unified than at virtually any other time. The Union of Soviet Socialist Republics (USSR) was a natural ally for the PRC in establishing a stable socialist government. Soviet aid and expertise could greatly assist the Chinese and had the added advantage of excluding the United States, which Beijing saw as an imperialist power

¹⁶³ ABHS 950 40/11 Part 2

¹⁶⁴ AATJ 7428 45/35/1 VOL 1

deserving punishment for its support of the Nationalists. A treaty of friendship, alliance and mutual assistance was signed between the USSR and PRC in 1950 with supplementary agreements on the transfer of Soviet interests in the Manchurian Railway signed in 1952, economic assistance in 1953 and 1954, and nuclear cooperation in 1955. From 1950 to 1955 there was little doubt that the PRC was firmly in the Soviet sphere of influence and that Soviet assistance played a major role in China's development.

This changed from 1956. Many of the reasons for the increasing separation were rooted in the differing ideological and foreign policies of the two states. Soviet President Khrushchev's revision of Leninist theory and Chinese interventions in the Polish and Hungarian crises were signs that all was not well in the relationship, although fundamental differences did not emerge until the Chinese embarked on the 'Great Leap Forward' in 1958. This plan of rapid industrialisation via small and medium plants was a radical departure from the Soviet model of large industrial complexes and was strongly criticised by Moscow. News of this criticism reached Beijing around the same time as the Soviets repudiated a secret 1957 agreement to assist the PRC to manufacture its own nuclear weapons.¹⁶⁵

A public admission of the differences was made by the Chinese in April 1960 although the parties refrained from open criticism until 1962. The Sino-Soviet split was given effect in July 1960 when the USSR informed the PRC that it was halting technical assistance and withdrawing all technicians the following month. The Soviets claimed to have trained 13,600 Chinese technicians between 1951 and 1957. It has been estimated that 250 Soviet factories were built in China and that Soviet loans amounted to US\$2,200 million, of which US\$1,800 was devoted to industrialisation.¹⁶⁶ Chinese estimates suggest that 1,390 technicians were withdrawn, 343 technical aid contracts cancelled, and 257 projects of scientific and technical cooperation ended in 1960.¹⁶⁷ The withdrawal of Soviet aid had the potential to cripple the Chinese economy when it was already vulnerable from the upheavals of the Great Leap Forward and a series of natural disasters. In 1959 the USSR was by far China's largest trading partner – it took 52.1% of Chinese exports and was the source of 46.2% of her imports. Unsurprisingly the total value of trade declined dramatically in the 1960 and 1961. Moreover, the split forced a radical re-

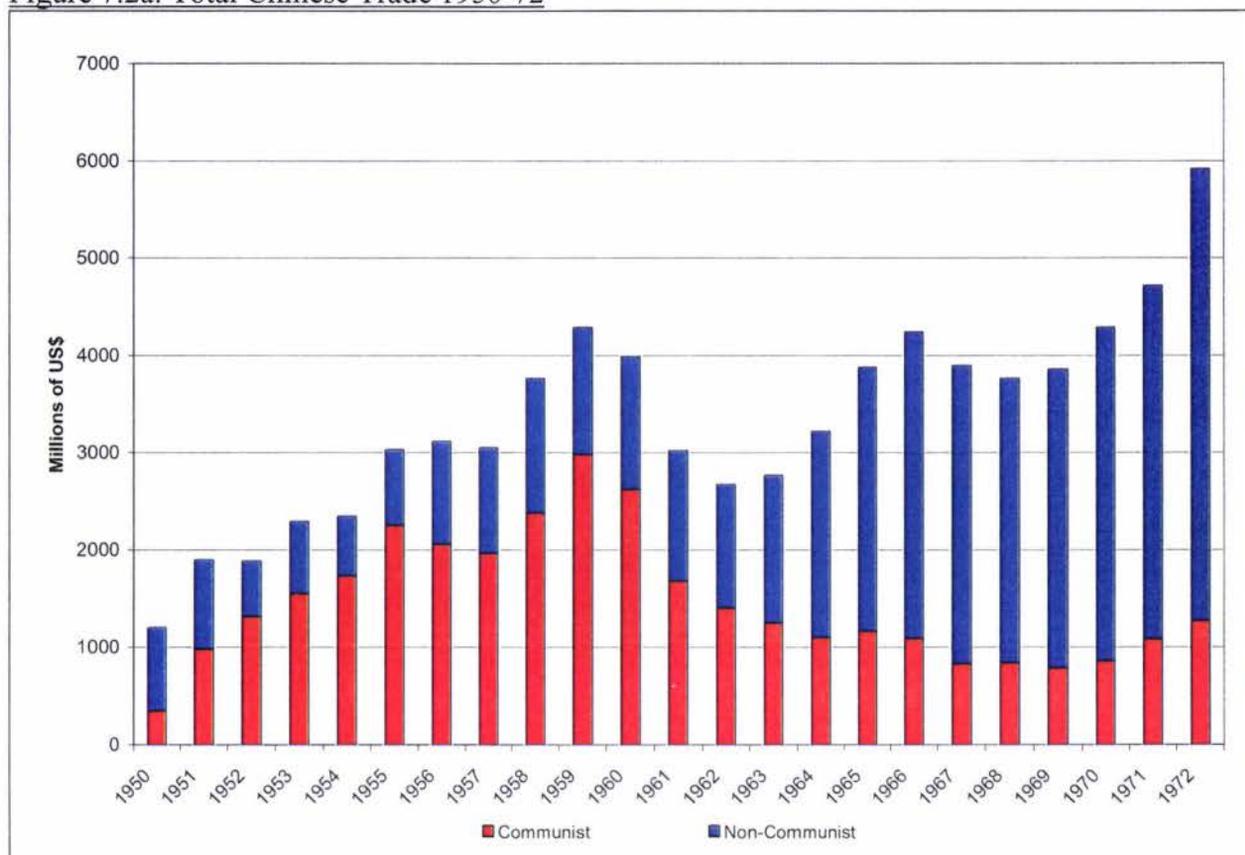
¹⁶⁵ Moscow's repudiation was an attempt to improve relations with the United States and was greatly resented by the PRC leadership.

¹⁶⁶ Day, A.J. (ed). (1985). *China and the Soviet Union 1949-84*, Harlow, Essex: Longman Group Ltd, p.16.

¹⁶⁷ *Ibid*, p.21.

direction of China's trade, largely in favour of non-communist countries, as indicated in figure 7.2a below.

Figure 7.2a: Total Chinese Trade 1950-72



Source: US Government. (1975). *Peoples Republic of China - International Trade Handbook*.

In the wake of the Sino-Soviet Split, the Chinese judged a potential friend or trading partner not by its attitude towards the PRC, but more by its attitude to the USSR.¹⁶⁸ As a consequence, after New Zealand's diplomatic recognition of the PRC, New Zealand diplomats were very careful to downplay the importance of New Zealand's trading relationship with the USSR to the Chinese.¹⁶⁹

7.2.2 SINO-AMERICAN RELATIONS

From a PRC perspective, American involvement in China's civil war and its historical imperialist attitudes meant it was viewed as a hostile state. Similarly, the intensifying cold war and China's close relationship with the USSR resulted in China becoming an enemy of the United States by association. Any chance of friendly Sino-US relations was effectively ended by

¹⁶⁸ ABHS 950 40/11/Pt 9

¹⁶⁹ AATJ 113/1 PART 11

Chinese assistance to North Korea during the Korean War, assistance which resulted in the United States imposing a complete trade embargo on the PRC in 1950. Although China's economic relations with Western countries warmed dramatically after the Sino-Soviet split, the thaw did not extend to United States, which continued to follow a policy of containment and isolation towards China. It was not until July 1969 that relations began to improve, with Washington unilaterally relaxing the ban on US citizens visiting China. In December of the same year trade controls were relaxed to allow:

- (i) Foreign subsidiaries of US companies trading with China in non-strategic goods;
- (ii) US companies buying goods from China and selling them to third parties;
- (iii) American citizens to buy, when overseas, Chinese goods for their own private use.

Item (i) allowed the export of New Zealand manufactured Fletcher top-dressing aircraft, incorporating United States manufactured engines, upon approval from the US Department of Commerce. But direct trade between the United States and China remained banned. All other travel restrictions in relation to USA citizens visiting China were removed in March 1971, and following the visit of an American table tennis team to China in April 1971, Washington removed restrictions on foreign exchange, shipping, aircraft, and Chinese visitors to the US.

Improving Sino-US relations smoothed the way for the removal of the 21 year old trade embargo on non-strategic items in June 1971 and the admission of the PRC to the United Nations in October 1971. However, while the United States voted for the admission of the PRC, it voted against the expulsion of Taiwan, something the Chinese required as a prerequisite of their entry. Despite the significant differences in opinion over Taiwan and the continued absence of diplomatic recognition, the thaw in relations was sealed by President Nixon's visit to China in February 1972. With the United States as New Zealand's chief ally and protector, the thaw in Sino-US relations meant that New Zealand could normalise its own trade and diplomatic relations with China.

7.3 NEW ZEALAND ECONOMIC POLICY AND PERFORMANCE 1954-72

7.3.1 THE ROLE OF GOVERNMENT

Virtually every economic activity in 1954 New Zealand involved some degree of government control or bureaucracy. All imports had to be authorised by the Department of Industries and Commerce. Export receipts had to be paid into one of the four trading banks which also had a

virtual monopoly on foreign exchange dealings, subject to Reserve Bank intervention to keep the value of the New Zealand pound within a narrow range. From the early 1930s, it was illegal to transport any freight more than 30 miles by road – freight had to be transported by the Government-owned New Zealand Railways. Wage increases were subject to the approval of Wages Commissioners or the Stabilisation Commissions while labour disputes were the domain of the Court of Arbitration. Farm incomes were ‘stabilised’ by guaranteed prices. Full employment was the main economic goal, to be achieved through a combination of import-substituting industrialisation and the use of fiscal policy to balance aggregate demand and supply. Labour’s introduction of import licensing in 1938 was partly designed to encourage industrialisation by replacing imports with New Zealand-made goods. Prime examples of import substitution in practice were the establishment pulp and paper mills in Tokoroa and Kawerau in 1953 and 1955 respectively, and the second Labour Government’s establishment of an aluminium smelter at Bluff, along with abortive attempts to establish a cotton mill in Nelson.¹⁷⁰

The combination of these stabilisation and insulation policies gave Government a major role in both domestic and international economic policy. While controls allowed the Government to quickly adjust domestic conditions and/or employ measures to insulate the country from external shocks, they had significant drawbacks in terms of compliance and regulatory costs. Protection from overseas goods inevitably led to a degree of complacency and inefficiency on the part of domestic producers. Despite the degree of intervention ebbing and flowing, and the means of intervention varying between 1950 and 1972, New Zealand remained a virtual command economy throughout the period.

In terms of the Government’s control of the economy, one peak stands out above all others on the New Zealand economic landscape between 1954 and 1984 – the Department of Trade and Industry.¹⁷¹ It regulated virtually every economic activity, but much of its power was derived from the administration of subsidies, incentives, tariffs, and import licences. The Department was a Mecca for anyone wishing to import foreign goods under New Zealand’s comprehensive

¹⁷⁰ The Second Labour Government and W.B. Sutch of the Department of Industries and Commerce were proponents of import substituting industrialisation. A controversial plan to establish a cotton mill at Nelson, was abandoned in 1962 by the National Government which won the 1960 election. The aluminium smelter went ahead and opened in 1961.

¹⁷¹ The predecessor of the Department of Trade and Industry was the Department of Industries and Commerce which existed in various forms from 1894 to 1972, when its functions were merged into the Department of Trade and Industry under the Trade and Industry Amendment Act 1972.

import licensing regime.¹⁷² In terms of international trade, the Trade Services division of the Department had trade commissioners seconded overseas, where they worked from Ministry of External Affairs diplomatic posts. In 1954, trade commissioners were located in Australia, Canada, India, Japan, Britain, and the United States.¹⁷³ By 1972 the proliferation of New Zealand's trade interests in the Asia-Pacific region was evident with additional trade commissioner posts being established in Malaysia, Singapore, Hong Kong, Tahiti, and Thailand.¹⁷⁴ Trade commissioners served as the Department's trading arm, promoting New Zealand exports. A Generalised System of Preferences (GSP) for developing countries was introduced in January 1972.

7.3.2 POST WAR BOOM?

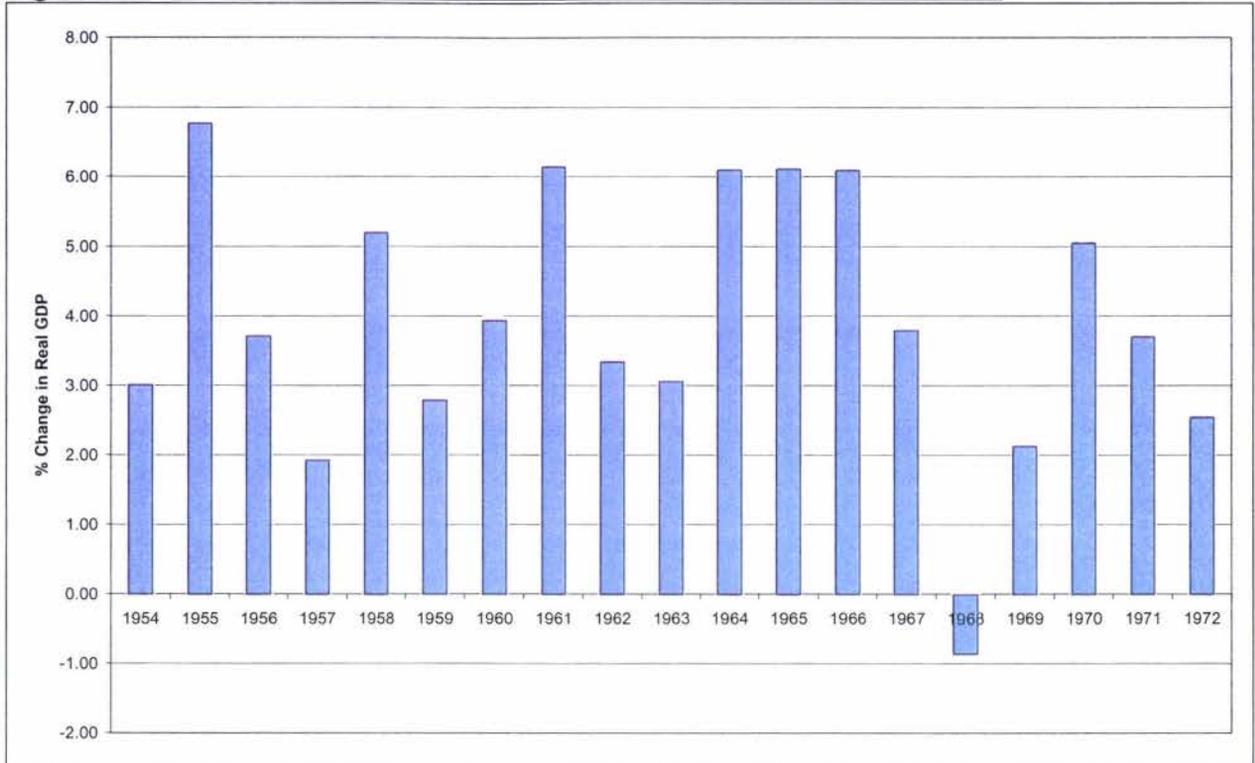
In the wake of World War II, strong demand for New Zealand's core commodities and favourable terms of trade (see figure 7.3b) combined to accumulate foreign reserves. Shortages in many manufactured goods provided natural protection for the establishment of new domestic industries in line with the policy of import substituting industrialisation. Bulk purchase contracts with United Kingdom continued until 1954 and the Korean War in 1950 brought very favourable wool prices. Other agricultural prices also remained high and in many cases New Zealand could not supply all the pastoral products demanded by overseas purchasers. Gross Domestic Product grew at an annual average rate of around 4% in the 1950s and 1960s (see figure 7.3a) and unemployment remained very low.

¹⁷² A common joke among businessmen of the Muldoon era was that Air New Zealand existed to fly them to Wellington to beg for import licences from Trade and Industry, or favours or protection from Muldoon and his ministers. *The Dominion Post*, 3 July 2004, p.E1.

¹⁷³ AJHR, H44, 1955.

¹⁷⁴ Export News, various issues.

Figure 7.3a: New Zealand's Growth in Real Gross Domestic Product 1954-72



Source: Statistics New Zealand, *INFOS*.

Figure 7.3b: New Zealand's Terms of Trade 1945-72

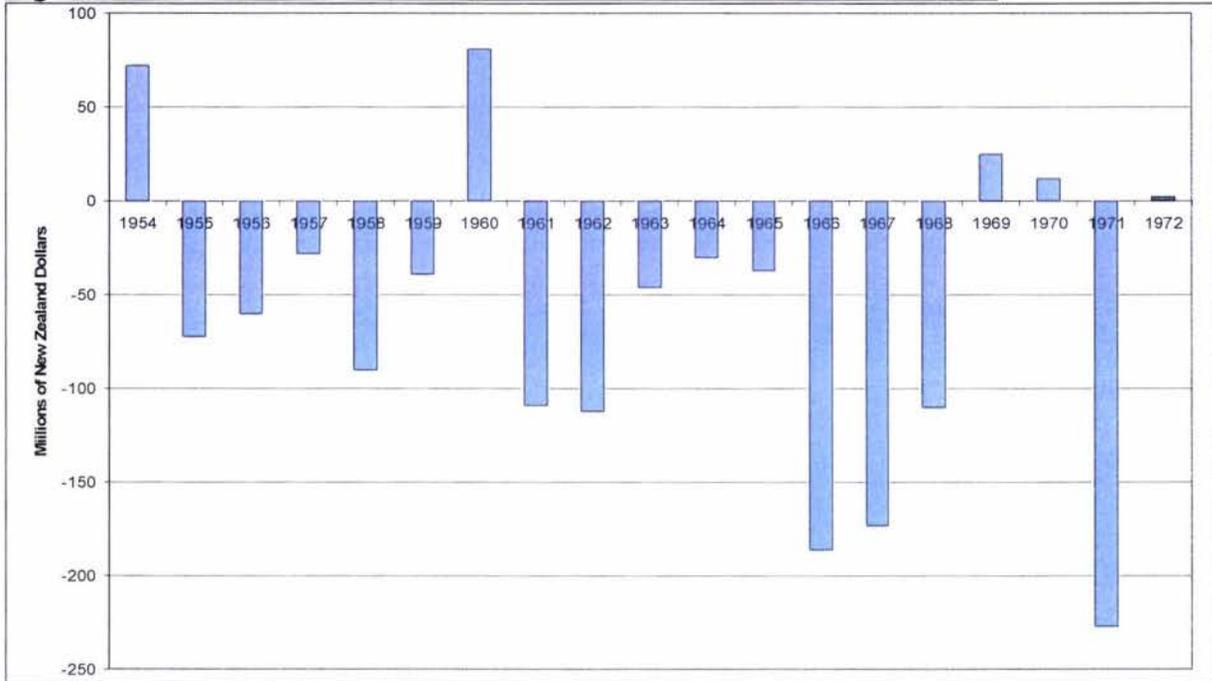


Source: Statistics New Zealand, *INFOS*.

However, there were signs of serious weakness. Governments generally spent more than they received to balance aggregated demand and supply in line with Keynesian principles. The resulting fiscal deficits created excess demand which often exhibited itself through balance of payments crises (see Figure 7.3c). Successive governments borrowed heavily and imposed

increasing levels of protection to New Zealand industry to maintain the country's high standard of living.

Figure 7.3c: New Zealand Balance on Current Account March Years 1954-72



Source: Statistics New Zealand, by private request. Note that the composition of the Balance of Payments has changed substantially over time whereas the Balance on Current Account has remained consistent.

While New Zealand often ran significant positive balances on merchandise trade, the balance on current account was consistently negative once services and invisibles were included. New Zealand could not absorb these deficits internally, necessitating overseas borrowing. Over time, the increasing overseas debt and interest costs made it increasingly difficult for New Zealand to maintain a healthy balance of payments. The relaxation of import controls between 1951 and 1957 under the National Government coincided with a period of favourable terms of trade. Whereas in 1950 99.5% of private imports entered New Zealand under licence, by 1957 only 13% were subject to licence.¹⁷⁵ Relaxation of import controls and a general deterioration in New Zealand's terms of trade combined to cause a serious erosion of New Zealand's foreign exchange reserves by the end of 1957. In response, the newly elected second Labour Government re-imposed stringent import licensing restrictions from 1 January 1958, and although the new regime was reviewed and amended annually, it continued throughout the 1960s, primarily as a tool for import substitution.

Reserves improved in 1959 and 1960 only to decline again in 1961, resulting in the licensing period being extended for an additional six months. 1962 to 1972 was similar to the period 1951

¹⁷⁵ Lane, P.A. (1974). *An examination of the methods and effects of restricting external trade with particular reference to the New Zealand experience (1938-68)*, PhD Thesis, Palmerston North: Massey University, p.234.

to 1957 as controls were gradually relaxed, coinciding with increasing doubts as to the long-term viability of import replacement policies. In the 1970s, the nominated goal of import licensing shifted from import substitution to the development of efficient manufacturing using New Zealand resources wherever possible, and increasing exports via raw material exemptions. The Department of Industries and Commerce Annual Report of 1960 admitted that the reintroduction of tight import licensing in 1958 had failed to cut imports of consumer goods by a sufficient amount to make it a credible balance of payments instrument.¹⁷⁶

Emphasis began to shift from import control to export promotion as successive governments acknowledged the need to make the economy more outward looking. Britain's clear desire to join the EEC undoubtedly played a major role in the change in focus. In 1962 an Export Promotions Council was set up to examine proposals and make suggestions for increasing New Zealand's trade and overseas reserves while the budget of the same year included provision for an Export Market Development Taxation Incentive (EMDTI).¹⁷⁷ These moves were accompanied by a dramatic tariff reduction from 1 July 1962. Raw materials such as cotton textiles were generally exempt from duty under the new tariff. Additional tax incentives were introduced in the 1963 budget and these generally became more generous until the late 1970s.

From the early 1960s it was also government policy to move progressively from import licensing to tariffs as the primary means of protecting domestic industry. In its 1971 Budget Statement, the Government announced its decision to institute a major review in line with recommendation 209A from the 1969 National Development Conference suggesting that the system of protection should be flexible and that import licensing should be replaced by tariffs within five years. It recognized, however, that there were cases where other protective measures such as import licensing might be more appropriate. In any case, by 1962 62% of imports were exempt from licence.¹⁷⁸

7.3.2 TRADE DIVERSIFICATION

Forestry products joined meat, wool, and dairy produce as staple New Zealand exports after World War II. But in general, diversification and differentiation within New Zealand's

¹⁷⁶ AJHR, H44, p.5.

¹⁷⁷ The EMDTI permitted an exporter to write off market development expenditure at a rate of 150%.

¹⁷⁸ Lane, P.A. (1974). 'An examination of the methods and effects of restricting external trade with particular reference to the New Zealand experience (1938-68)', PhD Thesis, Palmerston North: Massey University, p.267.

traditional exports was of greater significance than the growth of manufactured exports until the late 1960s.

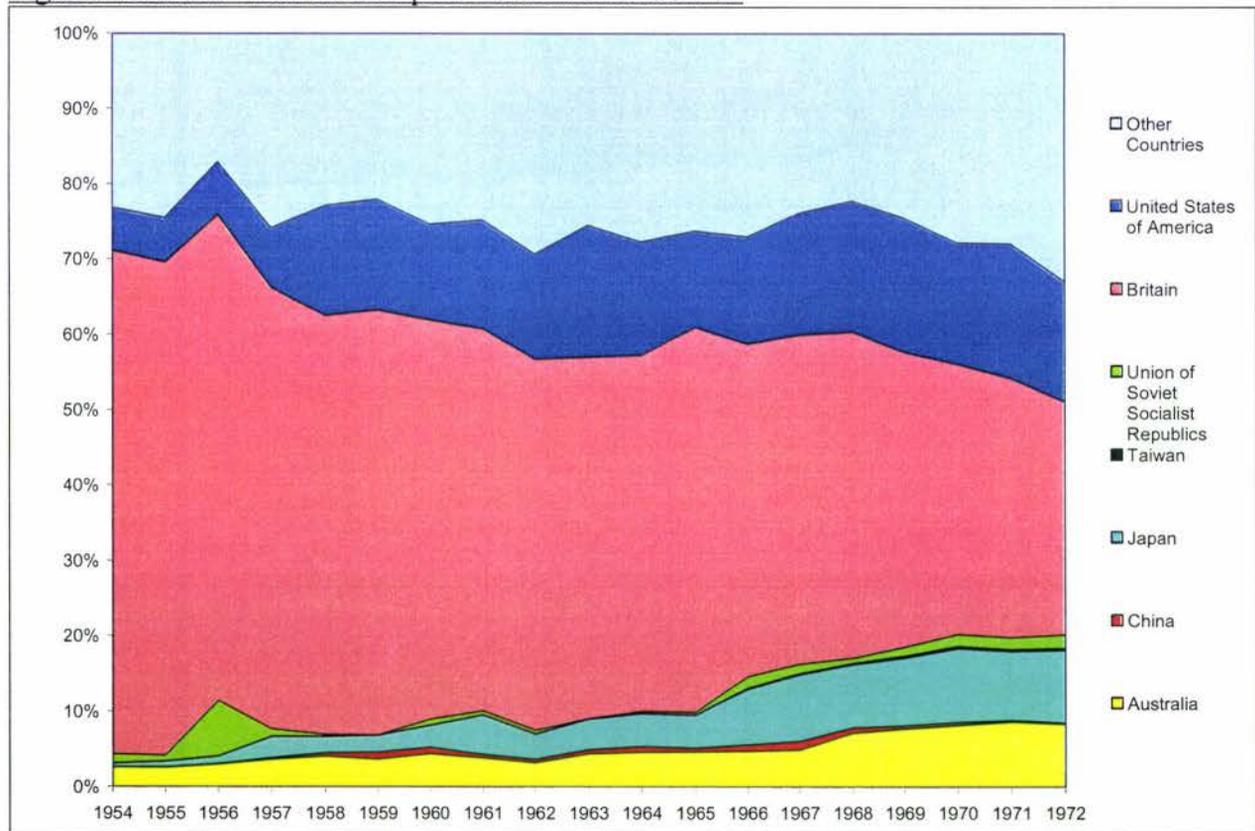
Table 7.3a.
New Zealand Agriculture and Total Exports
(NZ\$ million)

	Agriculture	Total Exports	% of Total
1960/61	519	561	92.5
1970/71	904	1132	79.9
1980/81	3787	6065	62.4
1990/91	8751	15065	58.1
1999/00	12405	24763	50.1

Source: Meat and Wool Economic Service of New Zealand.

In terms of markets, the direction of New Zealand trade also diversified significantly, especially after United Kingdom’s application to join the EEC in 1961, as shown in Figure 7.3d.

Figure 7.3d: New Zealand’s Export Destinations 1954-72

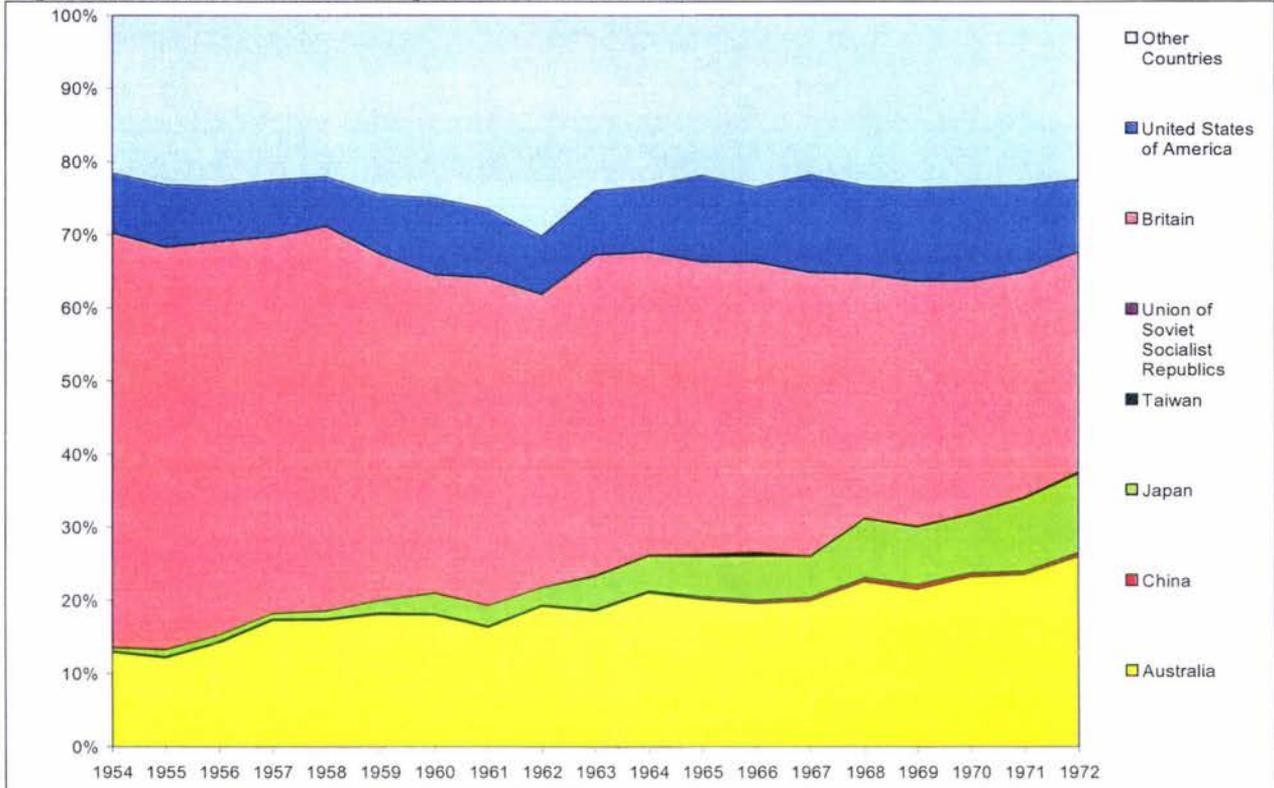


Source: New Zealand Department of Statistics, *External Trade Statistics*. Note that 1962 is a half year due to change in statistical period from January to July years.

The overall trend was a slow diversification away from Britain towards Australia and other Pacific countries. The New Zealand Australia Free Trade Agreement of 1966 was an early attempt to expedite diversification and was particularly favourable to New Zealand’s forestry

exports. Helped by the devaluation of the New Zealand dollar to parity with its Australian counterpart in 1967, exports to Australia soared. The significant devaluation of the British pound in 1967 also made it easier for New Zealand to sell its exports to other countries. New Zealand's imports have always been far more diversified than her exports (see Figure 7.3e), but the trend over 1954-72 remained similar to that for exports.

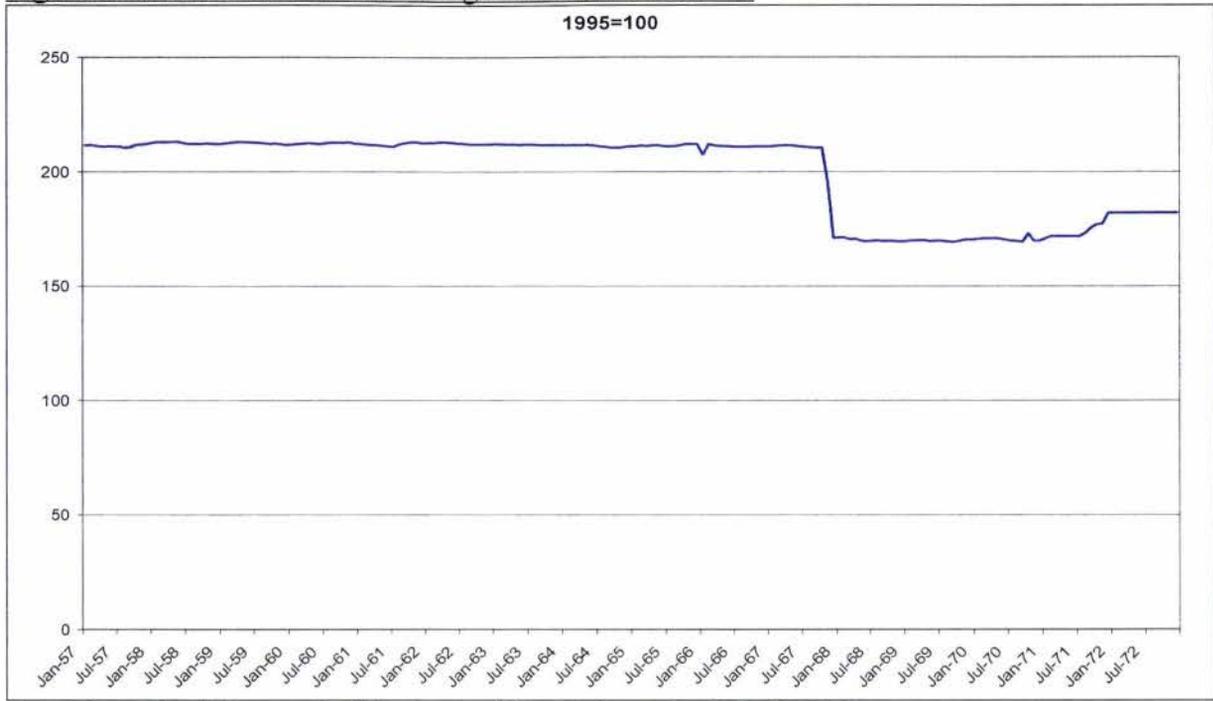
Figure 7.3e: New Zealand's Import Sources 1954-72



Source: New Zealand Department of Statistics, *External Trade Statistics*. Note that 1962 is a half year due to change in statistical period from January to July years.

Import licensing had, however, caused a shift in the composition of imports from finished consumer goods to raw materials and components. The New Zealand exchange rate changed little other than a large devaluation in 1967 which made exporters more competitive in many overseas markets.

Figure 7.3f: New Zealand's Exchange Rate Index 1957-72



Source: International Monetary Fund, *International Financial Statistics*, September 2002.

Although the range of goods covered by New Zealand's import licensing regime was scaled back over the period 1954 to 1972, an increasing proportion of imported goods comprised raw materials or capital goods as opposed to finished consumer goods. Britain's slow economic growth resulted in its exports being relatively expensive, leading New Zealand to diversify its purchasing towards countries such as Japan and West Germany. This trend was most evident in the purchasing of motor vehicles.

7.3.3 THE END OF THE GOLDEN WEATHER

The currency devaluations and increasing exports suggested that by the late 1960s New Zealand might finally be able to support the desired level of imports. But the reality was that many farmers had sought a quick return after devaluation by selling off higher than normal numbers of stock rather than building up numbers for future production.¹⁷⁹ By the early 1970s, production of some traditional exports was insufficient to meet demand from overseas buyers, forcing a rationalisation of sales, while for others there were serious problems finding buyers. The balance on the current account for 1971 was a record low although things had recovered somewhat by 1972 (see figure 7.3b). Despite the attempts at insulating the New Zealand economy from fluctuations in the world economy, and the general diversification in both export

¹⁷⁹ Hawke, G.R. (1992). "Economic Trends and Economic Policy 1938-1992" in Rice, G.W. (ed.). *The Oxford History of New Zealand, Second Edition*, Auckland: Oxford University Press, p.417.

markets and products, in 1972 the New Zealand economy was generally no less dependent on the international economy than it had been in 1954.

Structurally, the New Zealand economy underwent a great deal of change from 1952/53 to 1969/70 (see Table 7.3b). While the primary sector's contribution in terms of value increased significantly, it increased at a slower rate than both the manufacturing and service sectors. This was largely as a result of agricultural prices rising at a slower rate than those for other goods. Agricultural productivity from 1945 to the late 1960s rose at an average of 1% per annum,¹⁸⁰ largely on the back of increased use of machinery and other forms of capital. Employment in agriculture reduced in both absolute and proportional terms in line with the gradual urbanisation trend. Consequently, New Zealand exhibited a similar trend to other highly developed countries where the service/tertiary sector's contribution to GDP increased dramatically.

Table 7.3b.
New Zealand Sectoral Share of Gross Domestic Product
 (%)

	Primary Sector	Secondary Sector	Service/Tertiary Sector
1938/39	26.1	29.7	44.7
1952/53	26.0	28.2	45.8
1959/60	22.3	29.0	48.7
1969/70	16.0	28.2	55.8

Source: Compiled from Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*.¹⁸¹

At first glance, Table 7.3a suggests that there was no growth in the secondary/manufacturing between 1952/53 and 1969/70. However, while there was little change in its contribution to GDP, there were significant changes in its composition and employment. The long-term effect of import licensing was to protect New Zealand's manufacturing and spread it across a far greater range of industries. In general, New Zealand manufacturing operations remained small by international comparisons and concentrated on finishing operations. The overall level of protection was not especially high compared to other countries, but New Zealand was unusual in its protection of industry rather than agriculture. Moreover, the real rewards came from securing

¹⁸⁰ Hawke, G.R. (1992). "Economic Trends and Economic Policy 1938-1992" in Rice, G.W. (ed.). *The Oxford History of New Zealand, Second Edition*, Auckland: Oxford University Press, p.421.

¹⁸¹ Primary sector comprises agriculture together with other primary industries including extraction activities, water, gas, and electricity. Secondary industry includes manufacturing and construction activities. Service sector includes wholesale/retails trade, restaurants, hotels, transport, communication, financial and business services, and other services.

import licences rather than the efficient use of resources to make products demanded by both domestic and international consumers. In this context, it is hardly surprising that New Zealand's real GDP increased at a slower rate than many other developed countries, as indicated in Tables 7.3c and 7.3d.

Table 7.3c.

Per Capita Gross Domestic Product
(US\$ at Current Prices)

	1950	1955	1960	1965	1970	1975	1985
Australia	1836	2079	2521	3104	4481	6556	13443
China		125	154	186	243	374	1133
Japan	412	673	1103	1770	3579	5535	13233
New Zealand	1890	2131	2718	3411	4005	5848	11367
Taiwan		244	316	478	853	1587	5733
United Kingdom	1350	1779	2264	2702	3640	5237	11693
USA	1933	2477	2888	3679	5000	7490	17505

Source: Alan Heston, Robert Summers and Bettina Aten, *Penn World Table Version 6.1*, Center for International Comparisons at the University of Pennsylvania (CICUP), October 2002.

The general consensus amongst economists is that New Zealand's economic performance over the second half of the twentieth century was poor. OECD rankings based on per capita gross domestic product indicate that New Zealand dropped from a ranking of 6th in 1950 to a ranking of 12th in 1970 (see table 7.3d). Only Spain, Ireland, Portugal, Greece, and Turkey remained consistently below New Zealand's rank. Perhaps the fact that most irked was that Australia consistently outperformed New Zealand.

Table 7.3d

Year	OECD Ranking	Per Capita GDP (1990 US\$)	OECD Average Per Capita GDP
1950	6	7700	6300
1960	11	8900	8400
1970	12	11400	12200
1980	19	13400	13400

Source: OECD, *Per Capita GDP Statistics*.

Such a decline is hardly surprising considering that between 1949 and 1960 New Zealand's productivity growth had been among the lowest in the developed world.¹⁸²

¹⁸² Economic and Monetary Council, *Report on the New Zealand Economy*, 1962.

7.4 CHINESE ECONOMIC POLICY AND PERFORMANCE 1954-72

7.4.1 THE ECONOMIC PLANS

China followed the Soviet model of economic development through five year economic plans including defined output targets. From 1949 to 1952 the Communists not only consolidated their control over the country through a terror campaign, but also embarked on a programme of economic recovery and rehabilitation. Their goal was three years of recovery followed by ten years of development. In addition to taking control over monetary, fiscal, and trade policies, the Communists started a traumatic and bloody period of land reform to exterminate the political and economic power of landlords. Land holdings were redistributed to peasants although this did little for agricultural productivity because they lacked the necessary tools and machinery. Instead, output grew on the back of the peace and relative stability that the Communist takeover allowed together with a remarkably conservative industrial policy. The result was that most industries had recovered to levels approaching full capacity by 1952, allowing the Communist Party to decide upon its long-term economic strategy.

While China's economy had largely recovered from the depredations of war, it remained chronically underdeveloped with output levels barely higher than those attained in the mid-1930s.¹⁸³ By comparison, the USSR's per capita industrial output at a comparable time in 1927 was four times higher than that of China and its per capita agricultural output was five times higher.¹⁸⁴ China therefore started its development from a far less favourable position. The Sino-Soviet Treaty of Friendship, Alliance, and Mutual Aid in 1950 paved the way for considerable Soviet assistance - plans, blueprints, machinery, technicians and advisers were exchanged throughout the 1950s. Unwilling to rely on natural development of the economy, the Chinese promulgated a strongly Soviet-flavoured First Five Year Plan (1953-57), which emphasised the need to rapidly industrialise through the development of heavy industry, especially steel, mining, metallurgical, electricity, and chemical industries. A State Planning Commission was established to oversee the implementation of the plan and was gradually supplemented by other ministries and organs of control. 88.2% of Government investment went to heavy industry with only 11.2% to the light industry that produced consumer and agricultural goods.¹⁸⁵ However, it became apparent that Soviet-style planning was inappropriate for Chinese conditions. In

¹⁸³ Meisner, M. (1999). *Mao's China and After*, 3rd Edition, New York: The Free Press, p. 107.

¹⁸⁴ Meisner, M. (1999). *Mao's China and After*, 3rd Edition, New York: The Free Press, p. 107.

¹⁸⁵ Meisner, M. (1999). *Mao's China and After*, 3rd Edition, New York: The Free Press, p.112.

particular, the lack of infrastructure imposed significant constraints. Production targets in many industries had to be cut to more realistic levels. Nonetheless, Chinese industry did grow by 20.52% per annum between 1952 and 1959 and Gross Domestic Product increased by an annual average of 6.69%.¹⁸⁶

Up to 1952 the Government was remarkably lenient on private business, but from 1953 to 1956 the remainder of the private sector was nationalised through confiscation, voluntary surrender, or fixed compensatory payment where the Government sought to retain expertise. In rural areas, land reform was closely followed by collectivisation. Implicit in the First Five Year Plan was the substantial relocation of the predominantly rural population to newly industrialising urban centres. However, rural workers flooded urban areas, adding to already serious unemployment and generally hampering economic development.

The relative neglect of agriculture became more apparent as the First Five Year Plan progressed. Collectivisation failed to provide adequately for common property and as a result a high proportion of the draught animals essential to production became weak or incapacitated. This situation was exacerbated by the lack of mechanical machinery and basic hand-tools. There were also problems with organising central management within the cooperatives and supplementary activities that peasants undertook were curtailed, reducing their income. In addition to cooperatives, state farms were established, often with significant assistance from the Red Army. These suffered from similar problems to the cooperatives. The First Five Year Plan also led to a substantial drop in the primary sector's contribution to GDP, with a corresponding increase in the secondary sector's contribution.

Table 7.4a.

Sectoral Share of Chinese Gross Domestic Product			
(%)			
	Primary Sector (Agriculture)	Secondary Sector	Service/Tertiary Sector
1952	50.5	20.9	28.6
1957	40.3	29.7	30.1
1962	39.4	31.3	29.3
1967	40.3	34.0	25.8
1972	32.9	43.1	24.1
1977	29.4	47.1	23.4
1982	33.3	45.0	21.7

¹⁸⁶ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p. xxiii.

1987	26.8	43.9	29.3
1992	21.8	43.9	34.3
1995	20.5	48.8	30.7

Source: State Statistical Bureau of the People's Republic of China and the Institute of Economic Research of Hitotsubashi University: *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

Overall, the First Five Year Plan provided the Chinese economy with a stable industrial base, albeit small by western standards. But it came at a significant cost in terms of the China's 500 million peasants. Industrialisation was achieved largely through the exploitation of rural areas through taxation and fixed prices. As urban areas industrialised, agricultural areas stagnated.

7.4.2 THE GREAT LEAP FORWARD

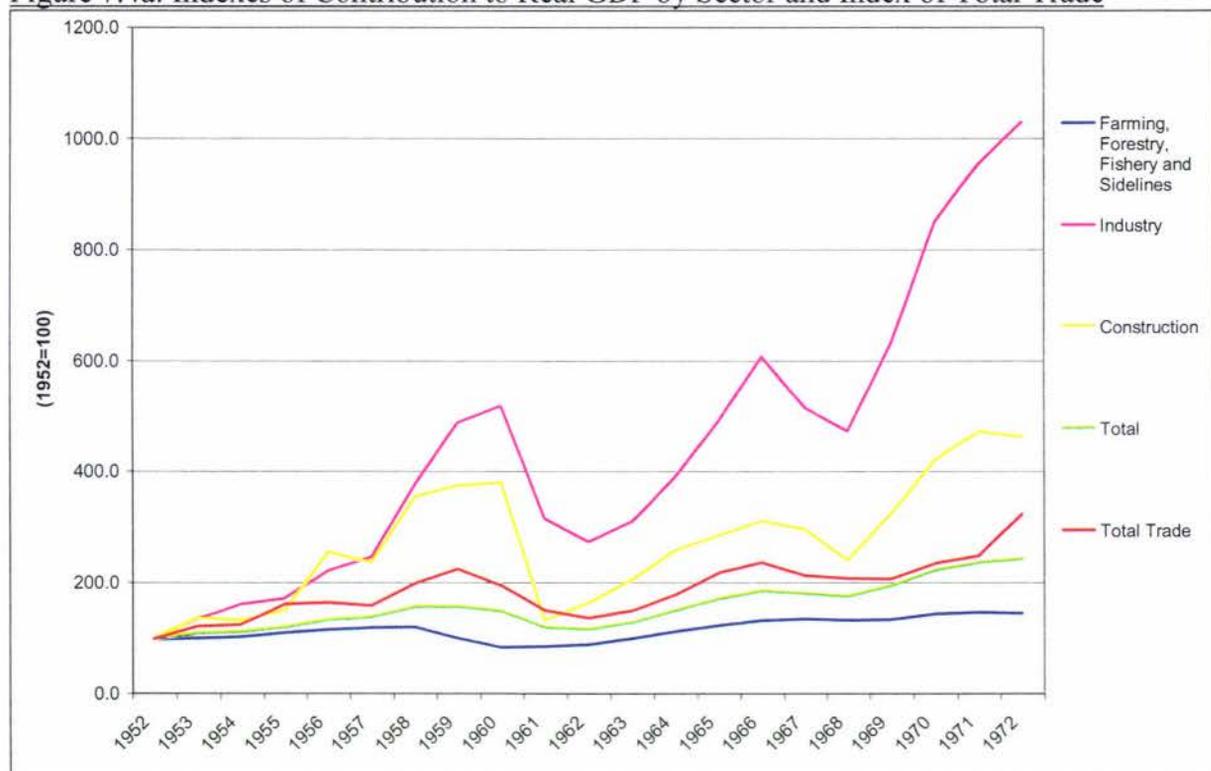
China's Second Five Year Plan of 1958-62 was designed to continue industrial development while also addressing the agricultural production failures. However, a more ambitious plan quickly replaced it. Mao's perception that the Soviet model of development through heavy industry was fundamentally at odds with the rural origins and core support of the Chinese Communist Party was to have profound implications for the Chinese economy.¹⁸⁷ The dichotomy led Mao to formulate the Great Leap Forward, which spanned the years 1958-61. He embarked upon a remarkable economic experiment by combining a radical psychological transformation of the population with changes in production incentives and organisation. Mao hoped that the transformation would stimulate the Chinese people to work more intensively, creatively, and selflessly in accordance with socialist ideals. However, the Great Leap Forward was also brought about by slow agricultural growth, urban unemployment, and an ever-increasing disparity between Soviet and Maoist ideologies. Mao sought to solve these problems in a uniquely Chinese way, and one that befitted his view of China's as the new centre of world revolution.

At the heart of the Great Leap Forward was the encouragement of small-scale light industry (as opposed to large Soviet-styled heavy industry) and local economic self sufficiency. Mao hoped such localised efforts would reduce unemployment and make better use of local resources such as coal and iron ore. In agriculture, new People's Communes were formed as the ultimate form of collectivisation, comprising 20 to 30 of the old higher level cooperatives. Thus a new People's Commune could encompass up to 50,000 people. The incentives to peasants were also

¹⁸⁷ Fairbank, J.K. (1992). *China: A New History*, Cambridge, MA: Harvard University Press, p.369.

limited as need was introduced as a new criterion in addition to effort. Extraordinary production claims were made for 1958, along with astonishing production goals for 1959. Steel output was to rise from 11 to 18 million tonnes; coal from 270 to 380 million; and grain from 375 to 525 million tonnes.¹⁸⁸ Propaganda concentrated on the goal of surpassing Britain in the production of steel, coal and other industrial products by 1972.¹⁸⁹ But by 1959, the misuse of resources, human exhaustion and general administrative confusion began to have serious consequences on the economy as a whole, as indicated in Figure 7.4a. Taiwanese and American intelligence sources described the collapse of agricultural organisation, the closure of factories, and famine with large portions of the population searching desperately for edible roots, tree barks, and natural life of any kind.¹⁹⁰

Figure 7.4a: Indexes of Contribution to Real GDP by Sector and Index of Total Trade



Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*, and *Almanac of China's Foreign Economic Relations and Trade 1987*. Indexes for GDP are based on sector contributions to GDP in millions of 1987 Yuan and Hundreds of Millions of nominal US dollars for total trade.

Ultimately the Great Leap Forward was a spectacular failure and in combination with a series of natural disasters and the withdrawal of Soviet assistance, heralded a grave depression. Agricultural output declined substantially, forcing resources to be ruthlessly allocated to agriculture to ease food shortages. With agriculture a significant export earner, and China's

¹⁸⁸ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p.xxix.

¹⁸⁹ EA, EA1, 264/5/1 Part 4.

¹⁹⁰ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p.xxix.

foreign reserves limited, imports were substantially curtailed with the exception of grain imports from Canada and Australia. Nonetheless, China's foreign currency reserves were put under severe pressure. The trend towards larger communes was reversed, with land being handed over to family-sized units and incentives based solely on effort reintroduced. The experiments of the Great Leap Forward were also reversed in industry. After much disruption, the economy began to recover from 1962 but it was not until 1965 that real GDP returned to 1958 levels. In 1961 the Government embarked upon a more balanced approach to development. Under the 'agriculture first' approach, the rural and consumer sectors were allocated a greater share of investment than previously. Yet industry was not forgotten - imports of raw materials increased markedly from 1963 and plant and machinery in 1965-66.

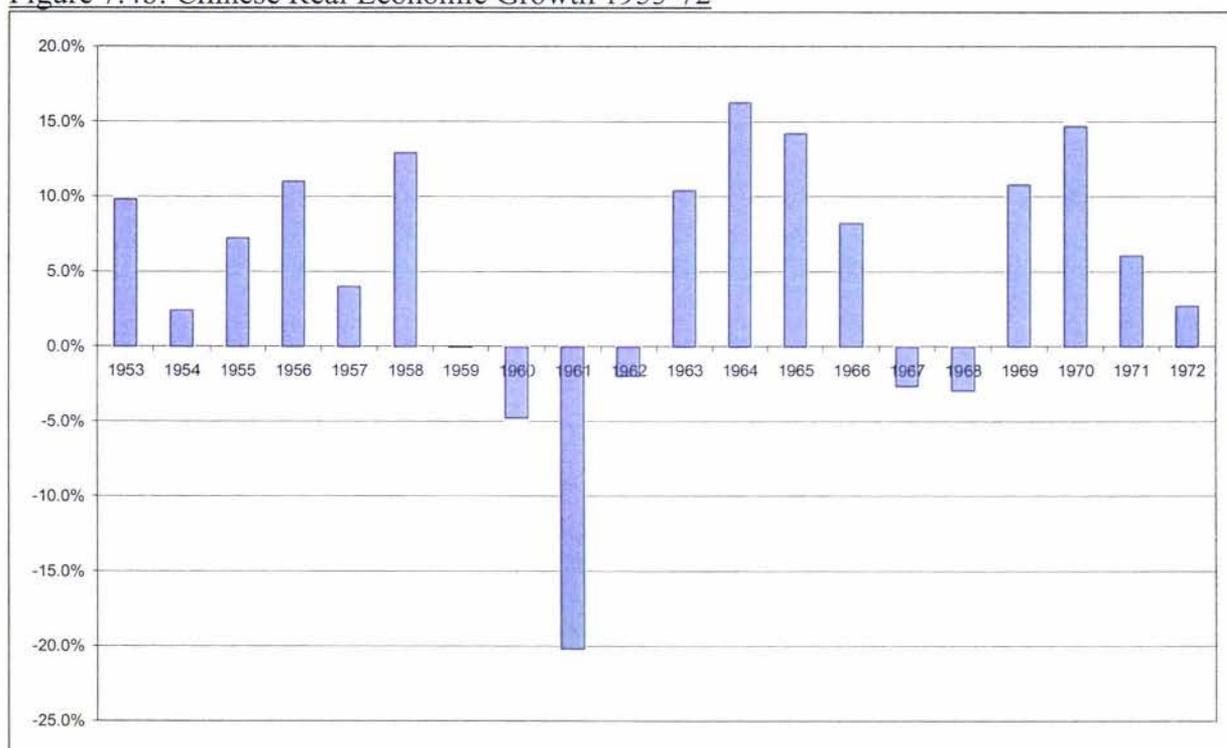
7.4.3 THE CULTURAL REVOLUTION

Mao endured much criticism following his failed economic experimentation, and had to watch as pragmatists Liu Shaoqi and Deng Xiaoping took control of the economy. Unfortunately for China, Mao was to have his revenge in the Cultural Revolution. Minister of Defence Lin Biao, a close ally of Mao, launched the Cultural Revolution in September 1965 by calling for school pupils and colleges to return to the basic principles of the revolution and criticising the emergence of liberal and Khrushchevian trends in the Chinese Communist Party. Although its aim was political - a bloodless purge of the Communist Party - the Cultural Revolution had severe economic consequences as the Maoist 'Red Guards' persecuted those in authority, forcing them to attend cadre schools for re-education and rehabilitation. Much of the criticism and radical work of the Cultural Revolution were carried out by the 'Gang of Four', Mao's wife Jiang Qing, Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen. They were particularly strong in their criticism of foreign trade. Rural areas largely escaped the disruptions, but in urban areas rival factions developed leading to violence in some cities. The revolution spiralled out of control into 1969. With war still raging in Vietnam, fighting on the USSR border broke out in March, threatening to throw China into conflict with both superpowers. Mao began to repudiate the actions of the Red Guards in an attempt to end the chaos. The Communist Party was revitalised after its ninth congress in April 1969 and with the help of the People's Liberation Army restored order.

Reassertion of Maoist doctrines was generally achieved between 1965 and 1968, economic disruption had eased by 1970, but the political fallout lasted until Mao's death and the arrest of

the Gang of Four in 1976. There seems little doubt that the arrest of the Gang of Four deflected attention away from the chief architect of the Cultural Revolution – Mao himself, allowing his legitimacy as the basis for the whole Chinese communist system to be maintained. Its economic effects were two fold (see figure 7.4a): 1) industrial production, and to a lesser extent agriculture, declined; 2) the revival in China’s international trade after the Great Leap Forward was halted and even reversed. New Zealand’s High Commissioner in Hong Kong estimated that 30 of the top 40 officials in China’s economic organisations lost their positions.¹⁹¹ The negative effects of both the Great Leap Forward and Cultural Revolution on real economic growth are indicated below.

Figure 7.4b: Chinese Real Economic Growth 1953-72



Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

7.4.4 CHINA’S TRADE 1954-72

As a state monopoly, Chinese foreign trade was highly susceptible to political changes - the strong cultural desire for self-sufficiency and general hostility towards foreign trade was frequently harnessed by politicians for their own ends. On the other hand, trade was essential for China’s economic development and a strong aversion to the use of credit meant that China’s exports had to cover her imports. Trade with non-communist countries was also seen as a way to

¹⁹¹ IC 1 113/1/3 Part 2

improve relations and achieve international acceptance. China sometimes imported goods that it did not need to facilitate trade, a good example being the China-Burma trade agreement under which China imported rice, a commodity China often exported, as Burma had little else to offer.¹⁹² Trade with Japan was broken off in 1958 for political reasons amid allegations that the Japanese Prime Minister had sabotaged the 4th Sino-Japanese private trade agreement by refusing to allow a Chinese flag to fly over trade buildings.¹⁹³ Chinese trading corporations were only obliged to make a profit on their operations as a whole, leaving them free to adjust individual export prices for political ends.¹⁹⁴ China mounted a determined attempt to exclude Japanese products from South East Asia between 1958 and the restoration of economic relations in 1962 by offering unrealistic prices.¹⁹⁵ Similarly, prices charged to the Soviet Union were unlikely to reflect domestic costs of production, whereas trade with Western countries generally did reflect real costs. The same held true for exchange rates. The battle between the pragmatists favouring increased trade and the idealists favouring minimal trade raged almost constantly over the period 1954-72. Foreign trade declined sharply with the Great Leap Forward and the Cultural Revolution. Although foreign trade ebbed and flowed, it was only after the adoption of more pragmatic policies in 1970 that foreign trade began to expand. The trend in Chinese trade is shown in figure 7.4c.

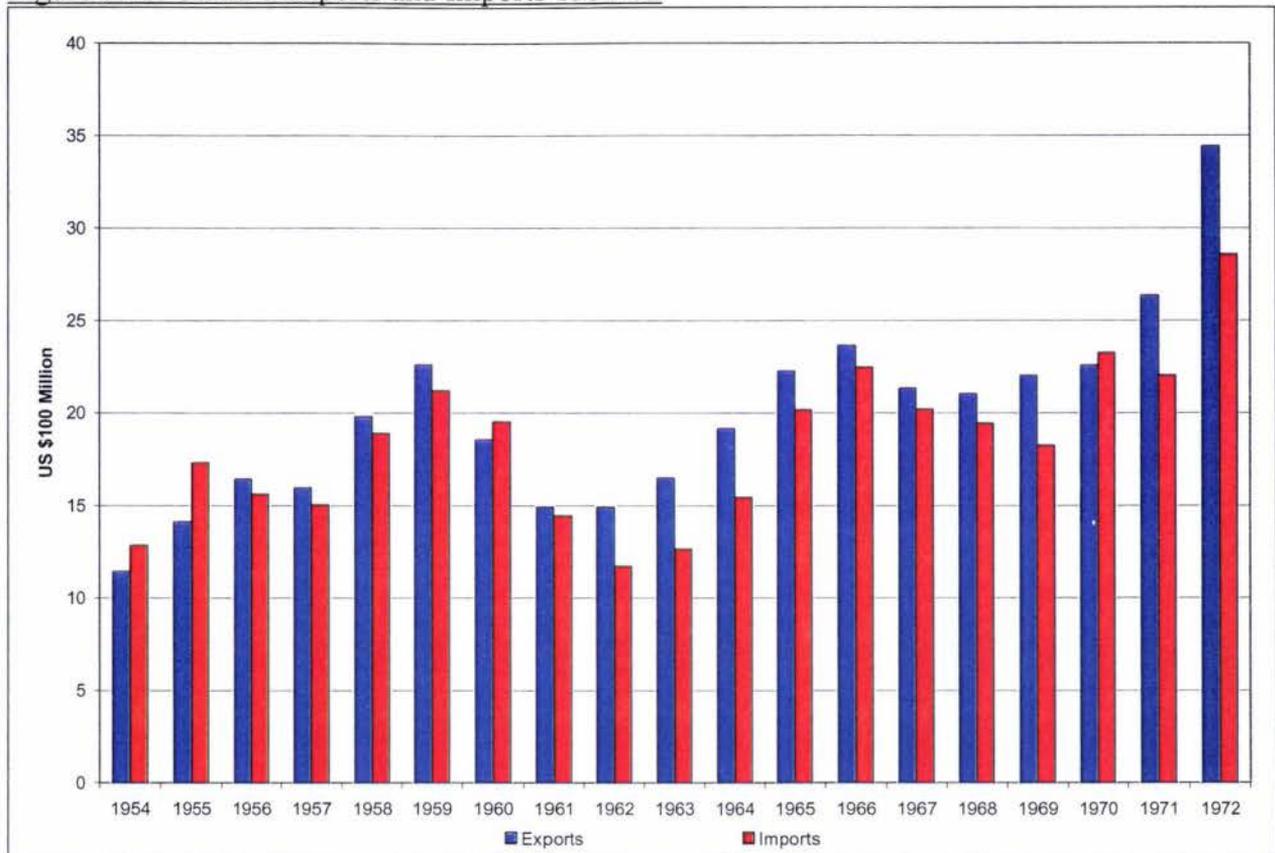
¹⁹² IC 1 113/1/1 Part 1

¹⁹³ In an unrelated incident, a Chinese flag was destroyed by a Japanese student creating outrage in China..ABHS 950 40/11/Part 2

¹⁹⁴ IC 1 113/1/1 Part 1

¹⁹⁵ IC 1 113/1/1 Part 1

Figure 7.4c: China's Exports and Imports 1954-72



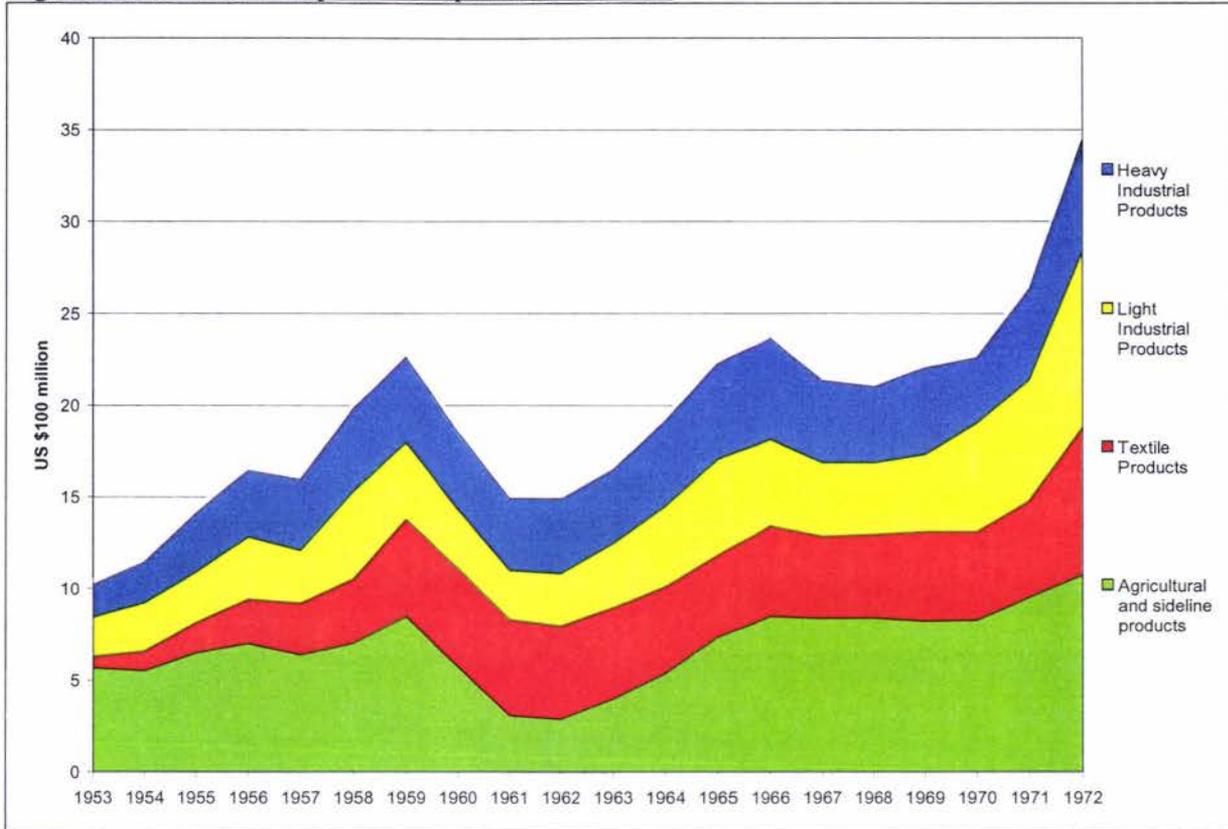
Source: *Almanac of China's Foreign Economic Relations and Trade 1987*.

Despite the ideological disputes, some common trends are evident in China's foreign trade. Much of China's trade over the period 1954-72 was conducted on a government-to-government basis on the principle of buying only what it needed when it could afford to. The Chinese were therefore highly price sensitive,¹⁹⁶ and often purchased when other buyers were out of the market.¹⁹⁷ There were several reasons for this. Firstly, China was generally isolated from the world economy, limiting borrowing to the Soviet Union when relations permitted. Secondly, the Chinese were strongly averse to borrowing and the use of credit. And thirdly, the Chinese culture is one of hard but fair negotiation, preferring to get all potential suppliers in one place, such as the spring and autumn Kwangchow (formerly Canton) export commodity fairs. Western traders respected the Chinese for their exemplary knowledge of worldwide demand and supply conditions, prices, and tough negotiating techniques. With relatively small reserves of foreign exchange, sustained periods of imports exceeding exports created significant problems for Chinese administrators. More often than not, they would use their monopoly on trade decisions to arbitrarily limit certain imports. In terms of composition, agricultural exports were gradually replaced with industrial exports, especially textiles (Figure 7.4d).

¹⁹⁶ ABHS 950 40/11/Part 12

¹⁹⁷ IC 1 113/1/1 Part 2

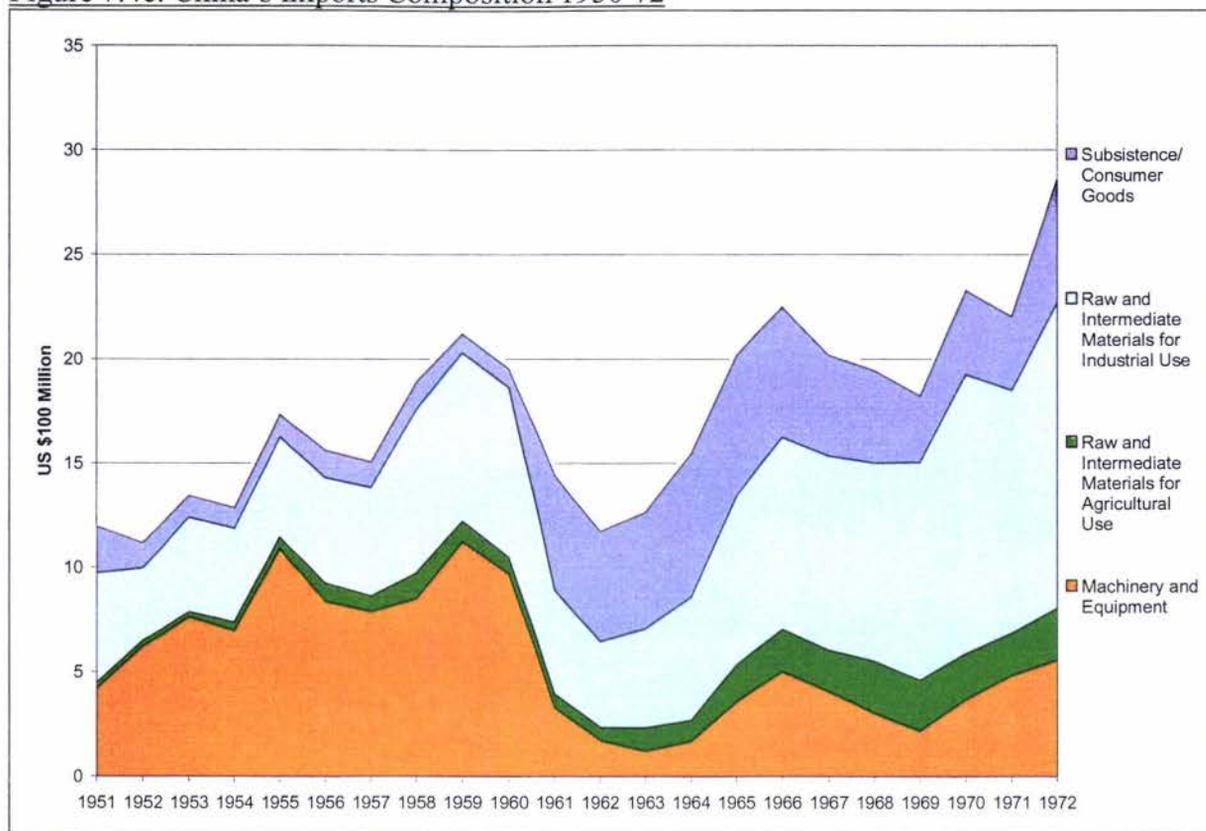
Figure 7.4d: China's Exports Composition 1953-72



Source: *Almanac of China's Foreign Economic Relations and Trade*, 1987.

Imports were concentrated on essential producer goods rather than consumer goods (Figure 7.4e). Wheat from Canada and Australia made up the bulk of the subsistence/consumer goods category after 1961. Other major imports include machinery and vehicles, steel and non-ferrous metals, chemicals and dyes, rubber, textile fibres, sugar, fertiliser. China's population growth and urbanisation over the period saw imports of wheat and fertilizer grow substantially while increasing self sufficiency in cotton and sugar saw these imports reduce. China also became self sufficient in oil by the early 1970s. It was expected that high technology producer goods would continue to dominate China's imports.

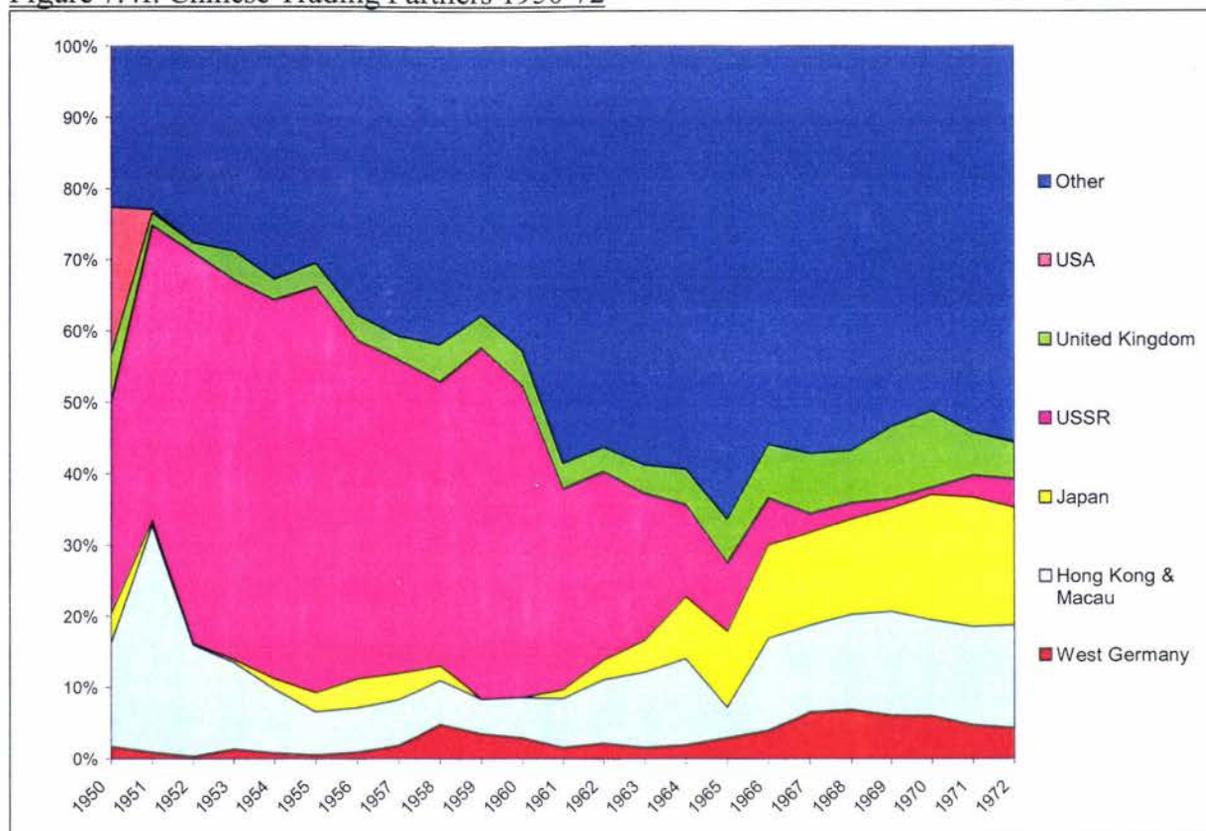
Figure 7.4e: China's Imports Composition 1950-72



Source: *Almanac of China's Foreign Economic Relations and Trade*, 1987.

Directional changes in China's international trade were also substantial. After the Sino-Soviet split, Chinese trade was increasingly directed towards Western countries and Japan (see figure 7.4c), though a political disagreement with Japan curtailed Sino-Japanese trade between 1959 and 1961. Relations improved thereafter and the normalisation of diplomatic relations with Japan in October 1972 cemented that country's place as China's largest trading partner. Also in 1972, the United States normalised its economic relations with China and ended the trade embargo which had been in place since 1951. One of the constants of Chinese trade over the period was its large surplus with Hong Kong which financed deficits with grain-producing countries such as Australia and Canada and industrial countries such as Japan and West Germany.

Figure 7.4f: Chinese Trading Partners 1950-72



Source: Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000 (4th edition)*.

Despite the gradual increase in China's international trade in line with its importance for technology transfer, trade as a proportion of GDP in 1972 remained at only 5% compared to New Zealand's 37.8%.¹⁹⁸

7.5 NEW ZEALAND-CHINA TRADE 1954-72

7.5.1 TRADING WITH CHINA – MYTHS AND REALITIES

With over 600 million people, China had long appealed to New Zealand businessmen. It was said that the world's total wool production would not be sufficient to supply every Chinese citizen with a pair of socks.¹⁹⁹ But with the absence of diplomatic relations, New Zealand exporters wishing to sell to China had to do it without any government assistance. The task was made more difficult by China's state monopoly on foreign trade exercised through import-export corporations. Unless one of these trading corporations was interested in a product, there was little prospect of it being allowed entry to China. Moreover, the Chinese Government

¹⁹⁸ See table 5.4a.

¹⁹⁹ *Evening Post*, 26 April 1962.

frequently espoused its intention to trade with friendly countries - New Zealand was considered a hostile country, albeit a non-threatening one. These factors meant China was a difficult place to do business; as a result the New Zealand businessmen successful in China tended to be resilient and optimistic types capable of more than a little hyperbole and self-promotion.

Fortunately the all-powerful Department of Industries and Commerce was in favour of the development of trade with China to diversify New Zealand's export markets. However, the support that the Department could offer was limited and subject to the COCOM restrictions on 'strategic goods',²⁰⁰ and the New Zealand government could not become officially involved.²⁰¹ Wherever possible, the Department insisted that trade with China be carried out on 'normal commercial terms', without special exemptions from import licensing. Assuming New Zealand businessmen interested in China had the required import licences, their first step was usually to make contact with the China Resources Company in Hong Kong, which acted as a master agent for the trading corporations until negotiations could be handled directly.

The first meetings with trading corporation officials often occurred at the autumn and spring Kwangchow (Canton) Fairs, which commenced in 1957. Although the fairs were primarily aimed at promoting Chinese exports, a visit was nonetheless a pre-requisite for any businessman wishing to conduct meaningful business with the PRC. As in the 19th century, the Chinese kept foreign businessmen in Kwangchow, at a safe distance from Beijing (Peking) and sought maximum advantage by dealing with all traders together at the same time. Another reason for the pre-eminence of the fairs was that the Chinese were notoriously bad correspondents either by letter or telex, largely because of a shortage of skilled interpreters. Gathering businessmen in one place allowed the Chinese to make efficient use of their interpreter resources. China conducted between 30% and 50% of its total annual trade at the fairs during the back-door period.²⁰²

Psychology was an important part of the fairs. Chinese officials forced traders to make appointments for brief conversations, wait again while rivals were consulted, and finally be given an answer at the officials' convenience. Competition between potential suppliers was keen

²⁰⁰ Prior to 1964 exports were restricted to all countries except Belgium, Denmark, France, Holland, Iceland, Italy, Luxembourg, Norway, Portugal, USA, and Commonwealth Countries. After 1964 the emphasis shifted to specific commodities - approval from the Ministries of Foreign Affairs and Customs was required before an export permit was issued.

²⁰¹ IC 1 116/1 Part 1

²⁰² Wood, A.F. (1972). *China's Overseas Trade: A Study of China's Foreign Trading Policies and of China's Trade Relations with New Zealand*, Wellington: Victoria University Research Paper, p.5, AATJ 7428 113/1 Part 2.

with the trading corporations having no scruples about playing the competition for the best discounts. They disliked being rushed and went to great lengths to avoid losing face or appearing ignorant. Nevertheless, the Chinese developed a reputation for being astute, well-informed, hard, and honest negotiators. Their knowledge of world commodity conditions was often unequalled and they scrutinised proposals minutely to identify inconsistencies. Negotiations were usually conducted in English, using interpreters from the trading corporations. Payment was generally effected by irrevocable letter of credit against presentation of sight draft and shipping documents. Payments where there was nothing in dispute were full and prompt. Chinese officials rejected international arbitration provisions in favour of settling disputes themselves under the auspices of the Foreign Trade Arbitration Commission of the China Council for the Promotion of International Trade (CCPIT). Chinese negotiators placed great emphasis on etiquette, honesty, sensitivity, dignity, and persistence in their trading partners.

Between 1954 and 1972 the fairs were also used for propaganda such as demonstrating the superiority of Chinese technology and industry as well as revealing the benefits of the Cultural Revolution. Attendance at the fairs was by invitation and often restricted for political reasons – United States and Taiwanese traders were excluded, along with some Hong Kong traders after the 1967 disturbances, but otherwise traders with whom the Chinese wished to conduct business were welcome. Many of the most successful traders were Japanese who had become experts in Maoist thought to aid their trade negotiations. Prior visits to Taiwan created problems for businessmen wishing to visit China – traders who had a Taiwanese visa in their passports were declined entry. This represented a potentially significant problem as New Zealand businessmen frequently found it necessary to visit both countries given the costs of travel. The Department of External Affairs got around this by issuing New Zealand businessmen with a second passport, although they did not want the scheme to be publicised.

7.5.2 THE BACK-DOOR PIONEERS OR LICENCE HUNTERS?

One of the first New Zealand businessmen to visit China was Douglas Hare, who returned in 1953 with a list of commodities that the Chinese expressed an interest in buying.²⁰³ Despite the strong possibility of increased trade, the Department of Industries and Commerce discouraged a proposal by Hamilton businessman J.R. Rae to lead a trade delegation to China in 1956,

²⁰³ IC 1 116/1 Part 1

preferring a survey by one of its Trade Commissioners.²⁰⁴ 1956 was a key year in New Zealand's trade with China – it was the year that a handful of New Zealand businessmen began to work hard at such trade. Direct sales of New Zealand wool were pioneered by Leo Tattersfield,²⁰⁵ who was vocal in his calls to recognise the PRC for the benefit of New Zealand's exporters.²⁰⁶ McDonald Vadco Limited (importers) and Vadco Traders Ltd (exporters) under the leadership of Ron Howell,²⁰⁷ sold wool to China and imported a variety of textiles and other consumer goods in return. Victor Percival of Kelvin Industries Ltd first expressed interest in trading with China in 1956.²⁰⁸ He visited China in 1958 and returned with a proposal under which £250,000 of wool would be sold to China with goods to the same value to be purchased from the China National Foodstuffs Corporation.²⁰⁹ Applications for £208,448 of import licences were declined by the Department of Industries and Commerce. Percival attempted to get around this difficulty by selling the vast majority of the Chinese goods to existing import licence holders.²¹⁰ However, £9375 of his purchases remained uncovered by licence and the Reserve Bank declined to make foreign exchange available to cover them.²¹¹ Fearing that future trade with China could be harmed by Percival renegeing on contracts, in July 1958 the Minister of Industries and Commerce granted an additional £2200 worth of licences and asked the Minister of Finance to review the case for foreign exchange.²¹² Ultimately though, the reciprocal trade deal did not proceed, with Percival blaming the Department's decision not to extend sufficient import licences.

Tension between traders and the Department of Industries and Commerce was a recurring theme of the back-door period. From very early in the period the Department was suspicious that some early China traders were using the line of developing trade with China as cover for the procurement of import licences. Moreover, the Department believed that much of the trade touted as developmental would have developed naturally due to comparative advantage. But the Department's greatest concern was the possibility of pioneering New Zealand traders renegeing on contractual arrangements because of the lack of import licences, thereby muddying the waters

²⁰⁴ IC 1 116/1 Part 1

²⁰⁵ AATJ 7428 45/35/1

²⁰⁶ For example, see Evening Post 28/12/1964.

²⁰⁷ Ron Howell was also the President of the New Zealand China Friendship Society.

²⁰⁸ Many years later Percival claimed to have been asked by Prime Minister Nash to advise the Chinese of New Zealand's desire to enter into negotiations that would lead to recognition (ABHS 950 40/11 Part 3). While Nash was known to be sympathetic to recognition, such a claim goes against other sources from the time.

²⁰⁹ IC 1 113

²¹⁰ IC 1 56/1/5 Part 1

²¹¹ IC 1 116/1 Part 2

²¹² IC 1 116/1 Part 2

for other New Zealand businessmen. It warned traders of whom it was suspicious of the dangers of entering into agreements without the pre-requisite import licences.²¹³ As a pre-emptive measure, it determined to send a Trade Commissioner to China to clarify the New Zealand position and secure information useful to businesses interested in trading with China.²¹⁴

Australia's former Trade Commissioner to Hong Kong visited China early in 1956 and subsequently China's purchases of Australian wool increased significantly.²¹⁵ However, the National Government did not approve of the New Zealand Trade Commissioner to South East Asia, Dr R.G. Hampton, visiting China. Visits to Hong Kong in January and August 1957 were approved instead to make enquiries and contacts. However, the Department of External Affairs subsequently advised that since New Zealand did not recognise the PRC, it would be inadvisable for its officials to have contact with Chinese officials and Hampton was instructed to cease all contact.²¹⁶ This did not deter the Department of Industries and Commerce. The Labour party was generally regarded as more receptive to closer relations with China, and with their election victory in December 1957 the Department quickly sought approval for the Trade Commissioner to visit China. The matter was referred to Cabinet in February 1958, but approval was declined in favour of again sending the Trade Commissioner to Hong Kong. Cabinet doubted the trade value of promotion activities with the PRC.²¹⁷ Prime Minister Walter Nash visited Hong Kong in March, partly to investigate the possibility of trade with China for himself. Nash was accompanied by Alister McIntosh, Secretary of External Affairs, and both commented to Hampton that they doubted whether any considerable trade could be developed at the present time. However, both agreed that there was something to be gained from having a Trade Commissioner make contacts in China to assist prospective New Zealand exporters, despite it being inadvisable for a government official to visit China at this stage.²¹⁸ Nash and McIntosh appeared to have a change of heart after returning from Hong Kong, with Cabinet approving a visit to China by the Trade Commissioner in late 1958.²¹⁹

The Government's trepidation over establishing low-level contact with the PRC was partly due to the 'recognition' problems created by the visit of two separate Chinese trade delegations in

²¹³ IC 1 116/1 Part 2

²¹⁴ IC 1 116/1 Part 2

²¹⁵ IC 1 116/1 Part 2

²¹⁶ IC 1 116/1 Part 2

²¹⁷ IC 1 116/1 Part 2

²¹⁸ IC 1 116/1 Part 2

²¹⁹ IC 1 116/1 Part 2. Approved by Cabinet in August 1958.

1958.²²⁰ The first problem was that customs officials could not recognise PRC travel documents/passports. There were two ways around this: 1) for customs officials to enter a visa on an affidavit of identity completed by the visitors; and 2) permission to enter could be set out in a letter of introduction. Once in New Zealand, it was decided that the mission should be allowed on the basis that the visit was strictly commercial and would have no dealings with members of Government or officials.²²¹ Leo Tattersfield was asked to sponsor the delegation.²²² The private nature of the delegation prevented them widely disseminating information about the Chinese market or meeting a wide range of New Zealand businessmen. Despite the ban on official contact, the Department of Industries and Commerce did meet with the delegation on an unofficial basis to find that the trade mission was mainly interested in buying wool,²²³ preferably under a bilateral balancing arrangement which the Department advised was not possible.²²⁴

Hampton's scheduled visit in September and October 1958 was sponsored by the China Committee for the Promotion of International Trade.²²⁵ However, he was instructed to make it clear to the Chinese that there was no intention to negotiate a government-to-government trade agreement and that New Zealand had not changed her position on recognition. Hampton was also instructed not to accompany New Zealand businessmen to China as they might seek to portray a degree of government authority by having the Trade Commissioner's presence in meetings with the Chinese trading corporations. Moreover, the purpose of his visit was to explore the Chinese market rather than to conduct business. In his report on the visit Hampton commented:

I found it necessary to fob off most of the Corporations who wanted to talk sales to New Zealand by suggesting that they send catalogues and details to our Department which could then circulate these details among those interested parties in New Zealand who might be interested. In every case of course, I gave them a brief dissertation on our import licensing restrictions and made it fairly clear that in the

²²⁰ IC 1 116/1 Part 2.

²²¹ The New Zealand Government needn't have worried - the missions were designed to explore the New Zealand market rather than initiate Governmental contact, IC 1 116/1 Part 2.

²²² AATJ 7428 45/35/1

²²³ *Waikato Times*, 6/10/1958

²²⁴ IC 1 113 Part 1

²²⁵ The CCPIT was a state organisation formed in 1952 to develop trade with countries whose political situation vis-à-vis the Chinese government was uncertain. Other functions of the committee were to maintain contacts with trade organisations in other countries, provide information on China's trade, compile economic reports on other countries, despatch trade missions, and hold trade fairs. AATJ 7428 113/1 Part 2. Hampton's visit lasted 24 days.

meantime at any rate it was unlikely that any considerable business could be developed.²²⁶

Despite his best attempts to avoid political occasions, the inseparability of Chinese trade and politics resulted in Hampton attending a reception hosted by Chinese Prime Minister Zhou En Lai to celebrate the ninth anniversary of the founding of the PRC.²²⁷ Hampton's report on his visit greatly extended New Zealand's knowledge of the Chinese market. It identified demand for wool, wood pulp, hides and skins, along with interest in tallow, some dairy products (casein and milk powder), plywood, seeds, breeding livestock, and farm machinery.²²⁸ Copies of relevant sections of Hampton's report and the contact details for appropriate Chinese corporations were forwarded to New Zealand businesses interested in trading with China. Private traders such as Percival, Tattersfield, and Howell remained the other valuable source of information to the Department of Industries and Commerce, despite its misgivings about the motivations of some.

New Zealand's attempts to understand the Chinese market appeared to be reaping rich rewards as exports to China more than doubled in 1959 (see Figure 7.5a), albeit from a very small base. Levels remained similar in 1960 before declining dramatically in 1961 and 1962. In May 1961 the New Zealand Trade Commissioner to the newly established post in Hong Kong,²²⁹ J. P. Costello, visited the spring Kwangchow Export Commodities Fair. Discussions with Chinese officials encouraged Costello to arrange a further trade survey for October 1961 but Beijing declined to make a visa available on the grounds that it was not 'timely at present because of the international situation'.²³⁰ Costello believed that the refusal was due to two New Zealand foreign policy actions: the raising of the status of the Taiwanese representative office in Wellington from Consulate-General to Embassy; and New Zealand's 1961 proposal (at the prompting of the United States) for a full discussion on Chinese representation at the United Nations. Another example of Chinese disapproval of New Zealand's actions was that a Chinese trade delegation visiting Australia did not travel onto New Zealand as had been the case with previous delegations.²³¹ This was reinforced by a Chinese trade official informing Costello that China was not really dependent on New Zealand for any commodity, although certain grades of

²²⁶ IC 1 113

²²⁷ IC 1 113

²²⁸ IC 1 113/1/1 Part 1

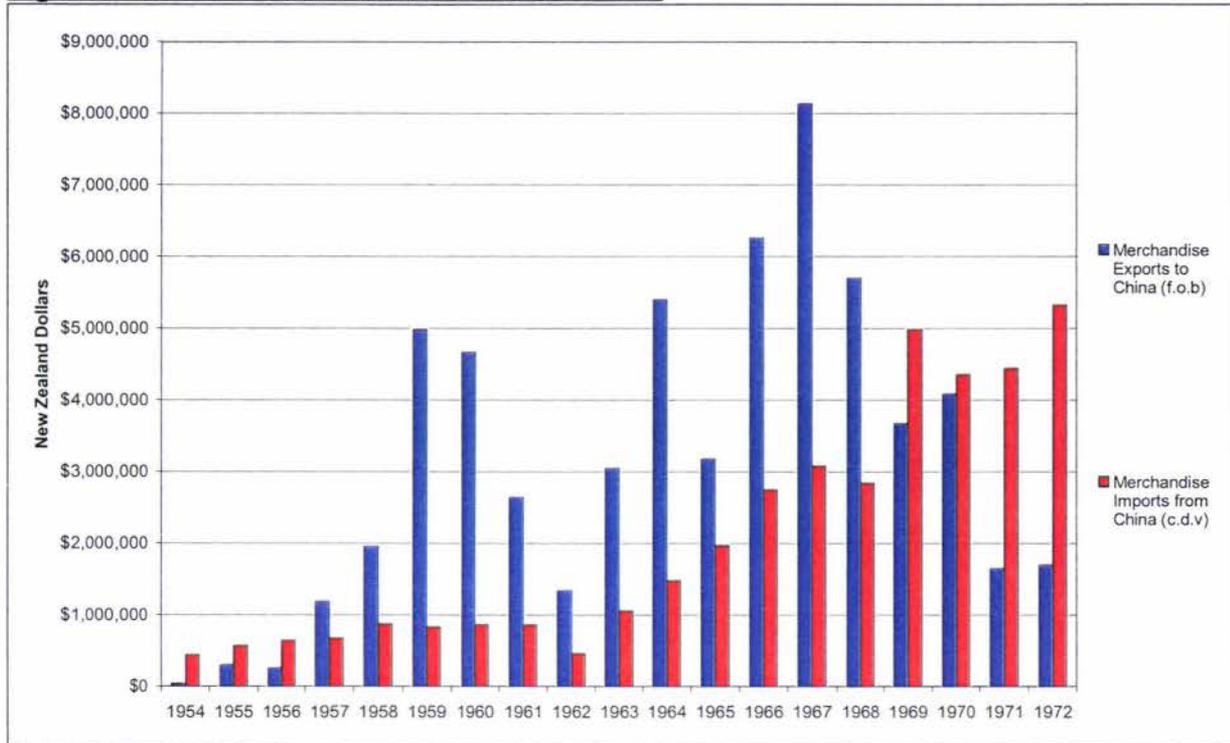
²²⁹ Costello started as Trade Commissioner in Hong Kong in June 1960. IC 1 113/1/1 Part 2

²³⁰ IC 1 113/1/1 Part 1. Leo Tattersfield and a representative of the National Bank of New Zealand were also refused visas in 1961 and 1962, IC 1 113/1/1 Part 2. Another New Zealand trader, K.S Turner of McCaul (NZ) Ltd, gained entry to the PRC on a British passport. IC 1 113/1/1 Part 3.

²³¹ IC 1 113/1/1 Part 2

New Zealand wool and tallow were preferred.²³² It was not until November 1972 that another Trade Commissioner visited China for the Kwangchow Fair.²³³ Despite having their hands tied by the lack of diplomatic recognition, virtually all businessmen active in China praised the efforts of the New Zealand's Trade Commissioners.

Figure 7.5a: New Zealand China Trade 1954-1972



Source: NZ Department of Statistics, *External Trade Statistics*. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

In hindsight, there is little doubt that the Chinese were demonstrating the inseparability of economics and politics to New Zealand.²³⁴ On the New Zealand side, re-election of the National Government saw a reversion to a hands-off approach to China trade, with government officials being discouraged from attending Chinese functions in Hong Kong.²³⁵ The hands-off approach was mirrored in the Department of Industries and Commerce's approach to trade with China, but for different reasons. The lack of success of several prominent traders who had benefited from the Department's initially accommodating stance towards granting import licences for the

²³² IC 1 113/1/1 Part 1

²³³ Despite these factors, the China Resources Company suggested that a visa would probably be forthcoming for Costello to attend the Autumn Kwangchow Export Commodities Fair. Costello declined to attend because these were really designed to promote China's exports. The lack of New Zealand representation in China occurred against a backdrop of warming relations with the Western world – the United Kingdom, Denmark, France, the Netherlands, Norway, Sweden and Switzerland had all recognised the PRC by 1964. Relations continued to improve into the early 1970s as the Vietnam conflict cooled.

²³⁴ The deterioration in relations coincided with a general decline in Chinese foreign trade arising from the economic chaos of the Great Leap Forward.

²³⁵ AATJ 7428 45/35/1

development of trade with China forced a policy re-think. Increasingly the Department took a harder line, suggesting that if imports from China were genuinely attractive, they should be purchased by traders with existing licences. Following the change, the Department believed that Kelvin Industries Ltd began to lose interest in trade with China. However, Vadco Traders Ltd and the associated McDonald Vadco Ltd remained active in China trade throughout the 1960s by exporting significant quantities of greasy wool to China.²³⁶ The firm also sold tallow to China and were the sole agents for virtually all China's textile, manchester, garments, and tea while also importing a variety of other minor items. The firm received a 5% commission on total value of orders placed.²³⁷ After his first visit in 1956, Ron Howell visited China twenty times up to 1971 while the firm's general manager visited annually from about 1963.

Up to 1968, interest in trading with China was largely limited to Leo Tattersfield, Ron Howell, and Victor Percival. There were attempts to expand high technology exports but often these foundered on the COCOM sanctions. Export of 100 marine jet units to China in 1968 by C.W.F Hamilton Ltd was blocked by Cabinet on the grounds that jet-boats were 'strategic goods' that could be used for military purposes.²³⁸ Air Parts NZ Ltd were keen to sell their Fletcher FU24 top dressing aircraft to China but it was powered by a Continental engine manufactured in the US. The Americans were very insistent that the engines not be re-exported to any communist country.²³⁹ Ivon Watkins Dow Ltd ran into similar problems because it was a subsidiary of USA firm Dow Chemical Co.²⁴⁰ An attempt was also made to sell two turbo electric vessels formerly owned by Union Steam Ship Company of NZ Ltd to China. Seagoing vessels fell under the Strategic Goods List, preventing any sale.²⁴¹

Raymond La Varis, a former real estate agent, became a prominent trader from 1968 onwards through his company R.J. La Varis Ltd. La Varis had imported small quantities of chemicals from China in 1966 and 1967 but his involvement in China trade became significant after being unexpectedly invited to visit China in October 1968. Despite his assertions that he had no clear idea why he had been invited, the Department of External Affairs suspected it was because he

²³⁶ 1966-67=\$1,495,000 or 33.8% of total wool exports. 1967-68=\$868,000 or 11.8%. 1968-69=\$348,000 or 8.3%. 1969-70=\$438,000 or 18.3%. 1970-71 (part period)=\$107,000 or 4.4%. AATJ 7428 113/1 Part 2

²³⁷ Orders for 1966 to 1970 were: \$2,200,000, \$2,817,000, \$2,743,000, \$2,059,000, \$2,891,000. AATJ 7428 113/1 Part 2.

²³⁸ IC 1 113/1/1 Part 4. This decision angered Hamiltons, who claimed that if New Zealand did not meet the order, it would be filled by United Kingdom or Germany at little extra cost, AATJ 7428 113/1 Part 3.

²³⁹ IC 1 113/1/1 Part 4

²⁴⁰ AATJ 7428 113/1 Part 2

²⁴¹ IC 1 113/1/1 Part 4

was friendly with H.J. McLeod, a member of La Varis' swim club and editor of the Communist 'People's Voice' newspaper.²⁴² In a later interview, La Varis suggested the reason for the invitation is that he 'sat down and wrote a letter to the People's Republic of China with suggestions about improving relations between our two countries. I received a reply, a favourable one, and so started my trading activities with Peking'.²⁴³ In case the Chinese wished to discuss trade, La Varis held discussions with the Minister of Overseas Trade, the Department of Industries and Commerce, the New Zealand Wool Board, and the New Zealand Forest Service. His success in securing agency agreements with NZ Forest Products and the NZ Dairy Board paid immediate dividends when he sold \$1.5 million of Kraft Liner Board to the Chinese in 1968 while visiting the PRC. Despite this sale being a one-way transaction, La Varis applied for \$172,000 of special licences for future trade, leading the Department of Industries and Commerce to suspect that his activities as an agent for other organisations were really aimed at securing import licences.²⁴⁴ The Department resisted issuing special licences, instead suggesting that La Varis import within the approximately 50% of items that were not under licence in 1969.²⁴⁵ However, in view of New Zealand's dairy products struggling against subsidised exports from the EEC and Eastern Europe, in 1969 the Minister of Overseas Trade agreed to grant additional licences equal to 15% of the F.O.B value of dairy products sold to China by La Varis.²⁴⁶

Towards the end of 1969 La Varis became increasingly insistent that a higher level of licences would be necessary to demonstrate good faith to the Chinese. La Varis questioned the Minister's earlier 15% reciprocity offer in view of his impending visit to the China in 1970. Uncharacteristically, the Minister agreed to increase the reciprocity percentage to 20-25% for butterfat products, providing an order for 20-25,000 tons was obtained.²⁴⁷ On his return from China in May 1970, La Varis reported sales of steel, pulp, and liner board while purchases of milk powder, butter oil and sawn timber were being considered by the Chinese although they were prepared to settle for 20-25% reciprocal licences.²⁴⁸ Statistics indicate that most or all of these sales did not eventuate and that La Varis was never successful in selling dairy products.

²⁴² IC 1 113/1/1 Part 4

²⁴³ *Evening Post*, unknown date.

²⁴⁴ AATJ 7428 113/1 Part 1. La Varis claimed that the Chinese had suggested that imports to the value of 15% of New Zealand's exports would be an acceptable ratio for the expansion of trade, AATJ 7428 113/1 Part 1.

²⁴⁵ IC 1 113/1/1 Part 4

²⁴⁶ AATJ 7428 113/1 Part 1. He was also granted \$50,000 of licences for pencils.

²⁴⁷ AATJ 7428 113/1 Part 1. Based on an order of between \$5-7 million, La Varis could expect reciprocal licences for a total of \$650,000 of which he was allocated 2.5% in advance of any sales to maintain good relations with the Chinese.

²⁴⁸ AATJ 7428 113/1 Part 1

By the end of 1970 La Varis's credibility was beginning to wear thin with the Department of Industries and Commerce, which believed that his main motive for promoting trade with China was to obtain import licences. La Varis had imported or placed orders for \$94,987 against a licence of just \$23,711. Assistant Secretary J.W.H Clark believed La Varis's attempts to sell dairy products were 'as far off now as they ever were before', especially as it was unlikely the Dairy Board had meaningful quantities of product to sell to China. The Department generally felt they were already 'in too deep' with respect to the import licences granted.²⁴⁹ It recommended, and the Minister of Overseas Trade agree to: 1) issue \$9,970 of import licences for goods already arrived; 2) consider other licences up to a maximum of \$44,372; and ask that La Varis cancel all the remaining orders he could without losing goodwill with Chinese authorities.

La Varis blamed New Zealand's political attitude towards the PRC for his failure to secure sales. He claimed that New Zealand's involvement with Vietnam was an issue that the Chinese 'continuously raised with me' and that exports would increase if New Zealand withdrew from Vietnam.²⁵⁰ Moreover, New Zealand's participation in Vietnam was a bigger hurdle to trade with China than non-recognition,²⁵¹ and that New Zealand's position would be more difficult as countries such as Canada recognised the PRC. He contacted the Department in May 1971, saying selling goods to China was 'hopeless' and 'finished', blaming New Zealand's political attitude towards China which the Chinese had said was preventing them purchasing New Zealand products.²⁵² After an interview with La Varis in 1971, one Government agency found his claims that China was using trade as a lever for recognition unconvincing.²⁵³ Foreign Affairs held a similar view by suggesting to the Prime Minister that 'Peking's decision on imports from abroad are normally based on commercial considerations rather than political ones, and there is no reason to believe that they have commercial reasons for not buying from New Zealand at present time'.²⁵⁴ Despite its many reservations about La Varis's activities, the Department acknowledged that he had been far more successful in promoting New Zealand's exports to China than other traders. His success as an agent for NZFP resulted in him picking up agencies for New Zealand steel (steel sheets and billets), C.W.F Hamilton (marine jet units), Fisher and

²⁴⁹ AATJ 7428 113/1 Part 2

²⁵⁰ *New Zealand Herald*, 22 March 1969.

²⁵¹ AATJ 7428 113/1 Part 1

²⁵² AATJ 7428 113/1 Part 2

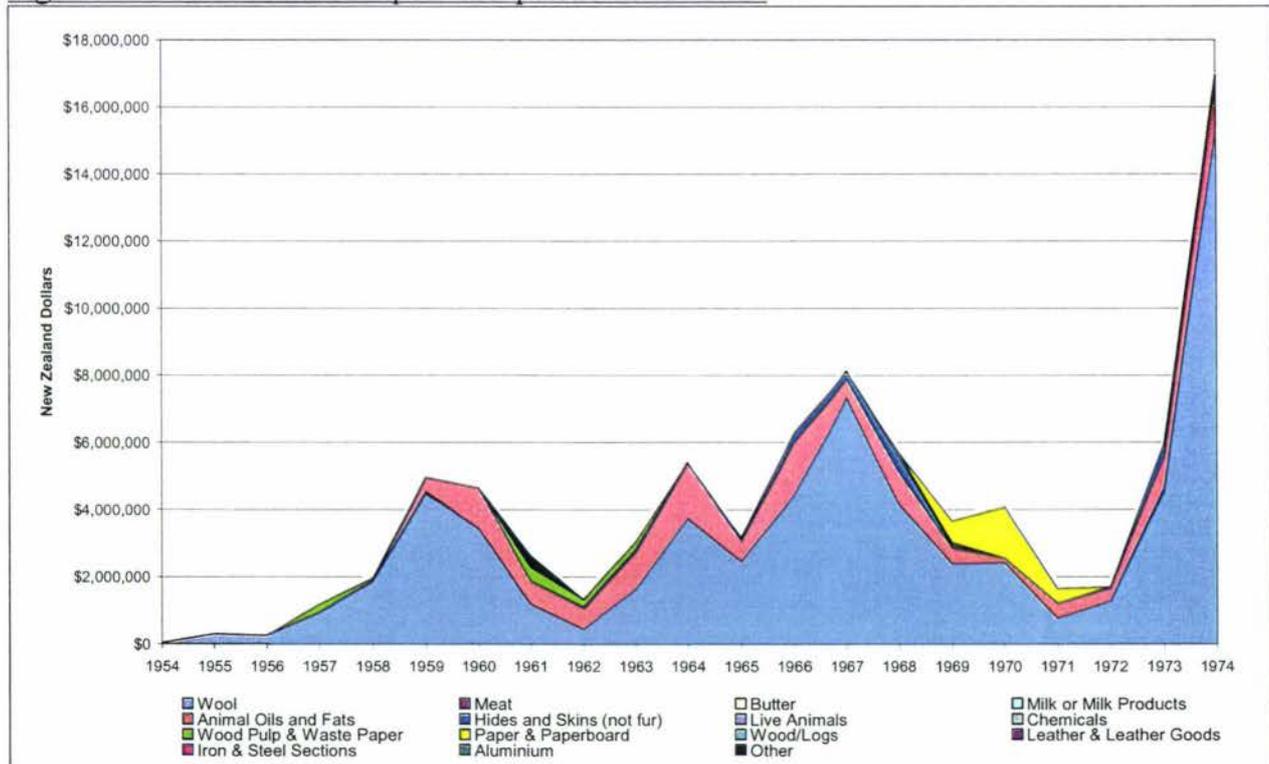
²⁵³ ABHS 950 40/11 Part 3

²⁵⁴ ABHS 950 40/11 Part 3

Paykel (refrigeration equipment), and Alex Harvey (container units). During his visit in 1970, La Varis also claimed to have been asked to act as an arbitrator in four Chinese disputes with foreign traders, something that only Swedish or Swiss citizens had been asked to do previously.²⁵⁵

Official dismissal of La Varis’s suggestions that politics were harming trade may have been unjustified. Figure 7.5a shows that both the Great Leap Forward and Cultural Revolution had a substantial effect on China’s trade with New Zealand. Exports dropped away alarmingly from 1967 until diplomatic recognition was accorded in late 1972. The Ministry’s argument that China’s decision on imports was normally based on commercial considerations did not hold true – Chinese purchases of New Zealand wool, which made up the vast majority of the trade, fell sharply after 1967, a period during which wool prices were also falling dramatically (see figure 7.5g below). One wool buyer suggested that New Zealand’s continued non-recognition of the PRC and involvement in the Vietnam War had resulted in China switching its purchasing to crossbred wools from Chile between 1970 and 1972.²⁵⁶

Figure 7.5b: New Zealand Export Composition 1954-1974



Source: NZ Department of Statistics, *External Trade Statistics*. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

²⁵⁵ AATJ 7428 113/1 Part 1

²⁵⁶ AATJ 7428 45/35/1 and IC IC22 378B

Other factors in the deterioration after 1967 were the devaluations of many major currencies in 1969 and 1970. These severely depleted Chinese currency reserves, prompting the Chinese to insist that foreign trade contracts be written (if not paid) in their own currency (the RMB, with its major denomination being the Yuan).²⁵⁷ However, the exchange rate for the RMB was arbitrarily set by the central bank of China and the RMB was not fully convertible. Consequently the Reserve Bank of New Zealand could not allow traders to accept payment in RMB. La Varis was advised by the Reserve Bank that while he may write his contract in RMB, he should be very careful to ensure that payment was made in US dollars²⁵⁸ or pounds sterling, at an agreed exchange rate.²⁵⁹ By 1971 many countries were conducting transactions in RMB with the Bank of China converting RMB into major currencies.²⁶⁰ The RMB quickly won favour with traders because it was much more stable than many of the other major trading currencies in the early 1970s. By not altering the RMBs previously determined exchange rate with sterling, the Bank of China had effectively devalued against Japan, China's largest trading partner.

Aside from the 1967 devaluation, there was little change in the New Zealand Dollar/Yuan exchange rate, as indicated below. Because the Chinese Yuan was not a convertible currency, the exchange rate has been calculated from the NZ\$:US\$ and US\$:Yuan cross rates. Data on the Yuan exchange rate before 1957 is not available, although there was unlikely to have been much change given the ascendancy of the Bretton Woods agreement and China's reluctance to change the value of the RMB. Despite the significance of the 1967 devaluation, there is no official record of it having a strongly positive effect on New Zealand's exports to China. However, this is not to say that it had no effect because its magnitude meant that New Zealand exporters would definitely have benefited.

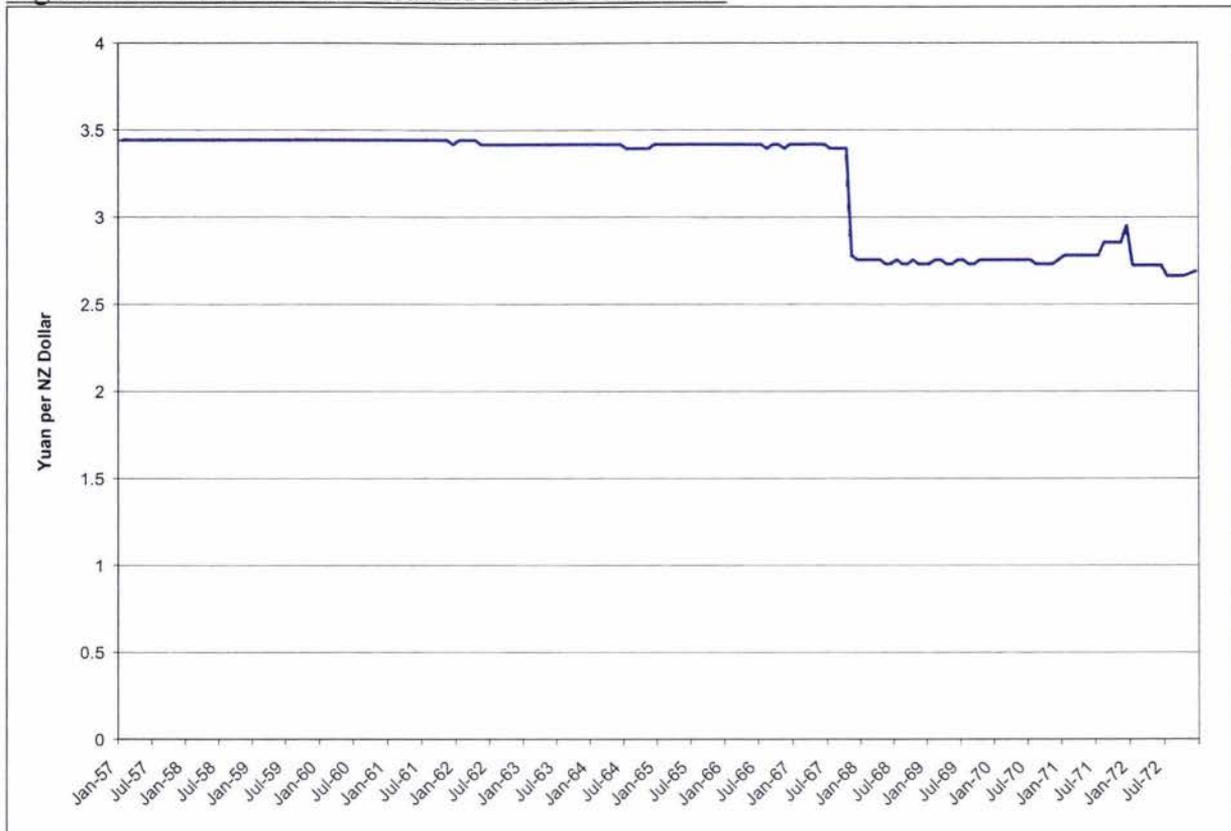
²⁵⁷ IC 1 113/1/1 Part 4

²⁵⁸ It should be noted that the Chinese would have refused to make payment in US dollars in 1970 because of the strained relations between the two countries.

²⁵⁹ IC 1 113/1/1 Part 4

²⁶⁰ *Far East Trade & Development*, February/March 1971.

Figure 7.5c: Yuan Per New Zealand Dollars 1957-1972



Source: Calculated from International Monetary Fund, *International Financial Statistics*, September 2002.

Kelvin Industries renewed their interest in trade with China in 1970 by visiting Department of Industries and Commerce to ascertain any policy changes. Assistant Secretary Clark brought Percival up to date by explaining the arrangements accorded to La Varis were equally applicable to other traders. He also reiterated that as the scope of import licensing was reduced, so would be the scope for meaningful exemptions from import licensing.²⁶¹ Once again the underlying message from the Department appears to have been suspicion that traders were using the issue of reciprocal trading as a means for securing import licences. Traders were again urged to increase the proportion of imports from exempt items. The Department was also extremely reluctant to issue import licences on an annual basis.

In May 1971 Ron Howell expressed interest in selling dairy products to China and requested favourable consideration of Vadco's various applications for import licence totalling \$104,804.²⁶² Howell had obviously got wind of the concessions obtained by La Varis and sought a similar arrangement. In a meeting with the Department, Howell also noted that La Varis was not able to get past Kwangchow to meet with the head offices of the trading corporations in

²⁶¹ AATJ 7428 113/1 Part 2

²⁶² AATJ 7428 113/1 Part 2

Beijing, and that prospects were limited until New Zealand traders reached Beijing. The Department's experiences with La Varis and the continued attempts by traders to obtain import licences led it to abandon the ad hoc approach to promoting trade with China in favour of a more systematic approach along the lines of those used for other state trading countries. In early June, the Minister of Customs, Lance Adams-Schneider called for a multilateral approach, suggesting that bilateral or barter arrangements caused problems with other trading partners and disrupted New Zealand's internal and external trading patterns.²⁶³

By the early 1970s it was becoming clear that China was not, in fact, insisting on balancing trade with individual countries or traders. Howell visited China again in 1970 but was told by officials in the Chinese Ministry of Foreign Affairs that 'his country is very unfriendly towards China' and that if China needed to import dairy products, many alternative sources were available. Howell consequently withdrew his applications for special import licences.²⁶⁴ La Varis's remaining import licences were declined on the basis that the Department's issue of special import licences had not been reciprocated by the Chinese trading corporations – trade for 1971 was well down on 1970 and the balance of trade had been in favour of the Chinese for three consecutive years.²⁶⁵

By 1971 there was an obvious warming in the New Zealand Government's attitude to relations with the PRC in line with international developments. On 8 June 1971 Prime Minister Sir Keith Holyoake stated 'the Government would be prepared to send a trade mission to China if the Chinese authorities were willing to accept it', subject to the usual qualification that 'we have no intention of severing our ties with the Government of the Republic of China in Taiwan'. Holyoake went on to suggest that 'If we receive a favourable reply the Government would lose no time in organising such a mission and it will be authorised to convey to the Chinese the goodwill of the Government and people of New Zealand'.²⁶⁶ While noting that there might be scope for selling more forest products to China, Holyoake qualified this by saying New Zealand had 'some difficulty' in supplying existing markets at that time.²⁶⁷

²⁶³ AATJ 7428 113/1 Part 2

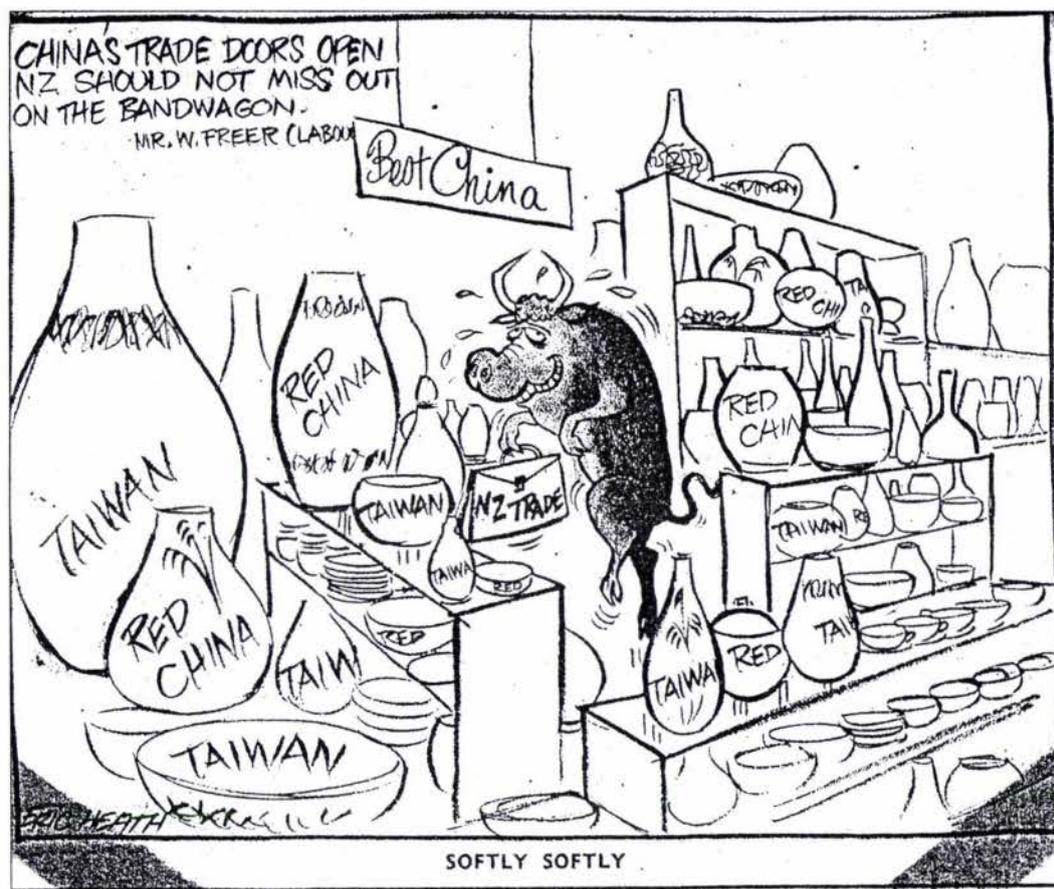
²⁶⁴ AATJ 7428 113/1 Part 2

²⁶⁵ AATJ 7428 113/1 Part 2. Another firm, New Zealand and Far East (1968) Ltd under the direction of J.T.H. Chung imported chemical products, pharmaceutical products, and surgical instruments from China in the early 1970s.

²⁶⁶ AATJ 7428 45/35/1 Part 1

²⁶⁷ *The Dominion*, 9 June 1971

Holyoake's statement had been in response to a press statement from Warren Freer, Opposition spokesman on overseas trade. Freer called on the Government to expedite a goodwill visit to the PRC and said 'if Sir Keith feels that the Government is not prepared to take the initiative then I have been instructed by the Leader of the Labour Party, Mr Norman Kirk, to make the appropriate approach to Peking [Beijing] for visas for a group of farmers, the producer boards, industrialists, and the Labour Party (which is the alternative and next Government) to make a good will visit to the People's Republic of China.'²⁶⁸ The following cartoon demonstrated the difficulty faced by the Government:²⁶⁹



A goodwill mission did not eventuate but in November 1972 the New Zealand Trade Commissioner to Hong Kong, C.B. Murray, visited the Kwangchow Export Commodities Fair. Although little business was transacted, the visit renewed contacts with trade officials and developed an understanding of Chinese requirements following an 11 year absence. However, Murray noted a complete inability or unwillingness to provide details of China's past or present imports, future requirements, or sources of supply. Such an approach usually brought a request

²⁶⁸ AATJ 7428 45/35/1 Part I

²⁶⁹ *The Dominion*, 27 April 1971

for supply details.²⁷⁰ Vadco Traders imported approximately \$5,200,000 worth of textile articles in the year ended 1972 and exported wool to a value of \$204,000 in the June 1972 year.²⁷¹ Ron Howell was invited by Chinese officials to lead a trade mission comprising a small group of businessmen. However, he fell ill and the mission was postponed to March 1973.²⁷²

7.5.3 BARRIERS TO NEW ZEALAND-CHINA TRADE 1954-72

Aside from the political and cultural problems experienced by New Zealand traders, selling to China was very different from traditional export markets. From the perspective of a private New Zealand exporter, advertising, government patronage, and goodwill were either impossible to obtain or unproductive. The monopolistic nature of the Chinese trading corporations meant that they acted as both judge and jury. Trade was further complicated by the often haphazard delegations of the Chinese trading corporations. Although all had head offices in Beijing, responsibility for various imports and exports was often delegated to branches in centres such as Shanghai, Tientsin, Kwangchow, Dairen, Tsingtao, and Foochow. Once responsibility had been delegated, substantial delays or no response were often experienced unless correspondence was directed to the correct branch. Moreover, the advice of different branches was often inconsistent or contradictory. For these reasons, it was advisable to send details of products and proposals to all major branch offices of the trading corporations in addition to the head offices.²⁷³

Even when one made contact with the correct branch of the trading corporation and a knowledgeable official, there was no guarantee that they were familiar with the requirements for the product or the exact requirements of the end user. Considerable time was often required for the appropriate trading corporation to establish the requirements of the end user, and communicate these to the vendor. It was extremely rare for a New Zealand exporter to have contact with the end user, limiting the ability of New Zealand exporters to meet the needs of the client. Exporter/end user separation was a strong negotiating tactic enabling the trading corporation to defuse a compelling sales argument by terminating negotiations with the line that they would 'consult with the end user'. Sometimes an end user representative may have been present in negotiations, but attempts to identify them brought little reward.

²⁷⁰ IC 22 378B

²⁷¹ IC 22 378B

²⁷² IC 22 378B

²⁷³ AATJ 7428 45/35/1

There was also the distinct possibility that there would be no demand at a particular time. The Ministry of Foreign Trade drew up annual trading plans and then sought to negotiate the majority of the required exports and imports as soon as possible. End users frequently received large quantities of raw materials when prices were good and had to stockpile them. Such stockpiles meant that Chinese demand was highly volatile. The only option was to keep in close contact with the trading corporations, which the most successful traders did. Traders quickly learnt that the only thing constant about Chinese trade was that it continually changed.

Inevitably there were also difficulties in reconciling the vastly different trading systems of the two countries. China's insistence that trade be conducted on the basis of 'equality and mutual benefit' had the potential to create problems under New Zealand's restrictive import licensing regime. It was sometimes difficult to trade with China unless there was a reasonable level of reciprocal trading, particularly during the 1950s. But New Zealand was committed to multilateral trading under the auspices of GATT and generally saw this as the optimal way of disposing of New Zealand's exports. It was argued that bilateralism had the potential to upset the entire New Zealand trading pattern by provoking retaliatory action from New Zealand's trading partners. Despite this, debate on the pros and cons of bilateral, barter, or reciprocal trading continued throughout the late 1950s and 1960s, especially when New Zealand's international trading position began to deteriorate²⁷⁴ and it became apparent that Britain's accession to the EEC was imminent. Fortunately, the Chinese placed less importance on reciprocal trading or balancing trade as the period progressed. In 1963 the Government replaced the 'consideration on merit' system with the Special Trade Licences regime. These new licences were designed to foster new trade with developing or state trading countries subject to the following Cabinet Committee on Overseas Trade Policy criteria:

- 1) That requests for import licences from the authorities of developing and state trading countries be granted under the following conditions:
 - a. Where the ministers of Overseas Trade and Customs agree in the context of trade discussions with a particular country that trade policy considerations support the issue of special licences

²⁷⁴ Dairy products, especially butter proved difficult to sell and many other countries were entering or considering entering bilateral arrangements. The government argued that wool was different because it was sold on the 'world market'. IC 1 116/1 Part 2. A 1958 Cabinet Committee on Economic Policy approved a recommendation that special bilateral trading arrangements be assessed whether or not a transaction would benefit New Zealand.

- b. The total value of licences issued under an arrangement with a country shall not exceed \$50,000 a year or, in respect of an arrangement existing in 1970, the existing levels.
 - c. The particular goods for which licences are to be issued will be nominated by the country concerned for consideration by the Departments of Customs and Trade and Industry.
 - d. Licences will be issued to nominees of the countries concerned.
 - e. Arrangements for the issue of special licences shall be for one year only, but may be renegotiated.
- 2) Any cases not covered by the above rules, but which are considered to merit special consideration shall be referred to the Cabinet Economic Committee.
 - 3) A report covering all special import licensing arrangements with developing and state trading corporation countries shall be represented to the Cabinet Economic Committee each year.

Attempting to sell to a single Chinese monopsony meant that New Zealand firms frequently found themselves being played off against international competitors, or even other New Zealand firms.²⁷⁵ In such circumstances, an argument can be made that New Zealand benefited from reverse economies of scale. In many of the commodity groups New Zealand exported to China (for example tallow or hides and skins), the number of New Zealand firms was less than three, making it easier for New Zealand firms to collaborate than their international competitors who often faced a multitude of firms of the same nationality. However, such collaboration could not prevent the Chinese playing off New Zealand against the rest of the world.

Economies of scale also worked against New Zealand. The small scale of New Zealand-China trade, especially compared with China's relations with Australia and Canada, meant New Zealand exporters were always struggling to compete with these larger countries because of the greater potential for China to export to them. New Zealand's small scale also meant that it could not afford to devote the same level of resources to developing trade with China – New Zealand started with one Trade Commissioner in Singapore covering all of South East Asia. In 1956 the Trade Commissioner was very concerned that 'Australia has stolen a march on us in making trade contacts' and that 'New Zealand again is at a disadvantage in relation to Australia and the

²⁷⁵ ABHS 950 40/11/Part 12.

United Kingdom in that we do not have a representative in Hong Kong'.²⁷⁶ Although New Zealand opened a Hong Kong Commission in 1961, Australia and Canada always had a larger pool of resources targeting the Chinese market.

A frequent problem of New Zealand firms trading with China was the difficulty in agreeing payment terms. Chinese requirements often differed from normal commercial conditions, requiring flexibility from both the exporter and their trading bank. There were sometimes delays in obtaining payment for goods because China refused to pay until the goods had been received and found to be up to sample, and China insisted on any dispute being settled locally rather than by the International Court of Arbitration.²⁷⁷ Trademarks could only be registered with Beijing authorities if a reciprocal agreement existed between the exporting country and the PRC.

Many trading corporations saw New Zealand's import licensing as a hindrance to trade, but because the scheme was non-discriminatory towards China, Chinese officials thought such problems could be overcome through cooperation.²⁷⁸ However, the fact that the balance of trade was heavily in New Zealand's favour during the years in which the import licensing regime was strongest suggests otherwise. When import licensing was not as rigorous, such as the periods 1954-57 and 1969-72, the balance of trade was in China's favour. In the 1970/71 year, at least 20.3% of China's exports to New Zealand entered exempt from import licensing, and where tariffs were levied, they were low by New Zealand standards. At least 14.7% of China's exports to New Zealand were exempt from both tariffs and import licensing.²⁷⁹ This figure was quite low in comparison to many of New Zealand's other trading partners because China's exports tended to be the consumer products that import licensing was designed to restrict. Accordingly China was more adversely affected than most of New Zealand's other trading partners. In 1972, the following provisions applied to the largest groups of Chinese imports:²⁸⁰

Table 7.5c: NZ Trade Protection Applicable to Major Chinese Exports

<u>Product</u>	<u>Import Licensing Provisions</u>	<u>Duty Rates</u>
Cotton fabrics	Varies, but some exempt	Varies
Textile Fabrics	Varies, but some exempt	Varies
Textile yarn and thread	Varies, but some exempt	Varies

²⁷⁶ IC 1 116/1 Part 2

²⁷⁷ IC 1 116/1 Part 2

²⁷⁸ The China National Silk Corporation made this point in a letter to Kelvin Industries of February 1958. IC 1 116/1 Part 2.

²⁷⁹ AATJ 7428 113/1 Part 5

²⁸⁰ AATJ 7428 113/1 Part 5

Crude animal materials	Exempt			Free
Musical instruments, phonographs and records	Mostly exempt			Mostly 20%
Made-up articles of textile materials	Mostly licences	110%	of 1971	Mostly 27.5%
Special textile fabrics and related products	Mostly exempt			Mostly 20%
Tulle, lace, embroidery etc	Mostly licences	110%	of 1971	Mostly 25%
Other vegetable oils and vegetable fats	Exempt			Free

New Zealand officials were at a loss as to exactly what tariffs and duties were applied to New Zealand goods entered into China as they were implicitly taken into account by the trading corporations when purchasing from New Zealand. Officials believed that New Zealand was accorded MFN status because of New Zealand's reciprocal arrangement, with tariff rates ranging between 5% and 150%. This was not, however, able to be confirmed in 1972.²⁸¹

7.5.4 SHIPPING 1954-72

New Zealand had never had strong shipping links with China and what links there had been were eroded by the Korean and Cold Wars. As with foreign trade, the Chinese Government maintained a state monopoly on shipping through the China National Chartering Corporation (CNCC). The CNCC carried much of China's international trade and had the first right of refusal to ship both China's exports and imports. New Zealand exports such as wool were, for the most part, priced free on board with the CNCC arranging collection from New Zealand ports on an as required basis. Major ports of call were Auckland, Wellington, and Tauranga. Most of the wool and tallow trade with China was shipped directly by the CNCC, with exporters often not knowing at which Chinese port their goods would be off-loaded.²⁸²

Because of Hong Kong's role as China's door to the outside world, most New Zealand exports were shipped there. Aside from the operations of the CNCC, the private enterprise servicing of the route was pioneered by the Indo-China Steam Navigation Co. in 1957 at the request of New Zealand's Trade Commissioner to South East Asia and Prime Minister Walter Nash.²⁸³ Dutch Company Royal Interocean Lines extended its New Zealand-Malaya service to Hong Kong and

²⁸¹ If this was not the case then the rates applicable to New Zealand exports to China ranged from 7.5% to 400%.

²⁸² IC 1 22/13

²⁸³ IC 1 22/13

North China ports in May 1958.²⁸⁴ The six weekly service proved short lived, however, due to the lack of freight and competition from the irregular service provided by CNCC. In 1958 many other shipping companies operated services to Hong Kong or Japan where New Zealand exports could be transhipped for China:

- Eastern and Australian S.S. Co. Ltd – Regular service Sydney/Hong Kong but sometimes called at Auckland and Shanghai
- Indo-China Steam Navigation Co./Australia China Line – regular 6 week service to Hong Kong, Japan, and sometimes China.
- Nitto Shosen Kaisha – regular 5 or 6 week service from New Zealand to Manila and Hong Kong.
- Osaka Shosen Kaisha – irregular service to Hong Kong. Through bills of lading to Chinese ports available via transhipping in Japan.
- Crusader Shipping Co – refrigerated service from New Zealand to Hong Kong and Japan.

Members of the shipping conference expressed concern that there was already insufficient freight before the entry of the Crusader Shipping Co in 1958, let alone the China Steam Navigation Co in 1960. Despite the competition, New Zealand exporters frequently found themselves at a significant disadvantage to their Australian competitors because of the higher freight costs. Hong Kong importers also gave the greater frequency and speed of Australian shipping as reasons for not importing from New Zealand.²⁸⁵ High freight costs caused by the absence of direct sailings between New Zealand and Shanghai were also cited by the Chinese National Cereals, Oils, & Fats Import-Export Corporation as a factor greatly hampering business transactions with New Zealand exporters. The Corporation went on to note that it had only concluded business with Kelvin Industries Limited for 'the sake of future trade'.²⁸⁶

On the Chinese side, the country's rapid industrialisation meant that some oversights or bottlenecks were inevitable. Of these, under investment in transport infrastructure proved the greatest barrier to the development of international trade. Delays in transporting Chinese exports by rail to ports and the loading and unloading of ships were the biggest problems.²⁸⁷

7.5.5 TAIWAN VS PEOPLE'S REPUBLIC OF CHINA

²⁸⁴ Auckland Star, 29 May 1958

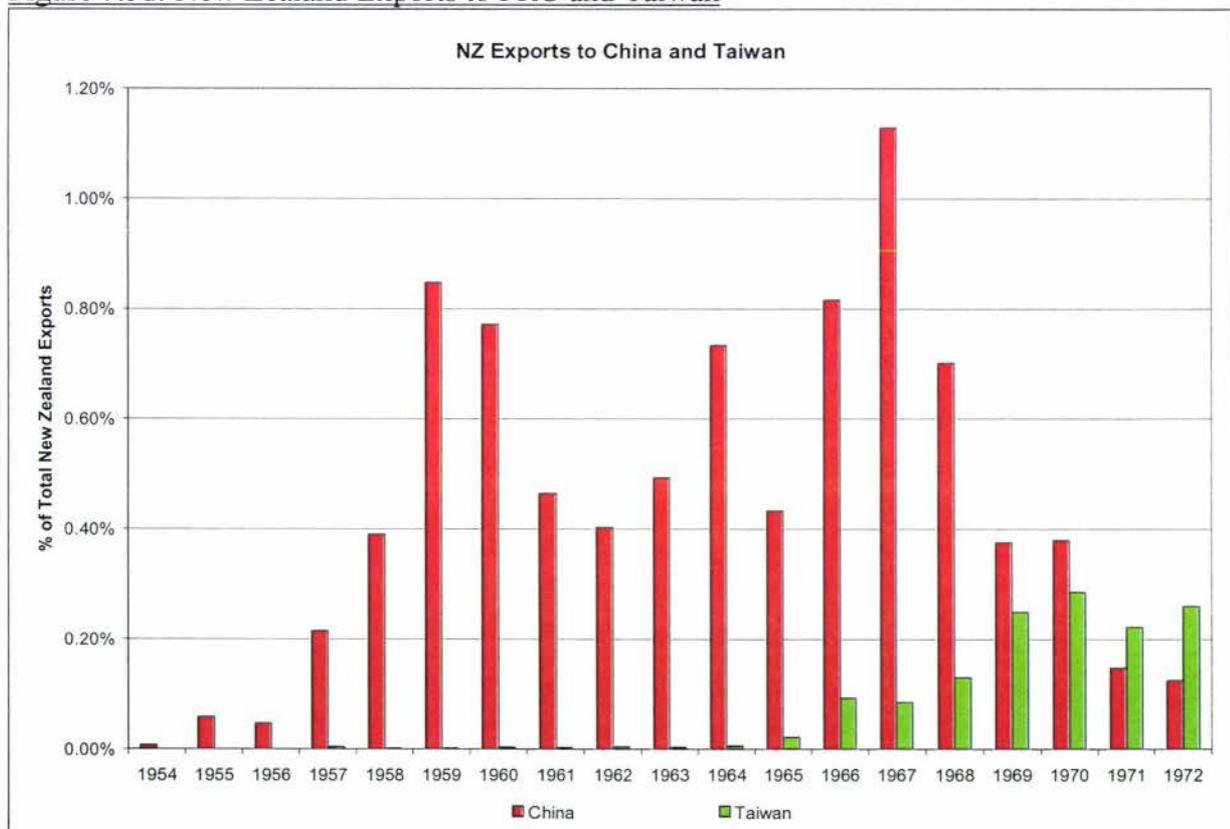
²⁸⁵ IC 1 22/13

²⁸⁶ IC 1 116/1 Part 2

²⁸⁷ IC 1 22/13

New Zealand's impending recognition of the PRC represented an anathema to some trade commentators. They pointed out that Taiwan's living standards were approximately three times higher than the PRC, and that Taiwan was actually buying New Zealand's dairy products. In their view, 'the existence of a lucrative and reliable long term market in that country [PRC] has yet to be conclusively demonstrated'.²⁸⁸ The Taiwanese Consul echoed similar sentiments, suggesting that the lure of a prosperous New Zealand China trade was illusory, citing United Kingdom's limited success, China's desire for self sufficiency, and the lack of a market for New Zealand dairy products.²⁸⁹ The Ministry of Foreign Affairs also believed that Taiwan's demand for New Zealand's products would grow more rapidly than that of the PRC.²⁹⁰ New Zealand's first Ambassador to China also noted that there were people in the Treasury who considered it foolish to set up an embassy in Peking,²⁹¹ an idea based by the respective figures for Taiwan and the PRC around the time of recognition.

Figure 7.5d: New Zealand Exports to PRC and Taiwan



Source: NZ Dept of Statistics, *External Trade Statistics*, various years. December years to 1961, 1962 is a statistical half year, June years from 1963.

²⁸⁸ ABHS 950 40/11 Part 2

²⁸⁹ Evening Post, 16 May 1958

²⁹⁰ ABHS 950 40/11 Part 3

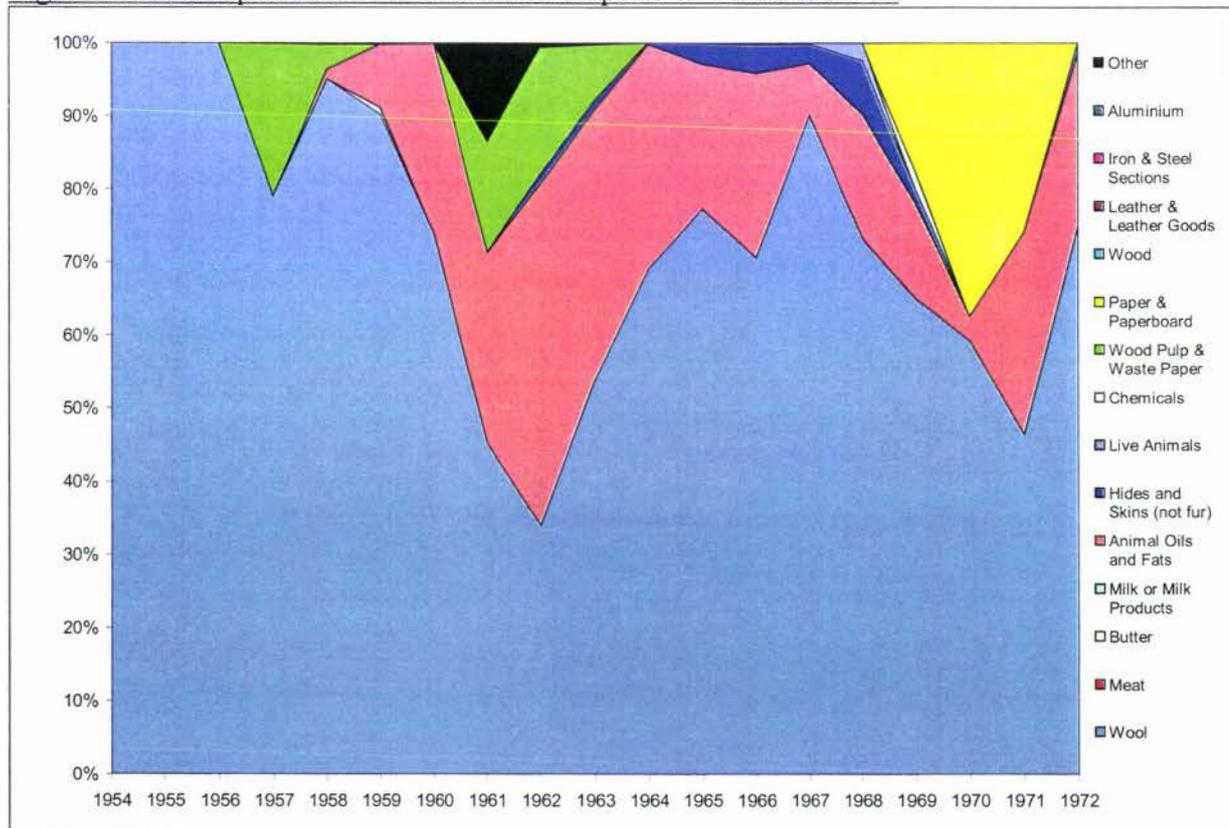
²⁹¹ ABHS 950 40/11 Part 6

New Zealand's trade with Taiwan was increasing while trade with China was decreasing, casting doubt over the value of devoting further resources towards trade development or recognising the PRC. Ultimately, the belief that China held huge future potential as living standards rose and diplomatic considerations won as New Zealand started negotiations for the normalisation of relations with the PRC.

7.5.6 NEW ZEALAND EXPORTS 1954-72

While there were some universal factors governing New Zealand-China trade, such as the high regard with which the Chinese held New Zealand agriculture,²⁹² the narrow range of commodities New Zealand exported to China meant that fluctuations in the overall level of exports can largely be explained by changes in the level of individual export commodities. This sub-section looks at these fluctuations. A useful starting point is the overall composition of exports over the period.

Figure 7.5e: Composition of New Zealand Exports to China 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. December years to 1961, 1962 is a statistical half year, June years from 1963.

²⁹² IC 1 113/1/1 Part 3

Wool

New Zealand's high quality coarse crossbred wools dominated trade with China between 1954 and 1972. Virtually all of New Zealand's wool exports to China were used in knitwear such as clothing and blankets. Because knitwear was destined for domestic consumption, sales of New Zealand wool were tied to China's living standards. In contrast, finer Australian wools were used in textiles which were exported. There was considerable scope for the substitution of New Zealand wool for a combination of synthetic fibres and Chinese wool should New Zealand prices prove unfavourable. China could purchase New Zealand wool by one of three methods: 1) directly competing at auctions; 2) contracting wool buyers to purchase the required quantities; and 3) purchase from the NZ Wool Marketing Corporation which was established in 1972 to act as statutory body with the aim of achieving the best possible long-term returns.

Prior to New Zealand's trade embargo, China purchased large quantities of New Zealand crossbred scoured wool or wool tops²⁹³ from Bradford, London, or continental wool agents. New Zealand did not have the combing facilities to produce tops. However, this became less of a problem as China began to establish top factories and process greasy wool as part of the country's drive for industrialisation.²⁹⁴ Direct wool shipments to China were therefore possible and attractive to New Zealand wool growers because they removed the costs associated with shipping wool to Europe, conversion to wool tops by European manufacturers, and eventual on shipping to China. Recognising this, direct sales to China were pioneered in 1956 by A.S Patterson & Co and one of its founding members, Leo Tattersfield.²⁹⁵ The firm was set up to develop trade with countries New Zealand did not recognize, with Tattersfield visiting China for the first time in 1956 and on an annual basis thereafter until his retirement in the mid 1970s. He believed that New Zealand's concentration on the production of coarse wools was limiting its potential markets and that China was an attractive market for New Zealand coarse wools given its predilection for hardwearing fabrics. Tattersfield acted for the China National Native Produce and Animal By-Products Import and Export Corporation and believed that China's purchases of New Zealand wool declined after 1966/67 for political reasons - New Zealand's continued non-recognition of the PRC and involvement in the Vietnam War resulted in China

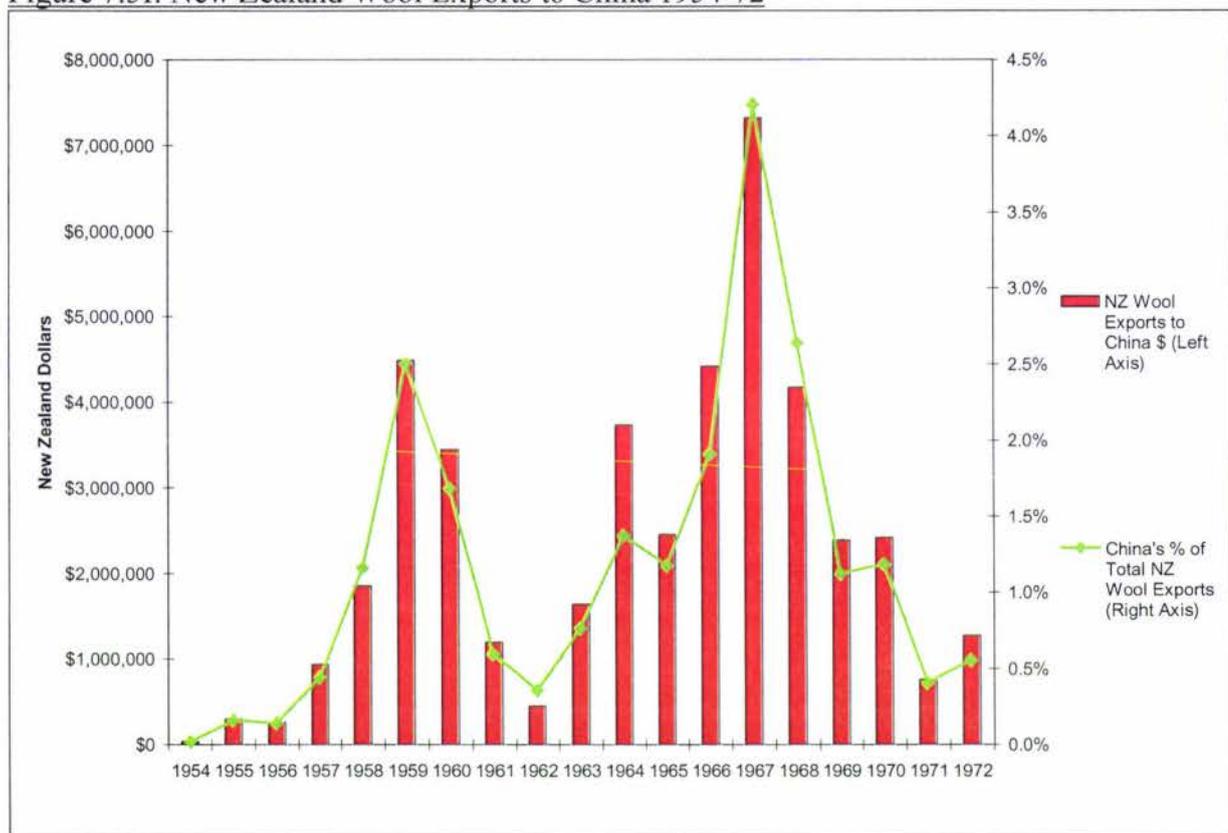
²⁹³ Wool tops are the raw material used by spinners.

²⁹⁴ IC 1 113/1/1 Part 1

²⁹⁵ AATJ 7428 45/35/1. Tattersfield later went on to found his own companies, Tattersfield, Whittingham & Co. Ltd, and later Leo Tattersfield Ltd.

switching its purchasing to crossbred wools from Chile between 1970 and 1972.²⁹⁶ Vadco Traders Ltd of Auckland were also prominent exporters of wool. For the 1969/70 season, the Wool Marketing Corporation reported that Raymond Dale (Wool) Ltd, Kregliner (N.Z.) Ltd and Leo Tattersfield exported over half the total while Hart Wool, A Dewavrin Fils et Cie, and Masurel et Fils were also large exporters. Virtually all wool exported to China was for greasy wool. Only 66 of the 254496 bales exported over the ten years to June 1972 were scoured.²⁹⁷ Because the Chinese government allocated funds to Chinatex on a calendar year basis, most of the purchases are made at the beginning of the year. Chinese purchases of New Zealand wool were highly variable, as indicated in figure 7.5f.

Figure 7.5f: New Zealand Wool Exports to China 1954-72



Source: NZ Department of Statistics, *External Trade Statistics* and *Official Yearbook*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

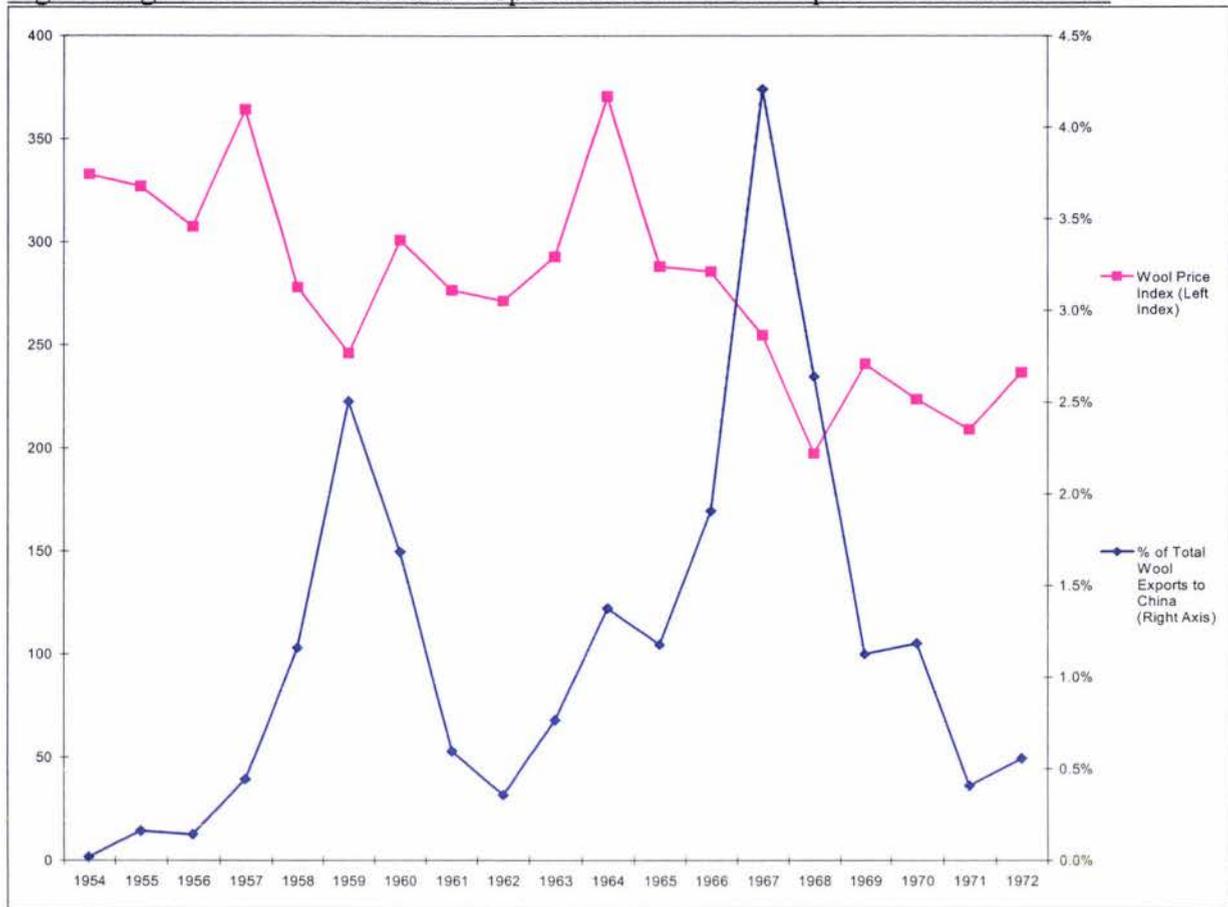
China was never a large purchaser of New Zealand wool over the period 1954 to 1972. Chinese purchases peaked at just over 4% in 1967, much lower than exports to Japan and many European countries. The figure also highlights the increase in exports as the Chinese economy expanded during the mid 1950s and 1960s and the dramatic falls after the chaos of the Great Leap Forward

²⁹⁶ AATJ 7428 45/35/1 and IC IC22 378B

²⁹⁷ IC 22 378B

and Cultural Revolution. While much of the variability can be explained by Chinese economic policies and political disturbances, price fluctuations also played a role.

Figure 7.5g: Wool Price Index and Proportion of NZ Wool Exports to China 1954-72

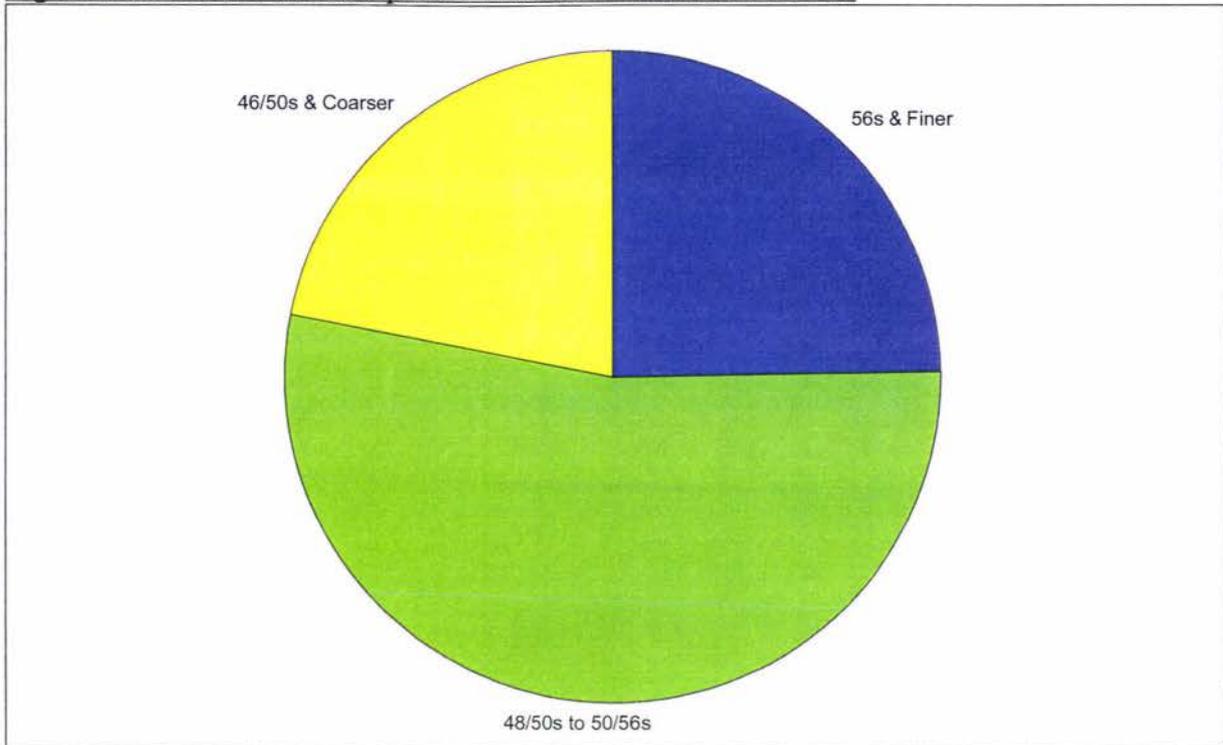


Source: NZ Department of Statistics, *External Trade Statistics* and *Official Yearbook*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Figure 7.5g also highlights the correlation of New Zealand wool exports and the wool price index. In several years there is clear evidence suggesting that the Chinese bought when the price of New Zealand wool was low, but the overall correlation coefficient of 0.87 between the dollar value of New Zealand wool exports to China and the wool export price index suggests that there are other influential and un-modelled factors.²⁹⁸ 48/50s to 50/56s were the preferred grades of wool exported to China. Resistance amongst New Zealand suppliers to the standardised Chinese purchase contracts reduced as they became familiar with the trade the reliability of payments from Chinatex.

²⁹⁸ Economic theory suggests that the correlation coefficient between value of purchased by China and the export price index should in fact be negative. The positive result suggests that there are other un-modelled factors at play.

Figure 7.5h: Wool Grades Exported to China 1962/63 to 1971/72:



Source: NZ Wool Marketing Corporation, IC 22 378B.

Forest Products

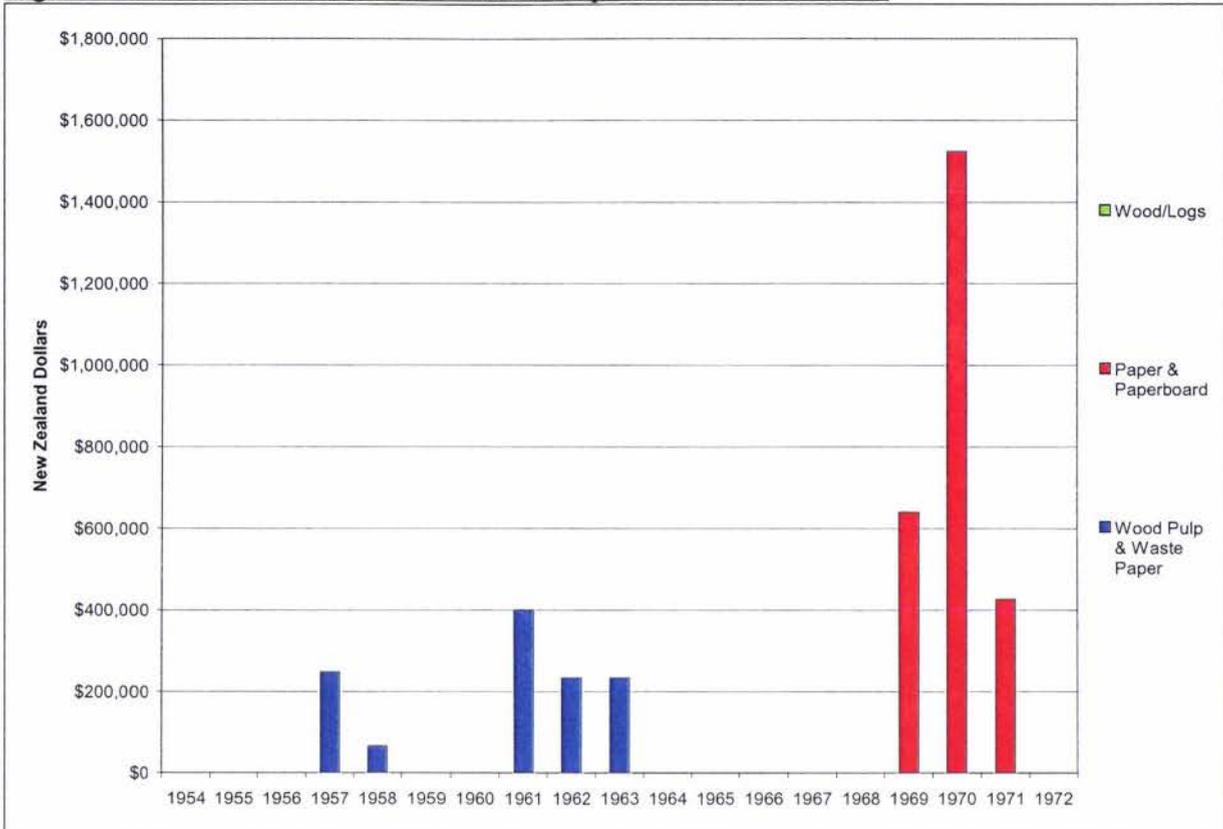
Finland, Sweden, and Canada were all serious competitors in respect of forest products i.e. logs, timber, pulp, paper, and linerboard. Because the Chinese were primarily concerned with price, they were not averse to playing competitors off against each other.²⁹⁹ On the supply side, New Zealand Forest Products (NZFP) sometimes switched pulp supplies to their own mills when prices were low, such as 1959, and at other times had very little available for new or irregular customers such as China.³⁰⁰ NZFP became active in marketing logs and other wood products to China in the late 1960s. Initially NZFP used Raymond La Varis as its agent but acted on its own behalf from July 1972. One of the first sales achieved was for \$1.5 million of Kraft Liner Board organised by La Varis in late 1968. In 1970 La Varis expressed concern that the Japanese were competing with him for linerboard sales using raw material that had originated in New Zealand.³⁰¹ Sales to China were sporadic and were not affected by Chinese political disturbances to the same degree as many of New Zealand's other principal exports. No wood or log sales were achieved during the period.

²⁹⁹ ABHS 950 40/11/Pt 12

³⁰⁰ IC 1 113/1/1 Part 2

³⁰¹ AATJ 7428 113/1 Part 1

Figure 7.5i: New Zealand Forest Products Exports to China 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

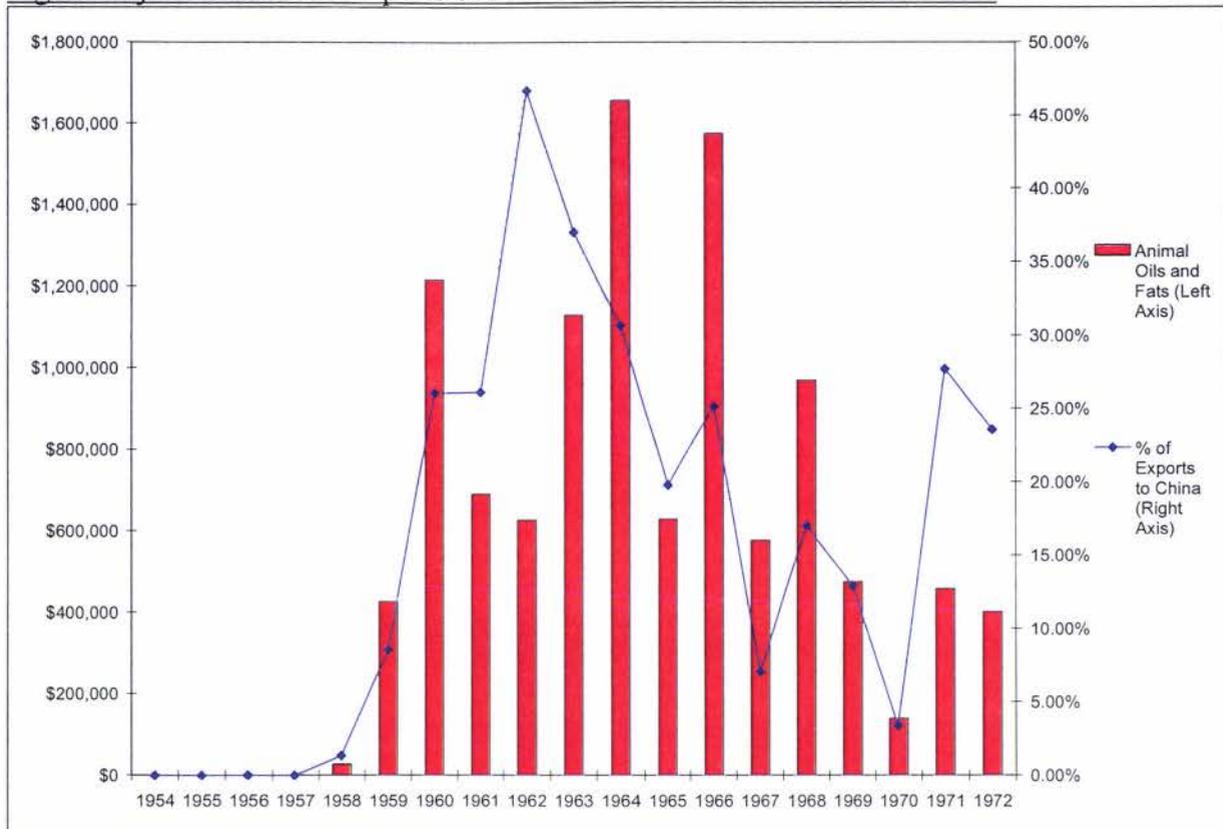
Animal Oils and Fats

Tallow was consistently the number two export to China and was used almost exclusively in soap products. It also dominated the animal oils and fats export category between 1954 and 1972 as casein did not become a major export until the late 1970s. Victor Percival of Kelvin Industries Ltd was the first New Zealand businessman to sell tallow to China in 1958.³⁰² A year later, Amalgamated Dairies Ltd commented that China had confined their purchases to New Zealand, although the Chinese indicated that unless some reciprocal trade was forthcoming they intended turning to Australia.³⁰³ Despite the early participation of Amalgamated Dairies and the attempted participation of Kelvin Industries Ltd, for much of the later part of the period tallow exports to China carried out by Craig Mostyn & Charles Ashton (NZ) Ltd and Colyer Watson Ltd. Tallow was purchased by the China National Cereals, Oils and Foodstuffs Import Export Corporation.

³⁰² New Zealand Herald, 22 March 1969.

³⁰³ IC 1 113/1/1 Part 2

Figure 7.5j: New Zealand Exports of Animal Oils and Fats to China 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

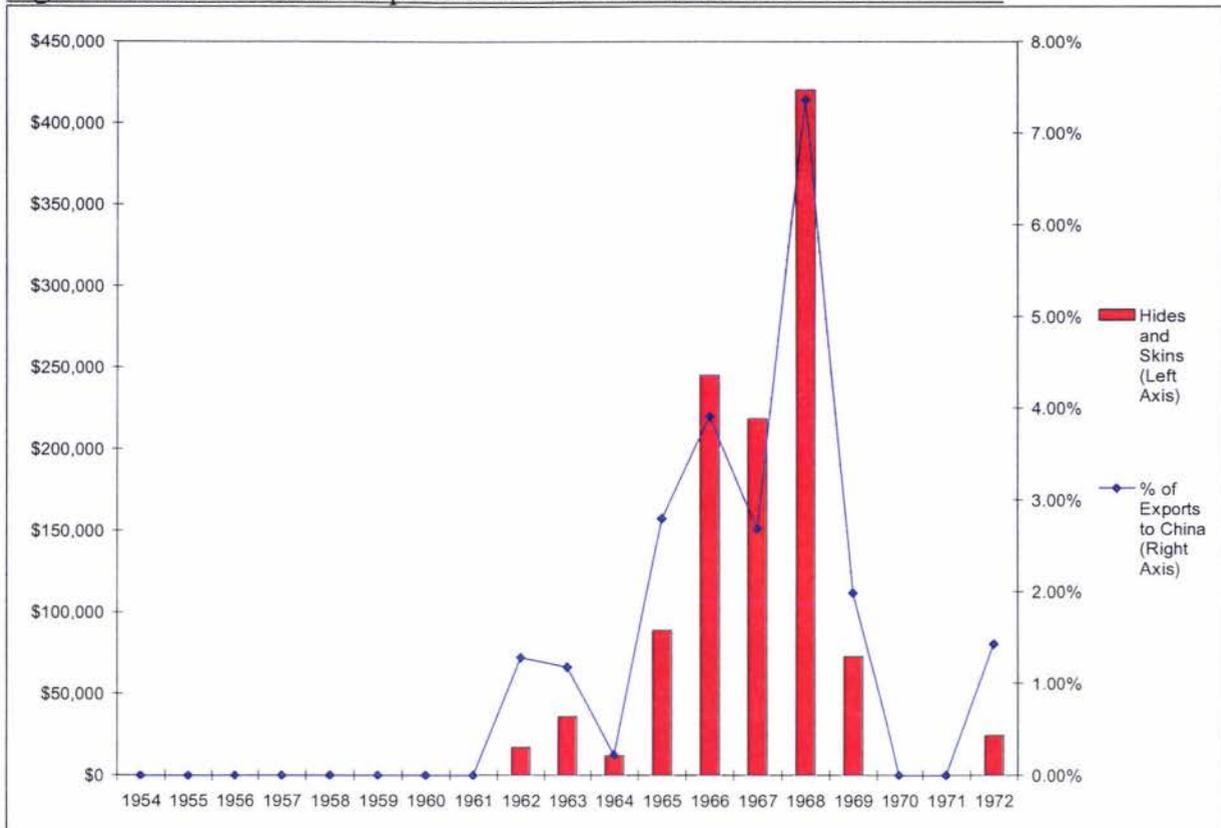
Tallow exports were also highly variable in line with the upheavals of the Great Leap Forward and Cultural Revolution together with the availability of domestic supplies and competition from other countries. Some qualities of New Zealand tallow were preferred by the Chinese over competitors.

Hides and Skins

Sale of hides and skins to China commenced in 1962 and showed great promise until shipping difficulties saw the trade decline after 1968 and cease completely in the 1970 and 1971 as China switched her purchases to other markets, particularly Australia with its better shipping links.³⁰⁴

³⁰⁴ AATJ 7428 113/1 Part 9

Figure 7.5k: New Zealand Exports of Animal Oils and Fats to China 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Dairy Products

Regular China traders disagreed over the potential to sell dairy products to China. Ron Howell, Victor Percival, and Leo Tattersfield at various times all thought sales of dairy products to China a promising prospect while others such as Curling Lawford of hardware importers C.E. Lawford Ltd thought sales were highly unlikely, commenting that ‘if you want to insult a Chinaman you tell him he smells of milk’.³⁰⁵ Traditional Chinese food consisted of rice with fish, poultry, pork, soy bean, and fresh vegetables. Dairy products have never been an important element of Chinese diets except in isolated parts of Mongolia and Sinkiang, where useful quantities of dairy products were produced. Of all New Zealand’s dairy products, milk powder was the only reasonable sales prospect (for infant nutrition purposes). A further problem with milk powder was that there were limitations on the price for milk powder products under GATT and OECD agreements, but Australia, although only a minor producer, was not a party to the agreements and was therefore free to undercut the minimum New Zealand price.³⁰⁶ But perhaps the greatest hindrances to dairy exports were that they were a low priority in terms of China’s allocation of overseas

³⁰⁵ New Zealand Herald, 22 March 1969.

³⁰⁶ AATJ 7428 113/1 Part 1

reserves and the Chinese had limited knowledge of the uses to which dairy products could be put.³⁰⁷ Raymond La Varis believed that dairy products were ‘more orientated with politics than other commodities’.³⁰⁸

On the whole, large-scale exports of New Zealand dairy products would require a dramatic increase in the standard of living, along with substantial changes in Chinese dietary attitudes. Neither occurred in the period 1954 to 1972 and as a result, the sale of £23,544 worth of milk powder in 1959 constituted the only sale of dairy products.

Other Products

New Zealand generally exported a very narrow range of predominantly raw materials. The first sale of livestock to China was made in 1966 with Wright Stevenson & Co. Ltd, Dalgety Ltd, and Pyne Gould Guinness Ltd prominent exporters. Sales were confined to the years 1966-68. Although never a large New Zealand export, Pyne Gould Guinness of Christchurch visited China on a semi-regular basis to sell New Zealand seeds. NZ Farmers Coop Association of Canterbury Ltd were also active in seed promotion. One-off sales of small amounts of chemicals and meat were the only other exports between 1954 and 1972.

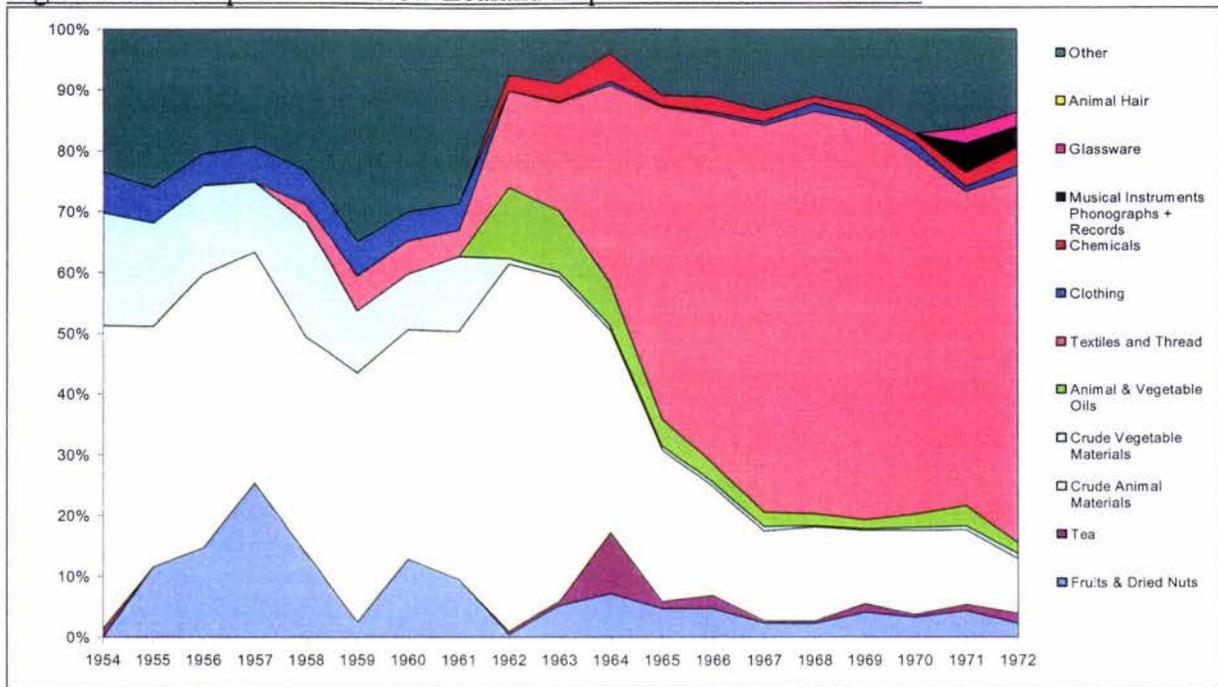
7.5.7 NEW ZEALAND IMPORTS 1954-72

China’s exports to New Zealand were always far more diverse than her imports from New Zealand, despite also being tightly controlled by the various Chinese trading corporations who gave New Zealand businesses exclusive agency rights. The major hindrance to increased imports from China were: 1) New Zealand’s import licensing regime; 2) the lack of marketing by the Chinese to potential New Zealand buyers; 3) quality concerns; and 4) the lack of demand within New Zealand for many of China’s export commodities. The overall composition is indicated below. New Zealand’s imports from China underwent a dramatic transformation over the back-door period – raw materials dominated until the early 1960s when manufactured goods, mainly textiles, began to gain the ascendancy.

³⁰⁷ IC 1 113/1/1 Part 1

³⁰⁸ AATJ 7428 113/1 Part 1

Figure 7.5l: Composition of New Zealand Imports from China 1954-72

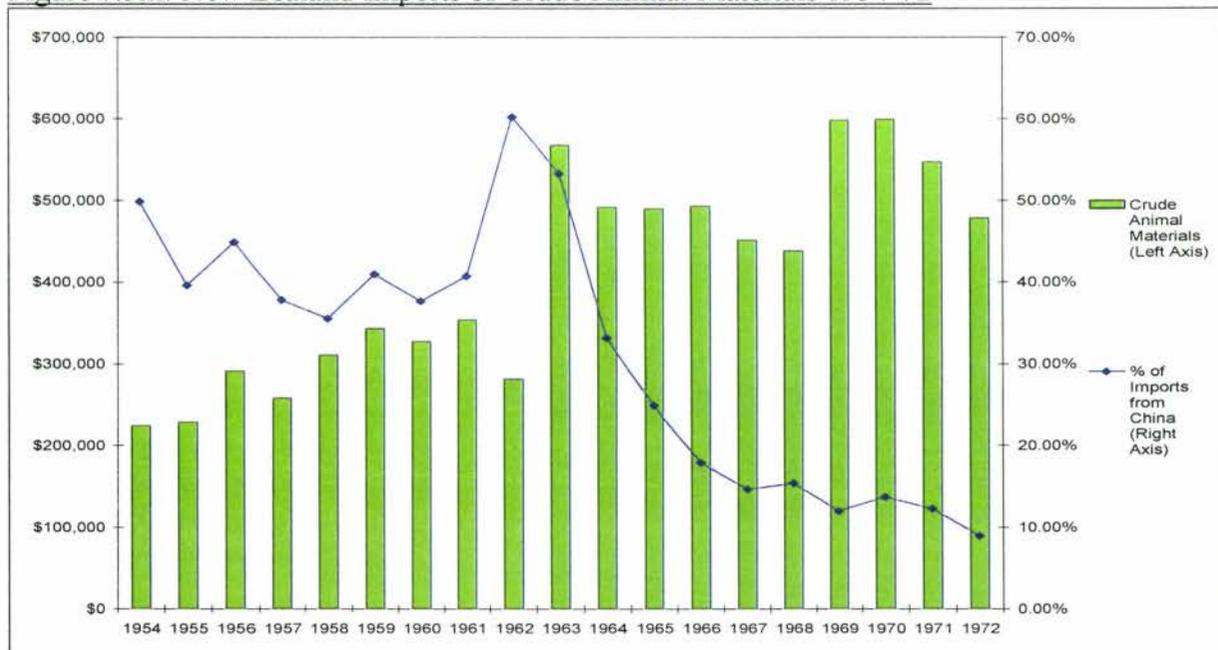


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Crude Animal Materials

Crude animal products, principally pigs' bristles dominated Chinese exports to New Zealand until the early 1960s when market saturation was reached and textile exports expanded. Bristles were principally used in paint brushes. Feathers were also imported in significant quantities up to the early 1960s. The overall trend is indicated in Figure 7.5m.

Figure 7.5m: New Zealand Imports of Crude Animal Materials 1954-72

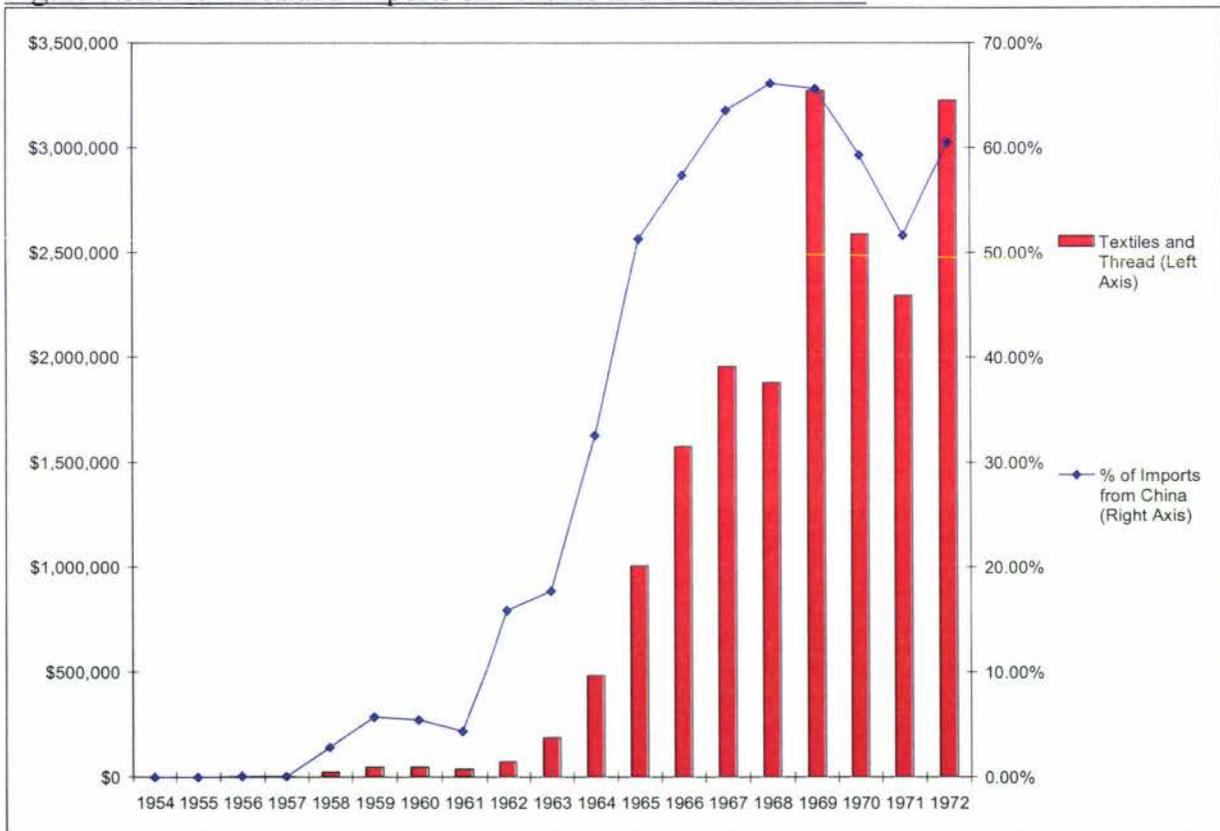


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Textiles

Chinese textiles imports were pioneered by Ron Howell of Auckland firm McDonald Vadco Ltd, which held the exclusive agency. Howell first visited China in 1956 and had returned 20 times by 1973.³⁰⁹ K.S. Turner travelled to China in 1962 to purchase cotton textiles for his firm McCaul (NZ) Ltd and its British parent company. Turner commented that China's textile manufactures were of a high standard and were sold at prices lower than anywhere else in the world at that time.³¹⁰ Other importers included Snow Rainger Ltd, Wales & McKinley Ltd, Dawson & Maudsley Ltd. Textile exports expanded hugely after 1 July 1962 when tariffs on raw materials and goods not produced in New Zealand were removed. The demise of the Nelson cotton mill proposal effectively ended hopes of significant textile production in New Zealand. Thread was exempted from licence in 1965/66. The effect of these relaxations is clearly evident from the huge expansion in imports indicated in Figure 7.5m.

Figure 7.5n: New Zealand Imports of Textiles and Thread 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

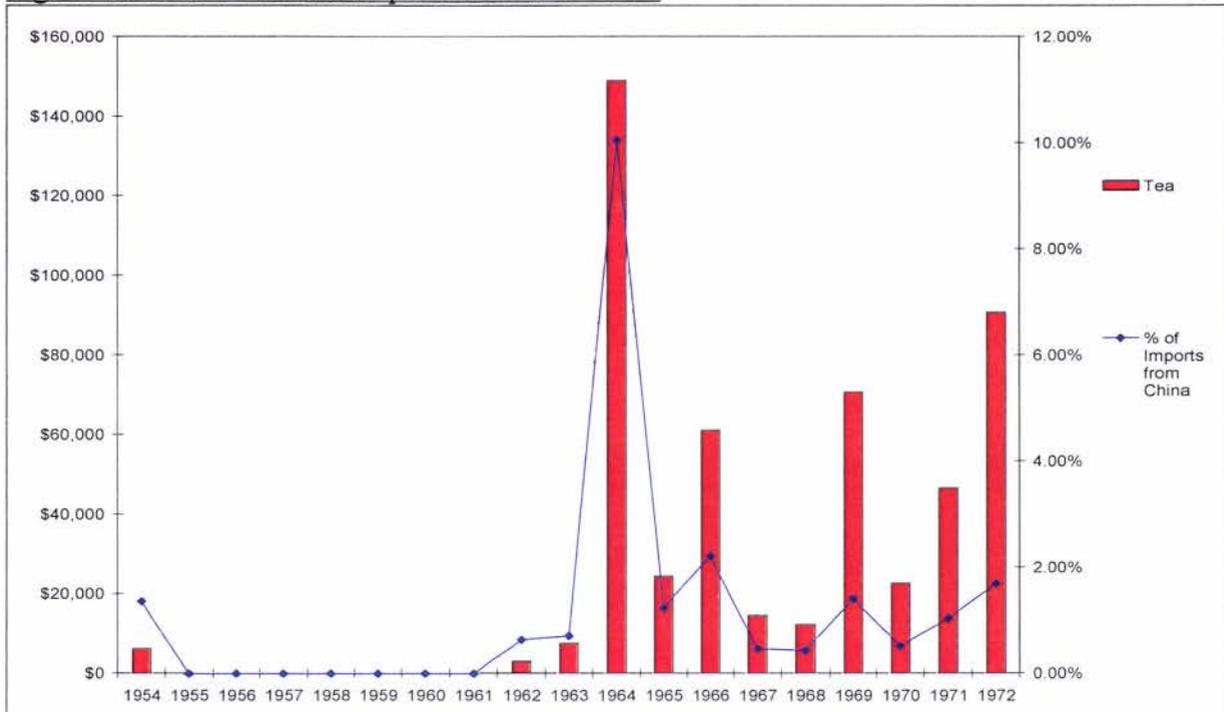
³⁰⁹ *The Dominion*, 7/3/1973, p.2.

³¹⁰ IC 1 113/1/1 Part 3

Tea

Tea was imported from 1954 but was imported in increasing quantities by Vadco Traders Ltd after it was exempted from import licence in 1964/65. The overall trend was as follows:

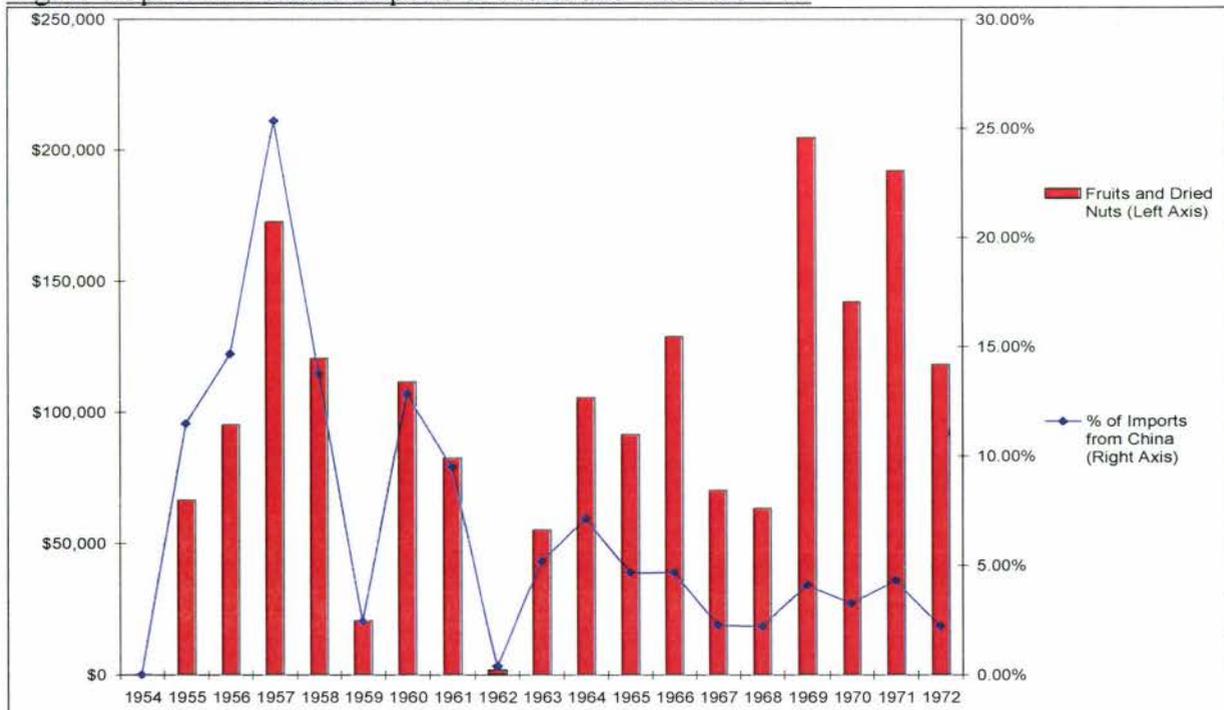
Figure 7.5o: New Zealand Imports of Tea 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

Fruit and Nuts

Figure 7.5p: New Zealand Imports of Fruits and Nuts 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

China historically exported significant quantities of fruit and nuts to New Zealand. Over time the significance of these commodities declined.

Other Imports

Other goods to be imported included clothing, musical instruments, glassware, crockery amongst many others. Woolworths (N.Z.) Ltd were involved in the importation of Chinese consumer goods at an early stage. However, New Zealand's rigorous import licensing regime imposed significant limitations on the range of items imported. Chinese attempts to import bicycle tubes to New Zealand in 1958 met with the normal response for the time – New Zealand had instituted import licensing to conserve its foreign exchange reserves and bicycle tubes could be sourced domestically.³¹¹ This was a common response to the approaches of Chinese trading corporations and their New Zealand agents.

7.6 CONCLUSIONS

The inseparability of Chinese politics and economics was clearly reflected in China's foreign trade over the period 1954 to 1972. But the relationship was not a static one. There was a closer correlation between the direction of Chinese trade and politics over the 1950s than the 1960s - China's close relations with the USSR permitted a high degree of independence from Western countries during the 1950s. Following the Sino-Soviet split, economic considerations became more important in the 1960s, but only in the absence of political considerations. Even then, Chinese economic conditions were often brought about by political events rather than market factors. In particular, New Zealand-China trade declined when the Chinese economy underwent economic or political upheavals. During the Great Leap Forward, imports were curtailed to conserve foreign exchange for purchases of essential food and farm machinery. The combination of this factor, New Zealand's strong relations with Taiwan, and New Zealand's raising of the 'Chinese question' at the United Nations in 1961 no doubt explains the falling off in China's purchases of New Zealand wool and the substantial increases in her orders for wheat from Australia and Canada.³¹² It also explains why New Zealand businessmen and Trade Commissioners were declined visas for entering China. Private traders believed they had a better chance than a producer board or government entity because of New Zealand's political affiliations.

³¹¹ IC 1 113/1/1 Part 1

³¹² IC 1 113/1/1 PART 2. Letter to Minister of Industries and Commerce from Secretary Industries and Commerce W.B. Sutch 5/4/1961.

China's Cultural Revolution had a similarly negative effect – New Zealand's exports to China declined drastically between 1967 and 1972. Some exporters also claimed that New Zealand's continued non-recognition and participation in the Vietnam conflict were also responsible for the decline in Chinese purchasers. The primary example was China's switching of wool purchases from New Zealand to Chile between 1970 and 1972. New Zealand officials dismissed such claims on the basis that China's decisions on imports were normally based on commercial considerations. However, this argument was not supported by statistics – China's wool purchases declined at the same time as wool prices declined significantly. One thing that was clear over the back-door period was that China's exports (New Zealand's imports) were not as susceptible to political winds as her imports.

Another excellent example of the political nature of China's trade occurred after Canada's diplomatic recognition of the PRC in October of 1970. Canada and Australia had each sold large quantities of grain to China since the end of the Great Leap Forward in 1961. However, a joint communiqué issued on 2 July 1971 called for the further strengthening of Sino-Canadian trade and promised Canada priority consideration for China's wheat purchases.³¹³ The combination and Australia's non-recognition of the PRC and her participation in Vietnam saw the PRC switch her grain purchases entirely to Canada in 1971. But the switch proved short term as Canada could not supply China's needs on her own and Australia recognised the PRC shortly after New Zealand in December 1972. Other examples of the inseparability of trade and politics were the purchase of cotton from Egypt during the Suez crisis and the purchase of sugar from Cuban during the Cuban missile crisis. Even China's customs duties were organised on political grounds – the friendlier the country, the lower the duties.³¹⁴ Naturally China's ability to use trade as a weapon was constrained by her trade dependence with the target country. Despite her attempts to avoid becoming dependent on Japan, China was not able to cut off trade with Japan in the 1960s as she had in 1958, due to her increased trade dependence.³¹⁵ The same principle held true for other Western nations as China became more dependent on them.

The point must also be made that New Zealand was not averse to directing trade on political grounds. New Zealand's trade was overtly directed towards the British Commonwealth for

³¹³ AATJ 7428 45/35/1.

³¹⁴ AATJ 7428 45/35/1.

³¹⁵ China attempted to limit trade with Japan to no more than 25% in an attempt to prevent a recurrence of the after effects of the Sino-Soviet split. ABHS 950 40/11/Pt 5

much of its history. There is also much evidence to suggest that there were substantial differences in the attitudes of Labour and National Government's to trading with China. Labour were always more in favour, with Prime Minister Nash stating that one of his main reasons for visiting Hong Kong in 1958 was his interest in developing trade with China. However, the Labour government waited until a Chinese Trade Mission had visited New Zealand in 1958 before authorising New Zealand's Trade Commissioner in Singapore to visit China and required ministerial approval for any correspondence with Chinese organisations.³¹⁶ The Trade Commissioner's report questioned whether trading with China was building up China's strength to the point she could overwhelm non-communist Asian and Pacific countries.³¹⁷ Despite these problems, the Department of Industries and Commerce encouraged trade with China through the supply of information and 'pipe opener' import licences with a view to improving New Zealand's balance of payments position.

Developing business with China required a lot of time and effort on the part of the New Zealand exporter, with no guarantee of a commensurate return. China's heavily centralised trading structure allowed her to change trade patterns and cancel trading commitments overnight, particularly with a country such as New Zealand on which China was not dependent and that had close competitors for its key commodities.³¹⁸ Inevitably some exporters decided that their resources were better directed to easier or more traditional markets. On the other hand, the gradual development of trade with China suggests that New Zealand exporters generally had good relations with the Chinese trading corporations. This impression was given credence by Australian Trade Commissioner H.C. Menzies's impression that Australians and New Zealanders were the best liked foreigners in Asia; British and Americans being tainted with colonialism and tended to be patronising.³¹⁹ Such sentiment is, however, not borne out by the statistics.

³¹⁶ IC 116/1 Part 2

³¹⁷ IC 113/1/1 Part 1

³¹⁸ Many New Zealand traders sought special import licences on the basis that China balanced trade with individual countries. However, this was not the case – China merely sought to avoid dependence on any one country.

³¹⁹ IC 1 116/1

Table 7.6a: OECD Trade with China 1965-72

Exports (date of recognition)	Average annual change					
	Exports		Imports		Total Trade	
	%	Rank	%	Rank	%	Rank
New Zealand (1972)	20.4%	10	14.9%	6	4.6%	16
Australia (1972)	7.2%	16	11.8%	8	5.1%	15
Canada (1970)	19.2%	12	29.7%	1	18.2%	6
Germany (1972)	39.6%	4	10.7%	9	21.0%	4
Denmark (1950)	70.8%	2	1.3%	16	8.9%	13
France (1964)	11.6%	15	18.4%	3	10.9%	10
United Kingdom (1950)	11.8%	14	3.3%	15	6.1%	14
Japan (1972)	20.8%	9	17.8%	4	18.6%	5
Finland (1950)	21.6%	8	9.2%	11	11.3%	9
Netherlands (1954)	32.2%	5	11.9%	7	14.0%	8
Norway (1950)	43.3%	3	7.7%	13	27.6%	2
Sweden (1950)	27.3%	7	7.5%	14	15.4%	7
Austria (1971)	78.6%	1	17.4%	5	32.0%	1
Belgium-Luxembourg (1971)	20.4%	11	9.3%	10	9.6%	11
Switzerland (1950)	11.9%	13	8.6%	12	9.4%	12
Italy (1970)	30.4%	6	19.9%	2	23.3%	3

Source: OECD. *International Trade by Commodities Statistics*, SITC Rev 2 Historical Series 1961-1990. Only OECD countries with full data for 1965-84 are included.

The growth of total China-New Zealand trade between 1965 and 1972 was lower than any other OECD country for which data is available, although part of the reason for this was that the growth of exports and imports was often inversely related. Taken individually, the growth of New Zealand exports to and imports from China was respectable if unspectacular. Although the overall scale of New Zealand-China trade between 1954 and 1972 remained tiny, there were clear indications that it could expand substantially given the right political conditions.

8.0 1973 TO 1978: FRONT-DOOR TRADING

New Zealand's recognition of the People's Republic of China marked the start of a new era in trade between the two countries. Instead of having to make their way to China's back-door, New Zealand businessmen were now welcomed through the front door. The New Zealand Government could now provide genuine and practical assistance in the form of governmental agreements and missions instead of merely encouragement. As a result, the initiative for expanding New Zealand-China trade shifted from the private sector to the government sector.

8.1 MUTUAL RECOGNITION

8.1.1 PING-PONG DIPLOMACY

Labour's election victory in December 1972 had an immediate effect on New Zealand foreign policy. Prime Minister elect Norman Kirk announced on 22 December 1972 that 'under Labour New Zealand is taking a more independent stand in international affairs'³²⁰ and promptly withdrew New Zealand's remaining troops in Vietnam. Kirk also summed up New Zealand's position on China:

There are now four great powers involved in the affairs of Asia and the Pacific – the United States, Japan, China, and the Soviet Union. Each is playing an active and independent role and each expects its friends to look after themselves more than in the past. The policies and activities of all four have an important bearing on developments throughout the region.

In this situation it is essential for a small country like New Zealand to be in a position to deal directly with all four powers. We must keep ourselves informed of what they are thinking and doing. Our national interests also require that we have the means of making our views known, and getting them heard, by the great powers. To do this we must have effective diplomatic recognition in all four capitals. ...

China has now re-entered the main stream of world affairs. It is playing an active part in the United Nations. In Asia and the Pacific its influence is great, and is bound to grow. It is

³²⁰ Press Statement of Rt. Hon. Norman Kirk, 22/12/1972, reprinted in NZFAR vol.22, no.12, December 1972.

logical and sensible for New Zealand to recognise the People's Republic of China and enter into normal relations with it. There is no point in delaying about such a fundamental issue.

On my instructions our permanent representative to the United Nations has negotiated with his Chinese colleague the terms for mutual recognition and the establishment of diplomatic relations. These will be announced in an agreed communiqué.

Recognition of Peking will be accompanied by the termination of diplomatic relations with Taiwan. Non official contacts will, however, be maintained so that our trade with Taiwan can continue to expand.³²¹

Despite Kirk's announcement, the first steps toward recognition were taken by the former National Government, which negotiated for a table tennis team from the People's Republic to visit New Zealand from 15 to 22 July 1972.³²² Undisclosed to the public at the time, the team included high-level Chinese officials tasked with the normalisation of relations.³²³ Raymond La Varis was widely suspected of being New Zealand's intermediary in Beijing – La Varis would only say 'It possibly could be me, I certainly act in a liaison capacity when I am in Peking'.³²⁴ After meeting La Varis in May 1971, the Secretary of Foreign Affairs indicated that La Varis had in fact been approached by reputable Chinese officials because La Varis correctly noted that talks with the Chinese should be initiated in Tokyo or Paris and not Hong Kong.³²⁵ Suspicions about La Varis's role also arose from the fact that he met with regularly with Minister of Foreign Affairs, Sir Keith Holyoake.

Diplomatic relations were established on 22 December 1972 with the issuance of the following joint communiqué:

The Government of the People's Republic of China and the Government of New Zealand, in accordance with the principles of mutual respect for sovereignty and territorial integrity, non-interference in each other's internal affairs, and equality and mutual benefit, have decided upon mutual recognition and the establishment of diplomatic relations with effect from 22 December 1972.

³²¹ Press Statement of Norman Kirk, 22/12/1972, reprinted in NZFAR vol.22, no.12, December 1972, p.14.

³²² AATJ 7428 45/35/1. The Ministry of Foreign Affairs sent an inter-departmental memorandum stating that the tour had political implications and any potential issues involving other government departments were to be handled by the Ministry of Foreign Affairs.

³²³ Otago Daily Times, 22/9/1977.

³²⁴ *Evening Post*, unknown date; *Otago Daily Times*, 22/9/1977

³²⁵ ABHS 950 40/11 Part 3

The Chinese Government reaffirms that Taiwan is an inalienable part of the territory of the People's Republic of China and that Taiwan is a province of the People's Republic of China. The New Zealand Government acknowledges this position of the Chinese Government.

The New Zealand Government recognizes the Government of the People's Republic of China as the sole legal government of China.

The Chinese Government and the New Zealand Government have agreed to exchange ambassadors as early as practicable and mutually to provide all necessary assistance for the establishment and performance of the functions of embassies in their respective capitals on the basis of equality, mutual benefit and friendly consultation and in accordance with international practice.³²⁶

While New Zealand's objectives were clear from the two statements, the Chinese objectives were less clear. Recognition of New Zealand had few tangible benefits to the Chinese. On the other hand, they also had little to lose. In the context of warming Sino-US relations, New Zealand was in no sense a threat to China. Establishing diplomatic recognition was a logical step towards China taking a full part in the affairs of the Asia-Pacific region.

8.1.2 THE EFFECTS OF RECOGNITION ON BILATERAL RELATIONS

To give effect to recognition, the Ministry of Foreign Affairs put a proposal to Prime Minister Kirk in January 1973 for a goodwill mission to visit China in April/May/June. Kirk preferred to let the dust settle on the peace in Vietnam and did not want to give the USSR the impression that New Zealand regarded Peking more highly than Moscow.³²⁷ Such considerations also played a prominent part in the opening of New Zealand's embassy in Beijing, with Kirk preferring to wait until after the Moscow embassy had been opened. A trade mission led by Ron Howell planned for March 1973 was postponed at the request of the Minister of Trade Joe Walding, who felt that it should not go until after his inaugural Ministerial visit of late March/early April.³²⁸ A return

³²⁶ Reprinted in *NZFA* vol.22, no.12, December 1972, p.17.

³²⁷ AATJ 7428 45/35/1 VOL 1

³²⁸ *NZFA*, vol 23, no.7, July 1973, p.3. and *The Dominion*, 7/3/1973, p.2. To make deadly sure, a telegram from the Ministry of Foreign Affairs asked its New York representatives to make it clear to the Chinese that the New Zealand Government did not want Howell in China. It also claims that Howell was a member of the New Zealand Communist Party. Nevertheless, Howell agreed to merge his mission with a later official mission, and in return was consulted about the mission's composition.

visit by a delegation led by the Chinese Minister of Foreign Trade, Pai Hsiang-kuo, arrived in New Zealand in July 1973.³²⁹

Despite the positive early moves made by both governments, Rewi Alley claimed that New Zealand had diplomatically slapped China in face through the delays in establishing its embassy.³³⁰ The Secretary of Foreign Affairs disputed this internally by saying Chinese had been told New Zealand only had a small diplomatic service and understood.³³¹ Moreover, the small size of the accommodation allocated by the Chinese for a temporary embassy was seen as a valid excuse for not sending an ambassador until New Zealand was ready.³³² New Zealand's embassy in China opened in June 1973 and shifted to its permanent location in 1974, while China's embassy in Wellington had opened in March 1973. A Trade Commissioner commenced operations from the Beijing Embassy in February 1974.³³³

The establishment of diplomatic relations also prompted a flurry of ministerial visits as both countries attempted to gain a better understanding of each other's economic intentions and requirements. Beijing placed great emphasis on visits by Heads of Government from other countries and often made concessions to leaders that they would not make to other high-level visitors. New Zealand's ambassador to Beijing urged the Kirk to take advantage of this characteristic, but it was Robert Muldoon who had the honour of being the first Prime Minister to visit China in 1976, principally to confirm New Zealand's interests in developing links. Muldoon was warmly welcomed by Zhou Enlai's successor Premier Hua Guofeng, and also met with a now frail Chairman Mao. Broad agreement between New Zealand and China was reached on foreign policy although Muldoon reiterated that New Zealand was unable to control the direction of New Zealand's trade to guarantee bilateral balance.³³⁴ Talks with Hua concentrated on the perceived threat of the USSR. On returning to New Zealand, Muldoon announced that he did not see China as a threat.³³⁵ On one occasion, over two million Shanghai Chinese lined the route of Muldoon's motorcade.³³⁶ In 1977 Ulanfu, Vice Chairman of the Standing Committee of the National People's Congress, visited New Zealand. He held separate meetings with Governor

³²⁹ *NZFA*, vol 23, no.7, July 1973, p.3

³³⁰ *Sunday Times* 4/2/1973.

³³¹ ABHS 950 40/11/Pt 4

³³² AATJ 7428 45/35/1 Telegram to Prime Minister Kirk from Minister of Trade Walding, 4/4/73.

³³³ AATJ 7428 56/3/15 Part 2

³³⁴ Briefing paper from J.W.H Clark to Muldoon 22/4/1976.

³³⁵ *Christchurch Star*, 7 May 1976.

³³⁶ Gustafson, B. (2000). *His Way: A Biography of Robert Muldoon*, Auckland: Auckland University Press, p.229.

General Sir Denis Blundell, acting Prime Minister Brian Talboys, and Opposition Leader Bill Rowling.

Photograph 8.1a: Muldoon meets Mao Zedong



Source: Chinese Embassy to New Zealand, <http://www.chinaembassy.org.nz>. Muldoon (second from right) meets Mao Zedong (centre) 30 April 1976.

Diplomatic relations were not completely rosy over the period 1972-78. In particular, New Zealand expressed concern over China's nuclear tests while China did likewise over Muldoon's apparent reversal over fishing by the USSR. In 1976 New Zealand had opposed the granting of Tongan fishing rights to the USSR but in 1978 it appeared to favour granting such rights in New Zealand in excess of those for any other nation. China had retained its ingrained hostility towards the USSR into the 1970s. New Zealand's Ambassador emphasised to Muldoon that China measured every country not so much by its attitude towards China itself, or Taiwan, but by its attitude towards the Soviet Union. A proposed 1976 tour by a Chinese badminton team was 'postponed' two days before the team was due to arrive in New Zealand as an expression of solidarity with black African nations' objection to the All Black tour of South Africa.³³⁷

Bilateral exchanges were the other area on which Beijing placed unique emphasis on during the front-door trading period. China judged the strength of relations with a country by the state of the bilateral exchange programme. Such exchanges included trade missions, delegations from trading corporations/commodity specific exchanges, exchanges of experts and cultural exchanges. Technology and expertise transfer were integral parts of China's motivation for trading. While technology transfer could be achieved through direct commodity trade, expertise transfer required exchanges of cultural, scientific, and business groups. Initially New Zealand's

³³⁷ ABHS 950 40/11 Part 9

approach to bilateral exchanges was somewhat ad hoc, with funding split between various government departments until 1975 when Ambassador Harland suggested that an annual fund or plan should be instituted to facilitate improved relations. However, it was not until the 1978/79 financial year that a dedicated fund was implemented. Each country paid its own international airfares, but internal costs were born by the host. Ministerial visits were organised through official channels while visits by trading corporations were organised by the Department of Trade and Industry or through private business contacts.

By all accounts, China and New Zealand agreed on many points in international affairs and the healthy state of New Zealand’s bilateral exchange programme was reflected in China’s favourable view of trade with New Zealand at the end of the front-door period.³³⁸

8.2 NEW ZEALAND ECONOMIC POLICY AND PERFORMANCE 1972-78

In 1972 the New Zealand economy remained highly protectionist. Despite the momentum and pressure for change increasing throughout the decade, successive governments resisted the calls for radical change in the face of high inflation and the energy crisis, instead preferring a gradual approach to economic reform.

8.2.1 EFFECTS OF NEW ZEALAND’S PROTECTIONIST POLICIES

The full effects of New Zealand’s import substituting industrialisation were becoming apparent in the 1970s. Although much of New Zealand’s manufacturing sector had become concentrated on assembling semi-manufactured goods such as kitset cars, some meaningful diversification did occur into the areas such as the manufacture of plastic and metal products. Wool scouring also became a substantial industry. Despite these changes, the relative size of the respective sectors changed little during the 1970s (see Table 8.2a below).

	Primary Sector	Secondary Sector	Service/Tertiary Sector
1938/39	26.1	29.7	44.7

³³⁸ ABHS 950 40/11 Part 14

1952/53	26.0	28.2	45.8
1959/60	22.3	29.0	48.7
1969/70	16.0	28.2	55.8
1979/80	15.2	27.9	56.9

Source: Compiled from Easton, B. (1997). *In Stormy Seas: The Post-War New Zealand Economy*.³³⁹

Agriculture's share of GDP reduced slightly over the 1970s but its share of exports declined significantly as indicated in Table 8.2b below.

Table 8.2b.

**New Zealand Agriculture and Total Exports
(NZ\$ million)**

	Agriculture	Total Exports	% of Total
1960/61	519	561	92.5
1970/71	904	1132	79.9
1980/81	3787	6065	62.4

Source: Meat and Wool Economic Service of New Zealand.

However, the country remained highly dependent on agricultural exports, which were amongst the most highly protected in the world economy. Moreover, the emergence of regional groupings such as the European Economic Community (EEC) meant there was little prospect of improvement.

8.2.2 CHANGES TO NEW ZEALAND'S PROTECTIONIST REGIME

In 1972 New Zealand had a 4 Tier Tariff dependent on country of origin:

- (i) British Preferential (included New Zealand-Australia Free Trade Agreement and New Zealand-Canada Trade Agreement)
- (ii) Most Favoured Nation (included the People's Republic of China)
- (iii) General Tariff
- (iv) Developing Country Preferences (UNCTAD Scheme)³⁴⁰

A year later, New Zealand tariffs averaged 0.6% on raw materials, 8.5% on semi-finished manufactures, and 32.6% on finished goods.³⁴¹ Import licensing made the total level of

³³⁹ Primary sector comprises agriculture together with other primary industries including extraction activities, water, gas, and electricity. Secondary industry includes manufacturing and construction activities. Service sector includes wholesale/retails trade, restaurants, hotels, transport, communication, financial and business services, and other services.

³⁴⁰ AATJ 7428 71/5/5 Part 1

³⁴¹ World Bank, *World Bank Development Report*, 1976.

protection difficult to assess, although studies indicated an average level of protection for New Zealand industry of between 60% and 70%.³⁴² Almost 70% of goods were free of import licence by 1973.³⁴³ Britain's entry to the EEC on 1 January 1973 and the corresponding cancellation of the New Zealand-Britain trade agreements meant that on 1 July 1974 the British Preferential and MFN rates merged and preferences for British goods were phased out by 30 June 1977. The General Tariff was also phased out with the effect that from 1 July 1977 New Zealand had a two column tariff – standard tariff, and developing country tariff which would include the preferential rates accorded to Australian and Canadian goods.³⁴⁴

In a further attempt to develop new markets, the New Zealand Export - Import Corporation was established in 1974. The Corporation consisted of a chairman and four directors appointed by the Governor-General on the advice of the Minister of Overseas Trade. The main functions and responsibilities of the corporation were:

- to engage in the overseas trade of New Zealand by exporting and importing such goods dealing in such services as thought fit, both in New Zealand and elsewhere;
- when it was considered desirable to do so, to act in New Zealand and elsewhere on behalf of any New Zealand manufacturers, producers, exporters, importers, and persons dealing in services, who requested the corporation to do so;
- when it was considered desirable to do so, to undertake trade promotion in New Zealand and elsewhere for itself on behalf of manufacturers, producers, exporters, importers, and persons dealing in services, who requested the corporation to do so;
- to provide in New Zealand such consulting and advisory services as it thought fit;
- to act as a purchasing and selling agent for the Government; and
- to undertake trade transactions on behalf of the Government.

The Corporation specialised in the export of New Zealand's raw materials, such as meat, wool and skins, horticultural products and steel. Imports included chemicals, electronic components, and specialised metal components. In 1976, the corporation held \$53,000 of \$200,000 of the special trade licences allocated to the PRC.³⁴⁵ Chinese corporations liked dealing with NZEIC because of the similarities in the way they operated and corporation's ability to act as a single

³⁴² Wooding, P. (1987). 'Liberalising the International Trade Regime' in Bollard, A. & Buckle, R. (eds.). (1987). *Economic Liberalisation in New Zealand*, Wellington: Port Nicholson Press, p.91.

³⁴³ AATJ 7428 45/35/1 Part 2

³⁴⁴ AATJ 7428 71/5/5 Part 1

³⁴⁵ AATJ 7428 45/35/1 PART 6

point of contact. The Corporation was also well received in New Zealand business circles as it gained approval to act for a wide range producer boards and private organisations.

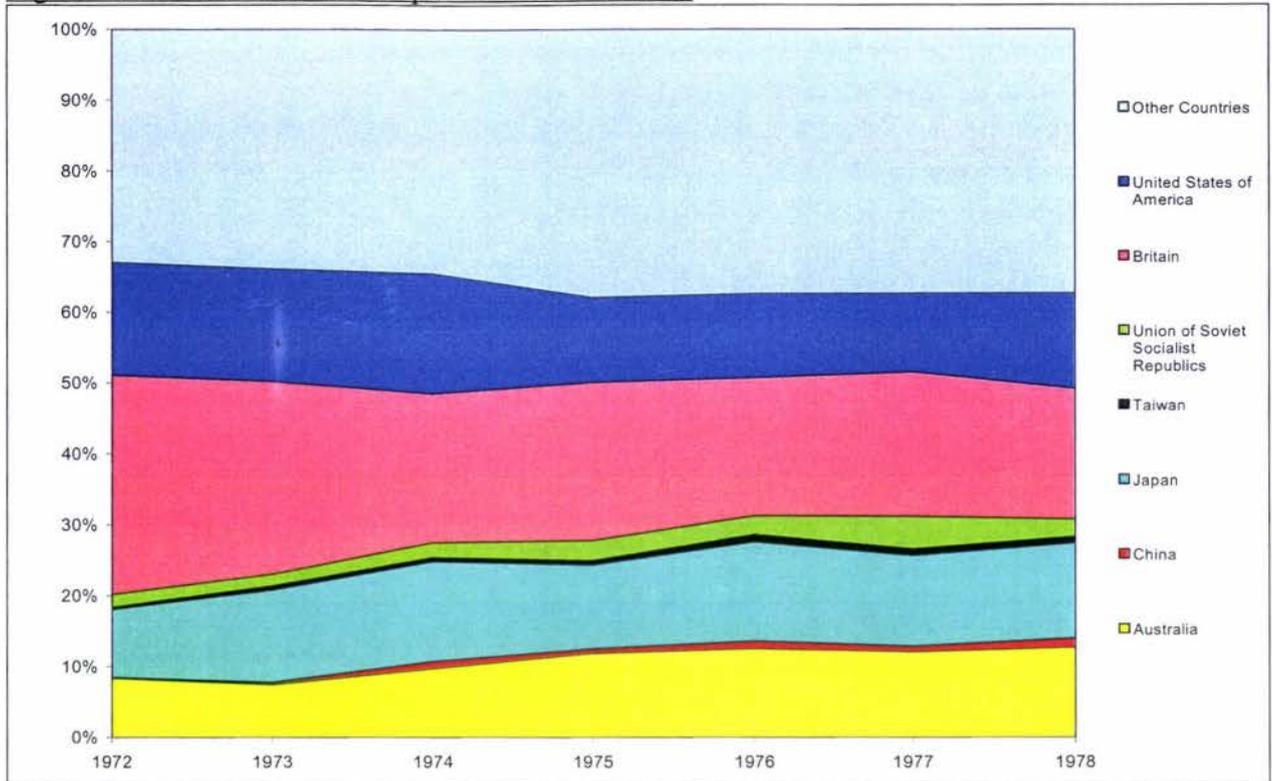
Another move to increase exports was the establishment of a New Zealand shipping line in the early 1970s. Despite being designed to increase competition and reduce freight costs, the line could only join the existing shipping conferences (cartels) and earn a modest share of shipping revenues.

In 1972, the Wool Commission was replaced by a Wool Marketing Corporation intended to be more active in the promotion of New Zealand's wool exports. It utilised new techniques such as selling by sample and offering wools of particular qualities whether from one grower or many growers. However, farmer opposition denied it the power to buy all wool. Farmers were keen to see prices smoothed, but vehemently opposed any retention of their earnings. In 1978 the Corporation was merged with the Wool Board, which had retained traditional regulatory functions.

8.2.3 TRADE DIVERSIFICATION

New Zealand put much effort into maintaining access to the British and EEC markets after Britain joined in 1973. While New Zealand's case elicited a great deal of sympathy, most commentators believed New Zealand pleas would fall on deaf ears. The end result was generally received with surprise as New Zealand secured a gradual erosion of its access to the British and European markets rather than the 'cold turkey' slash widely expected. With this success and the mini-boom of the early 1970s, there seemed less need to pursue the frantic diversification undertaken in the late 1960s. However, the rapid deterioration of New Zealand's trading position from 1974 restored reality that exports needed to be increased and diversified away from the Britain. Markets such as China, the Middle East, USSR, and Eastern Europe were logical targets. Unfortunately the rate of diversification achieved in 1970s was slower than that of the 1960s as the 1973 oil shock reduced the demand for New Zealand's exports by reducing the purchasing power of its oil-importing trading partners. New Zealand was also an oil-importer and therefore badly affected from the transfer of income to oil-producing countries.

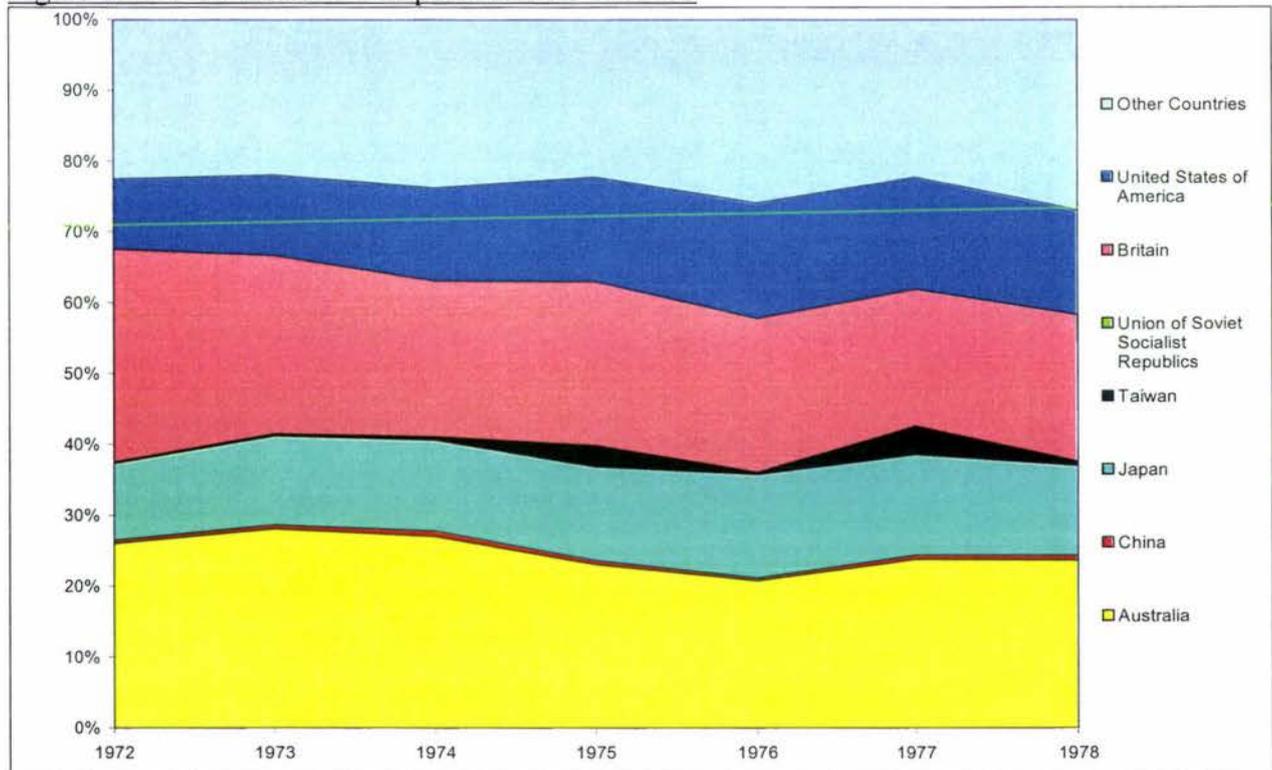
Figure 8.2a: New Zealand's Export Markets 1972-78



Source: NZ Statistics Department, *External Trade Statistics*, various years.

On the import side, New Zealand's imports from Britain reduced as the Asia-Pacific region assumed greater importance.

Figure 8.2b: New Zealand's Import Markets 1972-78



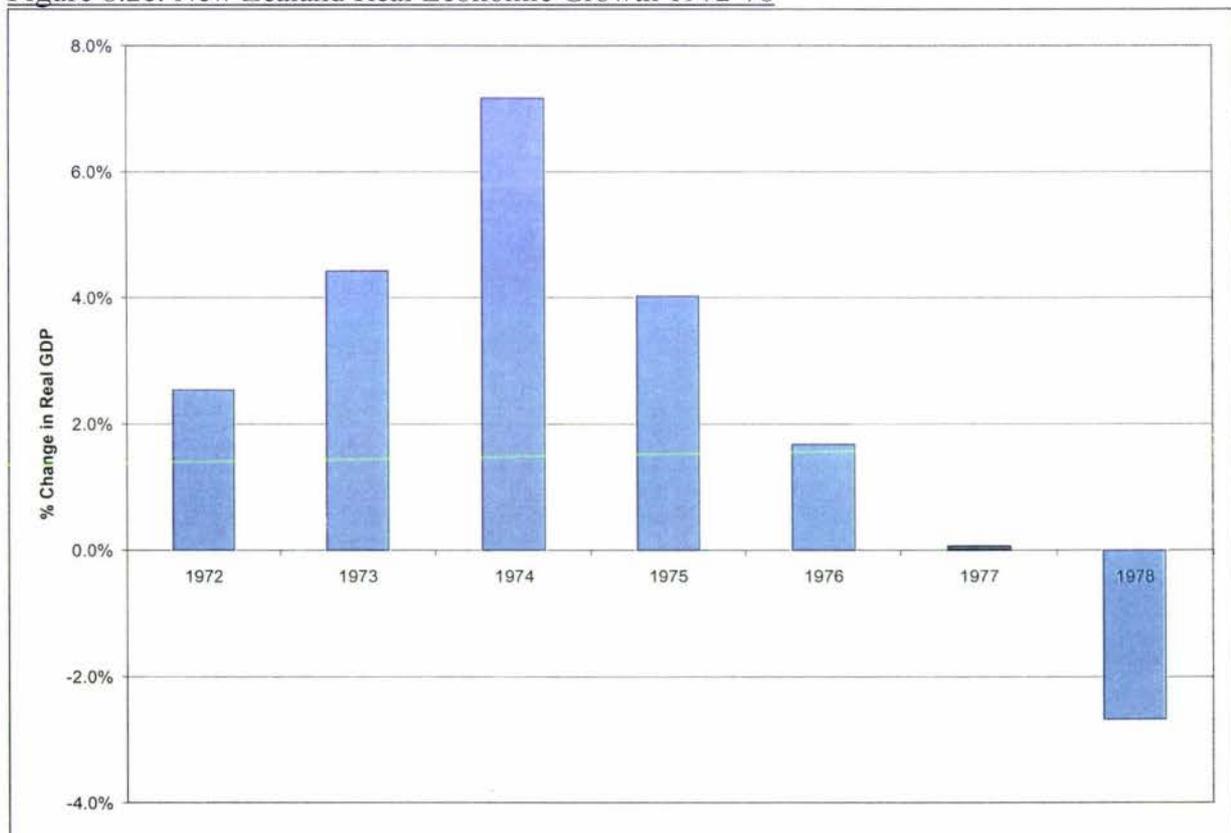
Source: NZ Statistics Department, *External Trade Statistics*, various years.

It became increasingly clear that diversification of markets alone could not solve New Zealand's economic difficulties. The worldwide engine of growth appeared to be the international trade in manufactured goods, an area in which the structure of the New Zealand economy restricted its ability to participate.

8.2.4 NEW ZEALAND'S ECONOMIC PERFORMANCE

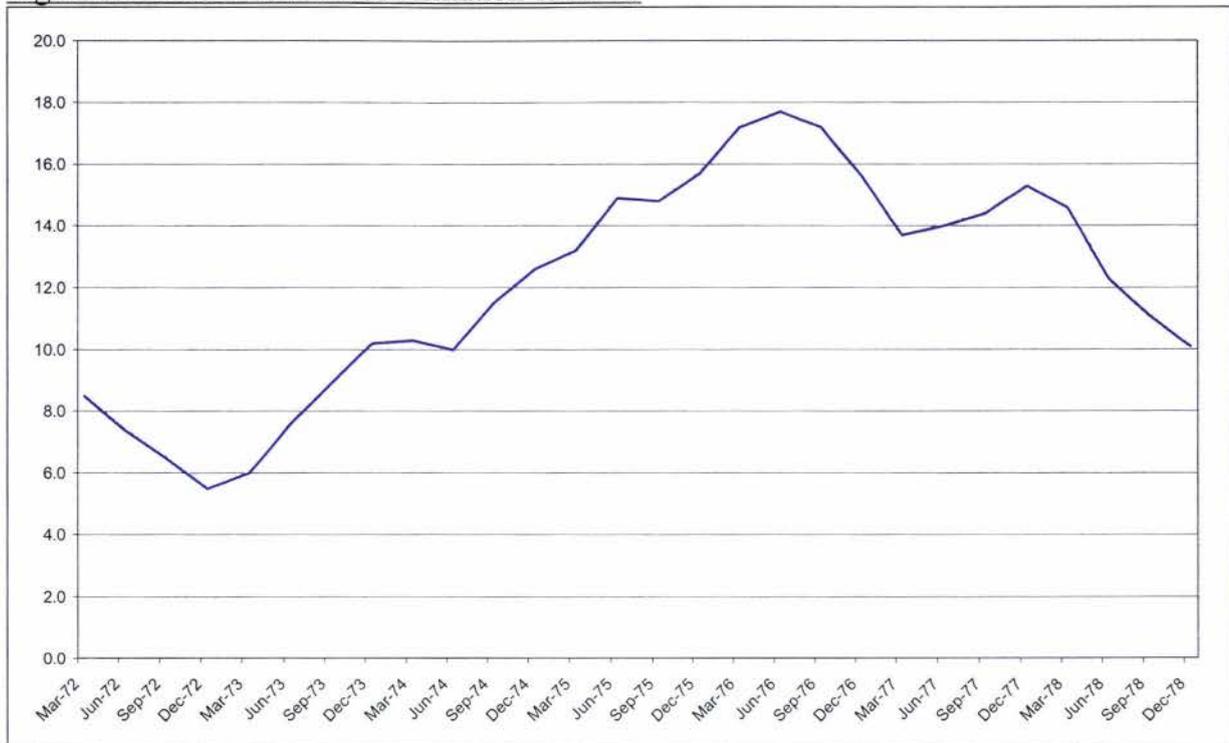
In contrast to the robust economic growth during the mini-boom of the early 1970s, by 1978 the New Zealand economy was suffering the hangover effects of the oil shocks and economic policies that promoted full employment over economic efficiency. Double-digit inflation reigned from 1973 as a result of the oil shock and the 'borrow and hope' fiscal policies of successive governments. Real economic growth turned strongly negative from 1978 as the New Zealand economy entered the era of 'stagflation' – economic recession combined with high inflation.

Figure 8.2c: New Zealand Real Economic Growth 1972-78



Source: Statistics New Zealand, various series. March Years at 1991/92 prices.

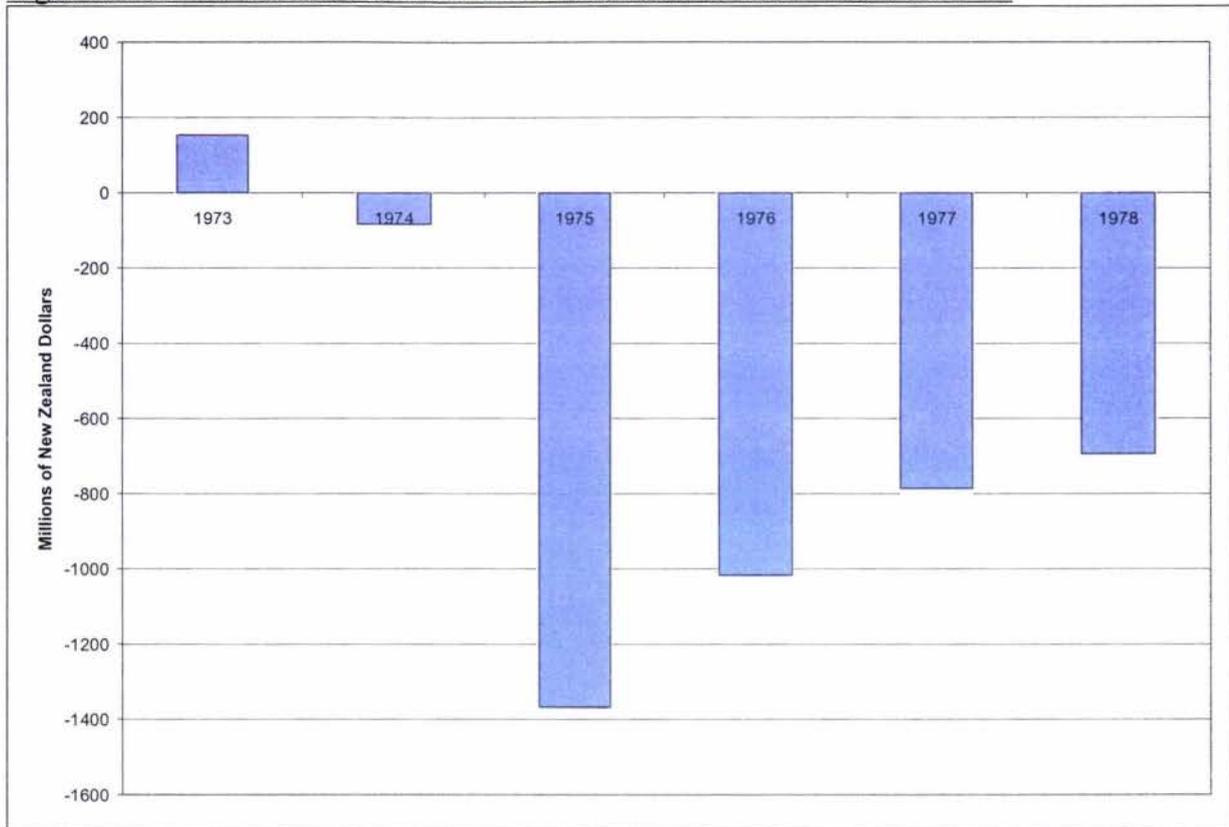
Figure 8.2d: New Zealand CPI Inflation 1972-78



Source: Reserve Bank of New Zealand, various series.

In the external sector, things looked even less rosy. Crude oil prices rose from US\$3 to US\$20 per barrel in late 1973 in what is widely termed the first ‘oil shock’. The flow-on effect was a dramatic deterioration in New Zealand’s current account balance and terms of trade, reinstating New Zealand’s seemingly habitual shortage of foreign exchange. By 1976 New Zealand’s terms of trade had reached their lowest level since the Great Depression. New Zealand continued to consume at a level that was unjustified by its production, and with the government seemingly unwilling to embrace economic reform, the economic downturn from 1976 appeared a necessary evil to remedy the country’s disastrous balance of payments.

Figure 8.2e: New Zealand Balance on Current Account March Years 1972-78



Source: Statistics New Zealand, by private request. Note that the composition of the Balance of Payments has changed substantially over time whereas the Balance on Current Account has remained consistent.

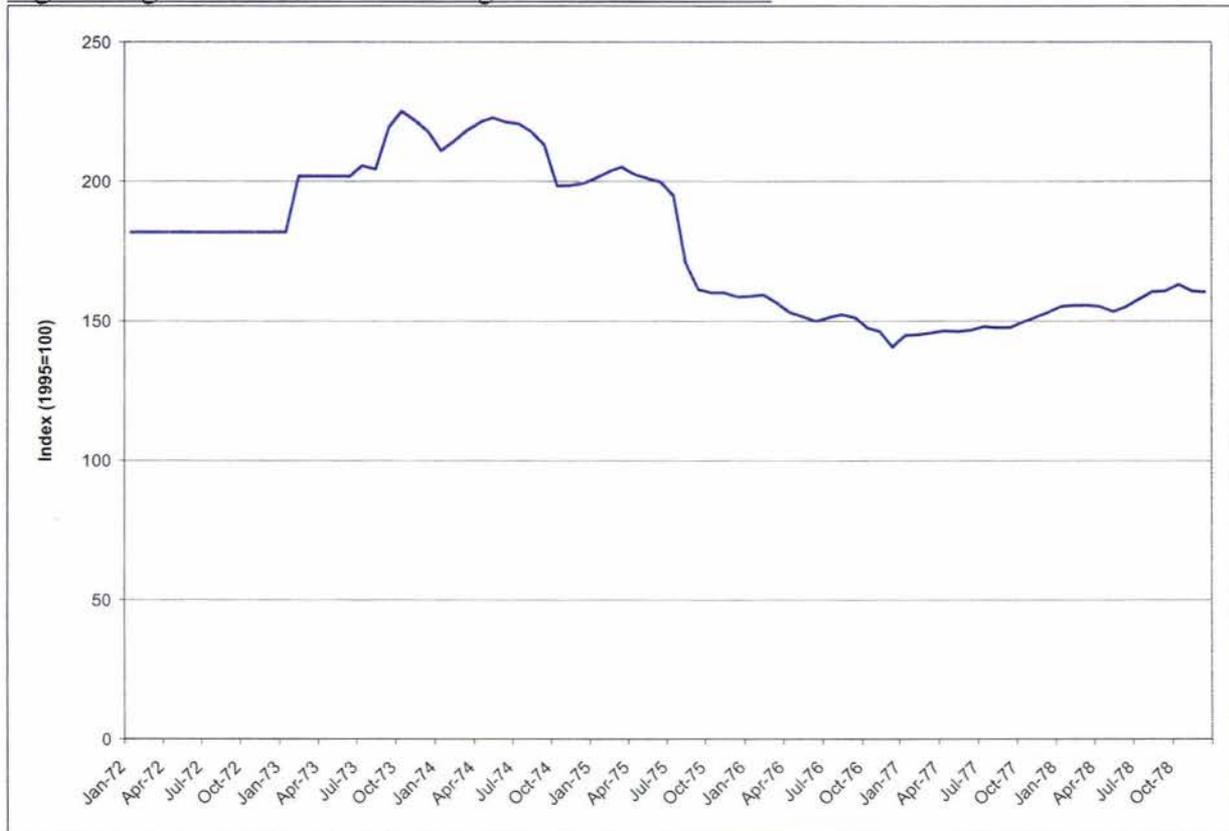
Figure 8.2f: New Zealand's Terms of Trade 1972-78



Source: Terms of Trade: Statistics New Zealand, *INFOS*. Data is for June Years.

The breakdown of the Bretton Woods agreement in the early 1970s saw a higher level of volatility in the New Zealand exchange rate, although the official rate remained fixed. After an initial increase, the New Zealand dollar depreciated as the country's international position deteriorated, assisting New Zealand's exports (including those to China), but not to a sufficient degree to resolve the balance of payments position.

Figure 8.2g: New Zealand's Exchange Rate Index 1972-78



Source: International Monetary Fund, *International Financial Statistics*, September 2002.

By 1978 it seemed clear that the New Zealand economy was in a far worse position than it had been just six years earlier in 1972. The combination of negative economic growth, double-digit inflation, large current account and fiscal deficits suggested that the gradual reform undertaken over the period was inadequate. Unemployment increased almost exponentially from 1977. New Zealand's economic decline was most clearly illustrated in comparison to the growth of manufacturing countries such as Japan and West Germany, although most New Zealanders pointed to the growing gap with Australia as the issue of most concern. All these factors contributed to the New Zealand's ongoing slide down the world and OECD rankings – in terms of per capita GDP New Zealand slipped from 12th in 1970 to 19th in 1980.

Table 8.2d

Year	OECD Ranking	Per Capita GDP (1990 US\$)	OECD Average Per Capita GDP
1950	6	7700	6300
1960	11	8900	8400
1970	12	11400	12200
1980	19	13400	15800

Source: OECD, *Per Capita GDP Statistics*.

At the same time as economists were questioning the usefulness of Keynesian economics, the New Zealand public was losing faith in the ability of the Government to control the economy. Radical changes in New Zealand economic policy were required if existing standards of living were to be maintained, let alone enhanced.

8.3 CHINESE ECONOMIC POLICY AND PERFORMANCE 1973-78

8.3.1 TURMOIL, CHANGE, AND GROWTH

Over the period 1973-78 China's experienced continued political turmoil, accompanied by moderate economic change and growth. Although easing in its intensity, in 1973 the Cultural Revolution was still significantly disrupting state economic institutions and the economy as a whole. Skilled managers and workers were frequently banished to unskilled posts for their perceived departures from Maoist doctrines. Despite these disruptions, China's improving foreign relations and renewed industrial expansion saw imports of foreign technology expand enormously in 1973. Political stability gradually improved along with economic coordination under the premiership of Zhou Enlai. Communist Party committees re-established control over the revolutionary committees, allowing many skilled and highly educated personnel to return to positions they held prior to the revolution. However, the long-term economic direction of China remained unsettled, and was not aided by the Great Tangshan earthquake in July 1976 which killed approximately 240,000 people and severely damaged much of north-east China including parts of Beijing. China's second largest port at Hsinking was destroyed, putting further pressure on China's already stretched transport sector.

In December 1964, Premier Zhou Enlai addressed the Third National People's Congress, reporting the recovery of the economy from the Great Leap Forward and advocating the modernisation of China's economy in four key areas - industry, agriculture, defence, science and

technology. Despite Zhou's urging, the 'four modernisations' were not taken up by the Congress and the disruption of the Cultural Revolution effectively prevented any meaningful discussion of China's future economic policy. Vice-Premier Deng Xiaoping renewed Zhou's strategy by proposing the adoption of the 'four modernisations' at the National People's Congress in 1975. To facilitate their achievement, the authority of managers and economic decision makers was restored at the expense of party officials. Material incentives for workers were introduced and universities and other educational facilities disestablished during the Cultural Revolution were reopened. But perhaps the most important policy was that foreign trade was to be increased, and exchanges of students and 'foreign experts' with developed countries encouraged. However, the powerful 'Gang of Four'³⁴⁶ effectively blocked all attempts to modernise the economy and attacked Zhou Enlai and Deng Xiaoping as 'poisonous weeds' for advocating pragmatic economic policies. Deng was purged for a second time after Zhou Enlai's death in 1976 as the Gang of Four sought to cement their influence.

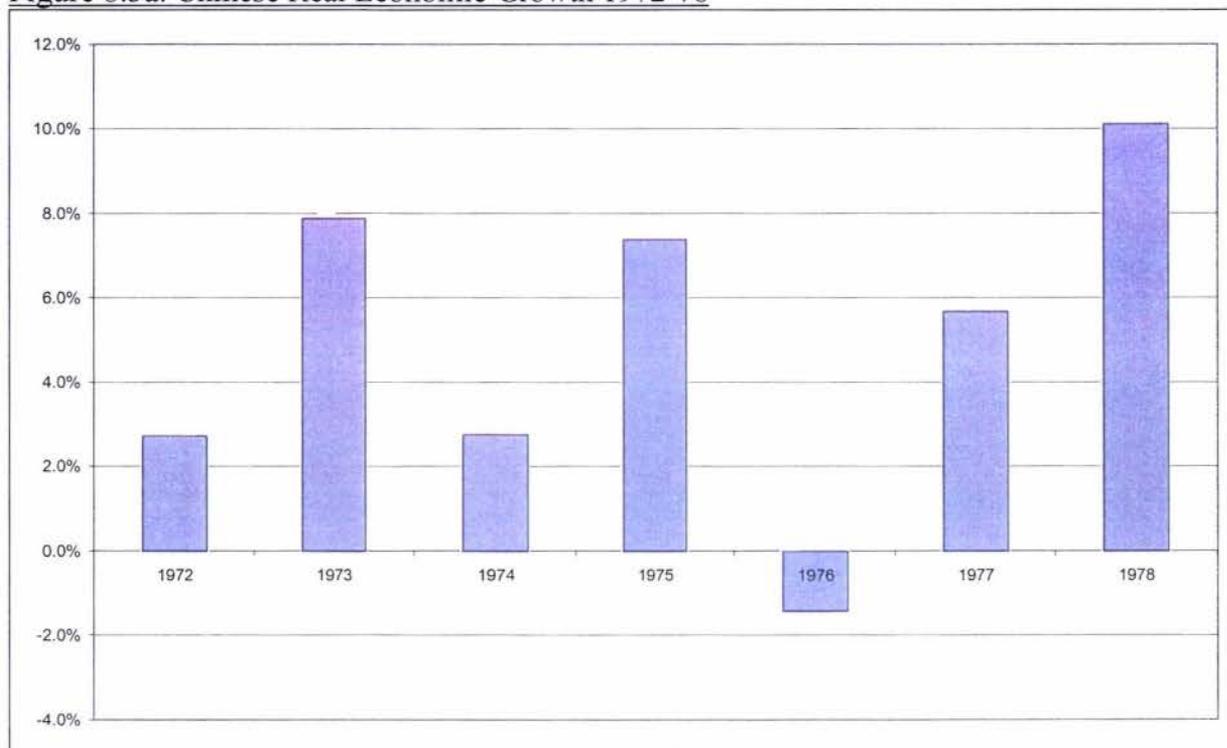
8.3.2 POST-MAO ECONOMIC POLICY

Mao's death in September 1976 finally brought the Cultural Revolution to an end and allowed the implementation of decisive and pragmatic economic policies. The 'Gang of Four' was quickly arrested clearing the way for China's new leaders to pursue and implement a new economic agenda - the rehabilitated 'four modernisations'. Mao's successor, Hua Guofeng, immediately signalled the return of centralised control to the economy and the restoration of order. Deng Xiaoping was rehabilitated again in July 1977, this time as Premier. Deng's pursuit of comprehensive reform in the Communist Party and the economy increasingly brought him into conflict with Hua and his loyalty to Maoist doctrines. A power struggle ensued at the Fifth National Peoples Congress in February-March 1978 as Hua announced an ambitious ten year plan for the economy, incorporating elements of Deng and Zhou's work but with strict adherence to Maoist thought. The power struggle was not resolved until the Third Plenum of the National Party Congress's Eleventh Central Committee in December 1978. Little progress was made on settling economic policy in the intervening period.

³⁴⁶ The Gang of Four comprised Mao's third wife, Jiang Qing, Wang Hongwen, Zhang Chunqiao, and Yao Wen-yuan.

Despite the political paralysis, the Chinese economy began to quickly recover from the Cultural Revolution in 1977 and 1978. Record harvests were recorded in 1978, which in combination with double-digit economic growth sparked new optimism.

Figure 8.3a: Chinese Real Economic Growth 1972-78

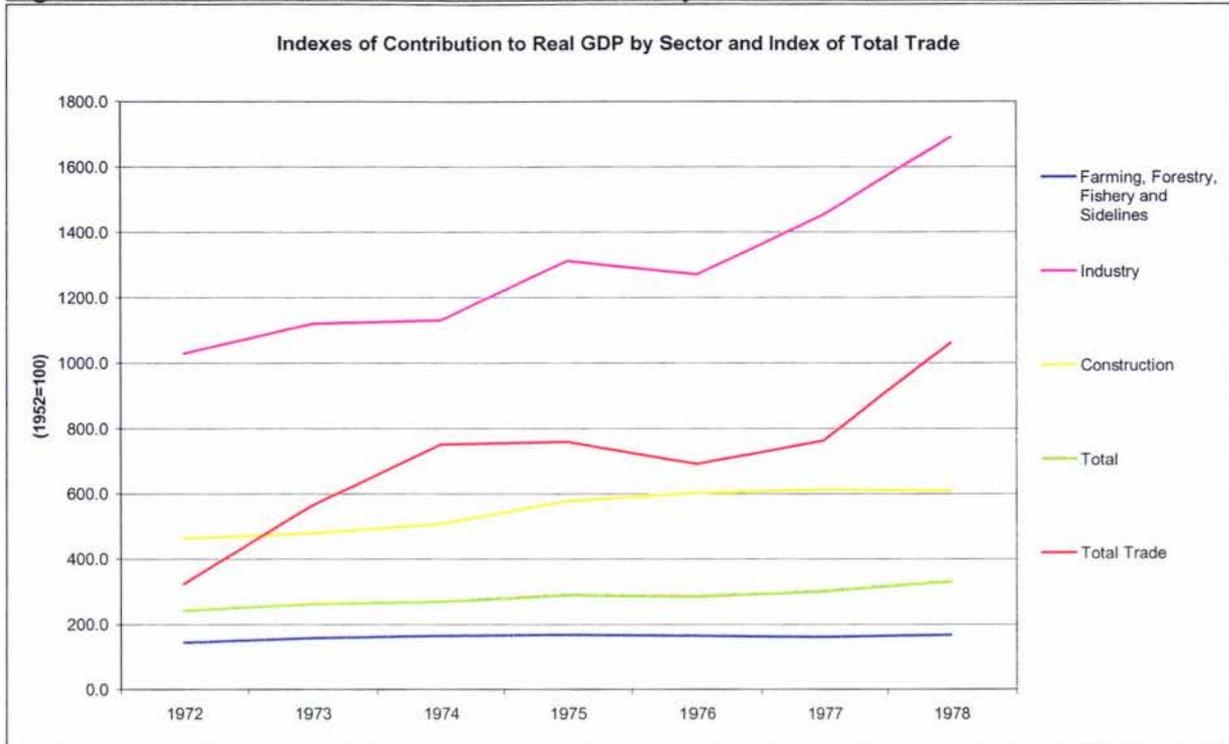


Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

As new technology was incorporated into China's economy after 1973, the contribution of the industrial sector increased rapidly (see figure 8.3a below). Meanwhile other sectors such as construction, commerce, and services showed only moderate growth while agricultural production actually fell slightly. In percentage terms, primary sector contribution to GDP reduced from 32.9% to 29.4% between 1972 and 1977 while secondary sector contribution increased from 43.1% to 47.1%. The service/tertiary sector decreased slightly from 24.1 to 23.4%.³⁴⁷

³⁴⁷ Source: State Statistical Bureau of the People's Republic of China and the Institute of Economic Research of Hitotsubashi University: *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

Figure 8.3b: Indexes of Contribution to Real GDP by Sector and Index of Total Trade



Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*, and *Almanac of China's Foreign Economic Relations and Trade 1987*. Indexes for GDP are based on sector contributions to GDP in millions of 1987 Yuan and Hundreds of Millions of nominal US dollars for total trade. Data is for calendar years.

By 1978, China was producing increasing amounts of a wide range of industrial intermediate goods and consumer goods as indicated below

	1952	1957	1965	1978
Steel (tons)	1.35 million	5.35 million	12.2 million	31.78 million
Coal (tons)	66 million	131 million	232 million	618 million
Electricity (kwh's)	7.3 billion	19.3 billion	67.6 billion	258.6 billion
Cement (tons)	2.86 million	6.86 million	16.34 million	85.2 million
Color TVs	0	0	0	3,800
Refrigerators	0	1,600	3,000	28,000

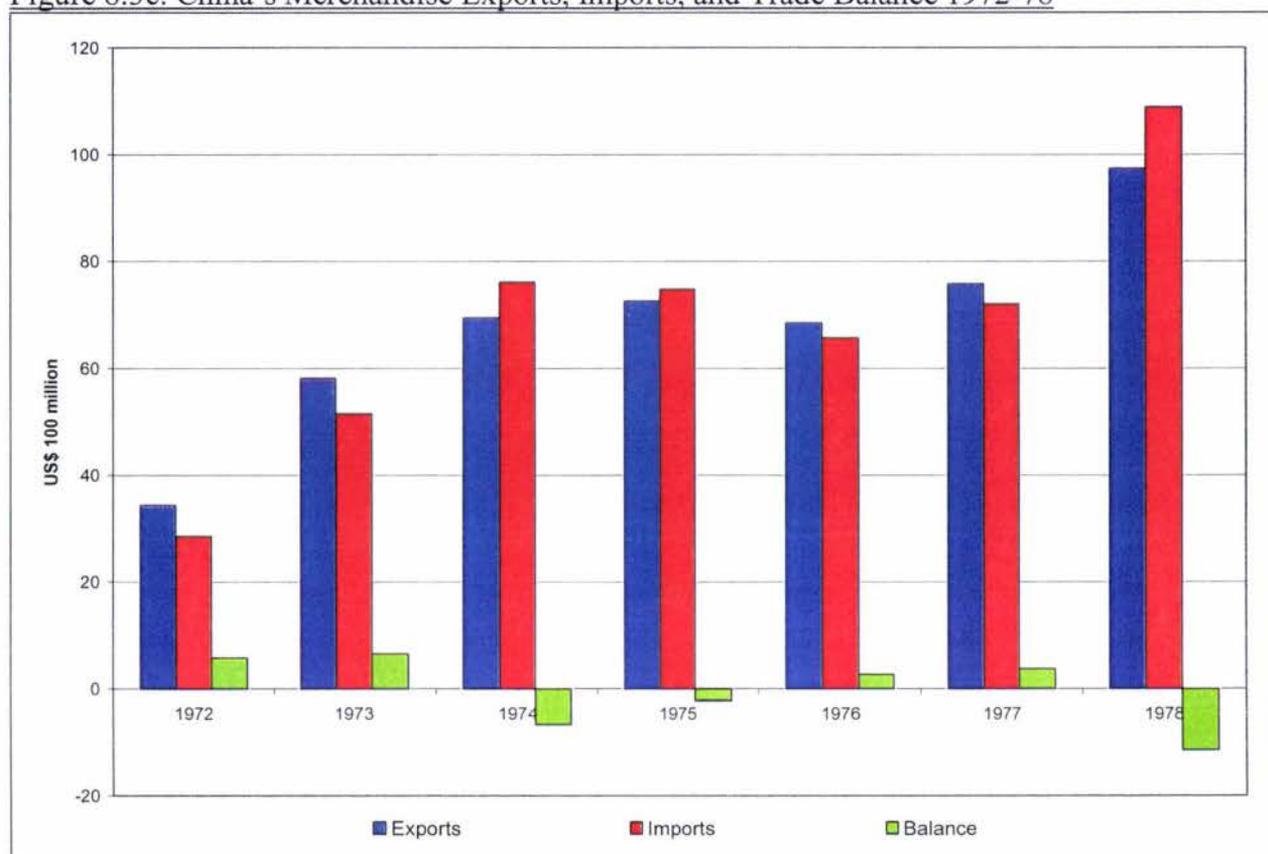
Source: *Wen Hui Bao Daily*, 30 September 1998.

8.3.3 CHINA'S FOREIGN TRADE 1973-78

Economic independence remained the paramount political objective in China's trade policy between 1973 and 1978. In effect this meant that China would buy what it needed when it could afford it. Unfortunately, the expansion of machinery imports in 1973 coincided with a traumatic period of international trade following the first oil shock. High inflation in the countries from which China was acquiring industrial plants forced up the cost of imports by significantly more

than prices of China's exports. Large trade deficits in 1974 and 1975 were the result (see Figure 8.3a). These deficits were harnessed by the enemies of Zhou and Deng, who claimed they were turning China into 'a market for imperialists to dump their goods in',³⁴⁸ but to little effect as foreign trade generally increased between 1972 and 1978.

Figure 8.3c: China's Merchandise Exports, Imports, and Trade Balance 1972-78



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*. Data is for calendar years.

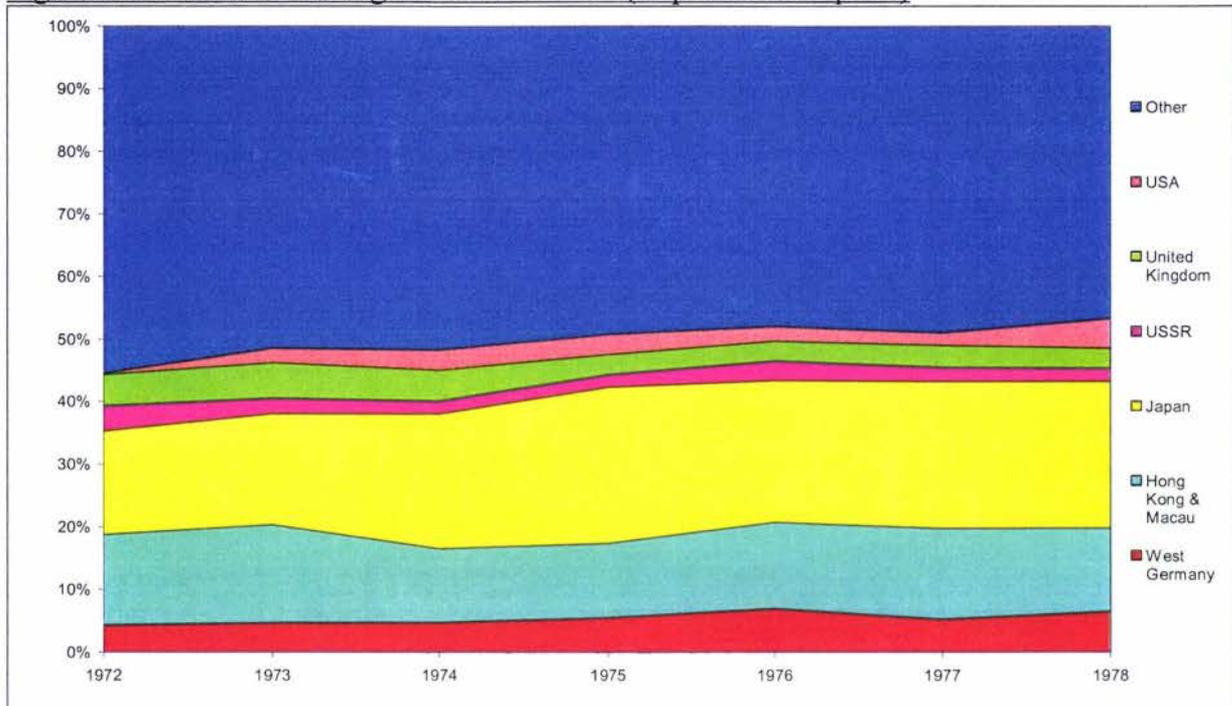
From 1973 onwards the Chinese began to use deferred payment terms for some of their major imports of plant and machinery, something which was strictly forbidden in earlier periods. Gold sales, oil exports, and remittances from overseas Chinese also combined to finance China's imports and reduce the hard currency deficit. Annual plans were increasingly abandoned in favour of more flexible arrangements. Branches of the trading corporations expanded dramatically in 1975-76 as part of a general decentralisation, but this often made coordination more difficult. Normalisation of Sino-Japanese diplomatic relations in 1972 significantly enhanced their economic relations. Japanese exporters often asked for 20-30% down payment with the balance spread over 5 years at 7.5% interest.³⁴⁹ Other than the re-emergence of the

³⁴⁸ *Peking Review*, no.35, 1976.

³⁴⁹ Howe, C. (1978). *China's Economy: A Basic Guide*, London: Granada Publishing Ltd, p.149.

USA, following the abandonment of the trade embargo in 1971 and 1972, the direction of China's trade partners did not greatly change over the period.

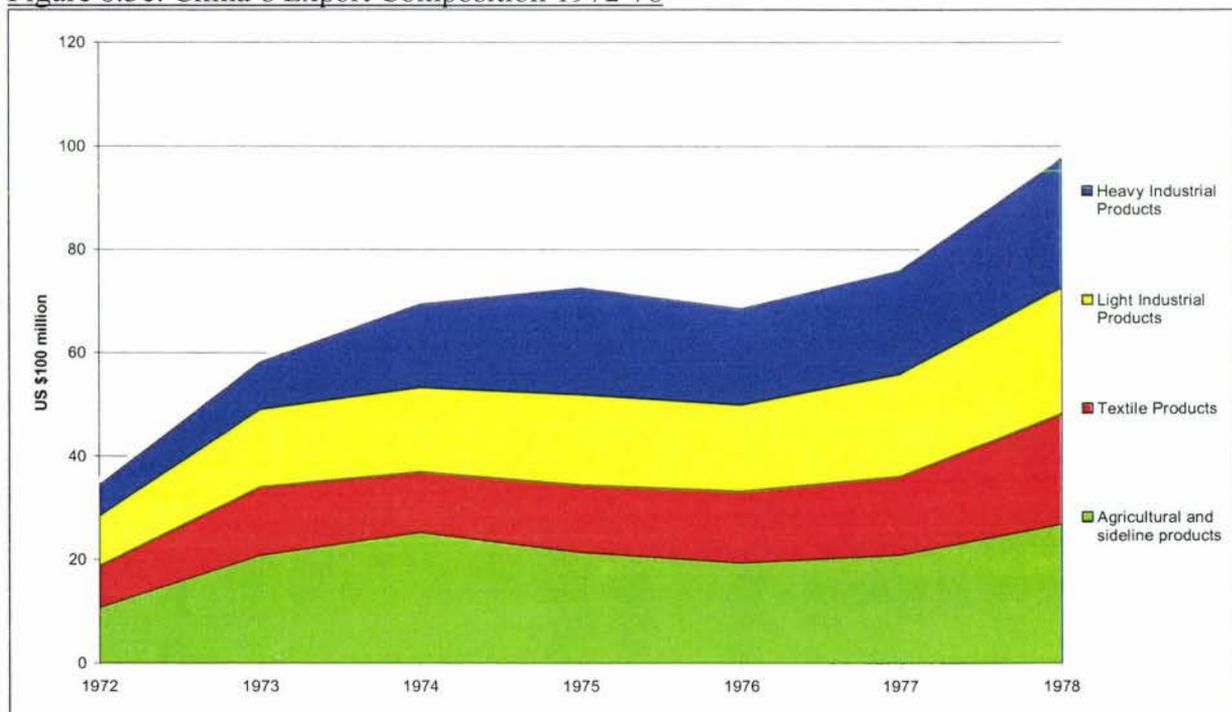
Figure 8.3d: China's Trading Partners 1972-78 (Exports and Imports)



Source: Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000 (4th edition)*.

In terms of export composition, textile and industrial products increased their shares of exports at the expense of agricultural exports.

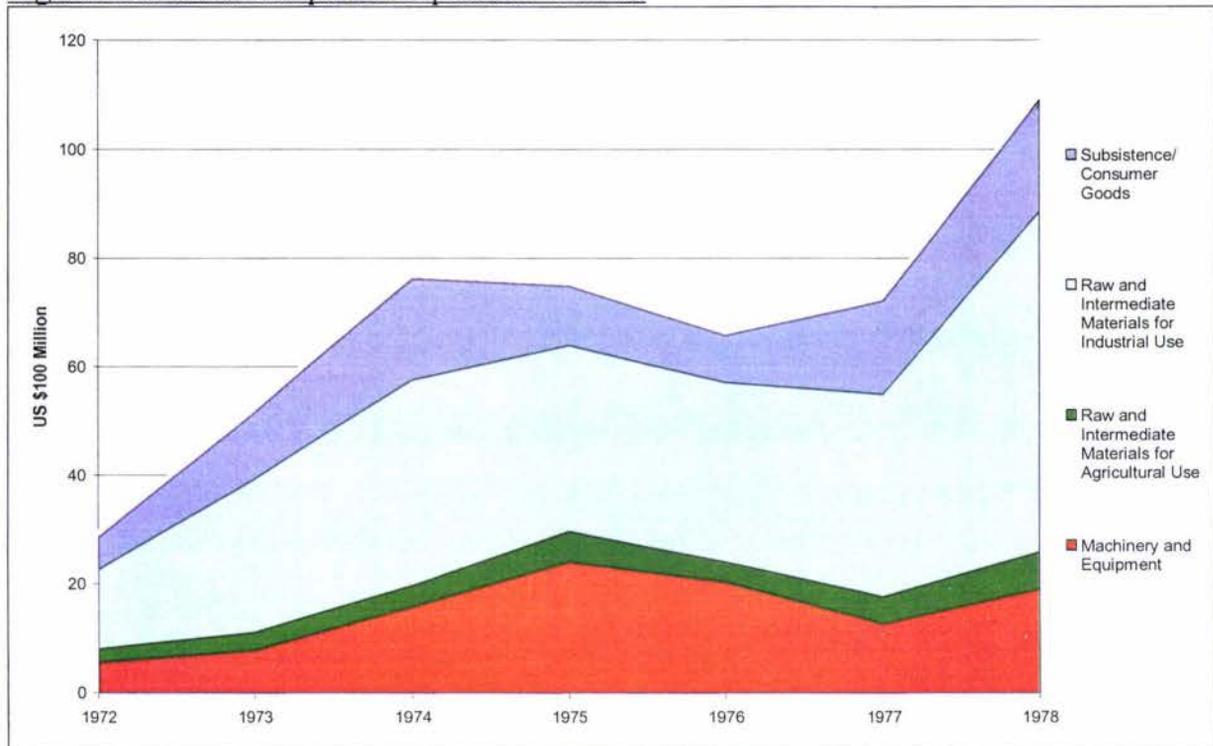
Figure 8.3e: China's Export Composition 1972-78



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*. Data is for calendar years.

Imports of machinery and equipment increased substantially after 1973 in line with the new import programme, before dropping off during the political struggles of 1977-78. However, the importation of raw materials for the new plants continued to expand throughout the period. Imports of consumer goods remained relatively constant although low compared to developed nations.

Figure 8.3f: China's Import Composition 1972-78



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*. Data is for calendar years.

Despite China's total trade as a percentage of GDP increasing from 5.01% in 1970 to 9.80% in 1978, it remained very low by international standards. The equivalent New Zealand figure in 1978 was 41.1%.³⁵⁰

8.4 NEW ZEALAND-CHINA TRADE 1973-1978

8.4.1 ESTABLISHING OFFICIAL TRADE RELATIONS

Official trade relations after diplomatic recognition were kick-started by Joe Walding's visit to China in March/April 1973. At discussions between representatives in New York during March

³⁵⁰ See table 5.4a.

1973, the Chinese made the suggestion of a trade agreement or 'trade programme'. While Wellington welcomed the idea of a trade agreement as a useful framework to normalise economic relations, it was not keen for any formal government-to-government trade programme and instructed the trade delegation not to go beyond exploratory discussions in this area. Beijing advised that they had 'nothing very specific in mind' and the initiative 'would remain with New Zealand and that the PRC would respond to any specific suggestions'.³⁵¹ The New Zealand representative outlined three options for consideration:

- (i) a simple Most Favoured Nation agreement to replace the 1928 exchange of letters;
- (ii) a new Most Favoured Nation agreement to replace the 1928 exchange of letters attaching lists of commodities of interest to each country;
- (iii) preparation of lists of commodities with assurances of access (with the 1928 instrument remaining in force).

China's representative did not favour Option (iii) saying 'but New Zealand is an independent country. We should have a new agreement'.³⁵² Following these discussions, Cabinet approved the Minister of Overseas Trade negotiating a trade agreement subject to the PRC taking the initiative and not precluding private trade with Taiwan. A simple MFN agreement was drafted based on agreements with other State-trading countries such as Hungary, Poland, and Bulgaria, in case the Chinese raised the issue during Walding's visit to China. The Chinese did not.

The major purpose of Walding's visit was to initiate government-to-government contact and to determine the goods and services China demanded. During his visit, Walding invited his Chinese counterpart to visit New Zealand and sounded out the possibility of an official trade mission visiting China to coincide with the autumn Kwangchow fair. Both ideas were accepted with enthusiasm by the Chinese. Walding also sought assurances that New Zealand Government trade representatives in the soon to be opened Beijing embassy would receive the full cooperation from the Chinese trading corporations. This assurance would be particularly useful to the trade mission that was to visit China later in 1973. The Chinese response was favourable.³⁵³

Chinese Minister of Foreign Trade, Pai Hsiang-Kuo, conducted a reciprocal visit to New Zealand in July 1973. During his visit he made the point that 'bilateral trade could not be brought into

³⁵¹ IC 22 378B

³⁵² IC 22 378B

³⁵³ AATJ 7428 45/35/1 Telegram to Prime Minister Kirk from Minister of Trade Walding, 4/4/73.

full play before the establishment of diplomatic relations between the two countries³⁵⁴ and that such relations created 'favourable conditions' for trade expansion.³⁵⁵ Pai confirmed that China did not strictly adhere to buying in the cheapest market and selling in the dearest - political considerations were taken into account.³⁵⁶ Negotiation of the proposed trade agreement was also taken up by Pai with draft texts exchanged, negotiated, and for the most part agreed. The starting point was the text of the Australian MFN agreement signed 24 July 1973. China wanted the agreement extended to cover the Cook Islands, Tokelau, and Niue, together with provision of MFN treatment for shipping but agreed to drop the inclusion of the Pacific Islands because of the difficulties they caused New Zealand.³⁵⁷

Walding returned to China in September/October 1973 to lead a trade mission and sign the finalised trade agreement.³⁵⁸ Competition for places on the trade mission was intense with the Department of Industries and Commerce selecting members to achieve a broad representation and one that best served the long-term interests of New Zealand-China trade. The mission's main aims were to develop a better trading relationship with China and to increase New Zealand's knowledge of its commercial requirements. The mission visited Beijing, Tientsin, Shanghai, Hangchow, and attended the Kwangchow Trade Fair, where contracts for \$19 million of wool, tallow, hides, and livestock were signed. New Zealand Forest Products signed a three-year agreement for pulp and liner board with prices to be negotiated at six monthly intervals. Contracts for the importation of \$7.7 million of Chinese textiles were also signed.³⁵⁹ Despite these successes and the goodwill created, Walding said that 'we don't expect any dramatic increase in trade but rather to sow the seeds for years to come'.³⁶⁰

The visit was also significant for the signing of the trade agreement granting reciprocal Most Favoured Nation tariff status.³⁶¹ This agreement superseded all other agreements³⁶² but went

³⁵⁴ *NZJAR*, vol. 23, no.7, July 1973, p.6.

³⁵⁵ AATJ 7428 45/35/1 Telegram to Prime Minister Kirk from Minister of Trade Walding, 4/4/73.

³⁵⁶ AATJ 7428 45/35/1 Telegram to Prime Minister Kirk from Minister of Trade Walding, 4/4/73.

³⁵⁷ AATJ 7428 113/1 Part 4

³⁵⁸ AATJ 7428 113/1 Part 3

³⁵⁹ AATJ 7428 113/1 Part 8

³⁶⁰ *Far Eastern Economic Review*, China Trade Report vol.XI, no. 10, October 1973. Following the trade mission, an export seminar was held in Auckland to pass on the knowledge gained by the mission to other New Zealand businessmen.

³⁶¹ The agreement was signed on 10 October 1973. The only problem was that no-one in the New Zealand mission had remembered to bring the official seal meaning the agreements would have to be sealed at a later date. *National Business Review*, 29 October 1973.

³⁶² In particular, it superseded the 1928 exchange of letters which had been signed by Nationalist China and the United Kingdom. For 'practical convenience' New Zealand had extended MFN status to the PRC under this agreement. Australia signed trade agreement with the PRC 24 July 1973.

further than New Zealand's other MFN agreements by including: 1) a list of commodities each country wished to expand trade in; 2) provisions for long-term commodity agreements; 3) provisions for the exchange of experts and technical expertise; and 4) the establishment of a Joint Trade Committee to meet annually to consider the agreement's implementation and ways of increasing trade. It also made reference to 'reasonable international prices' and 'mutually acceptable and freely convertible currencies'.

Photograph 8.4a: 1973 New Zealand Ministerial Delegation to China



Source: Chinese Embassy to New Zealand, <http://www.chinaembassy.org.nz>. Walding (front row, fifth from left) and New Zealand delegation are met by Zhou Enlai, 31 March 1973.

Pai Hsiang-Kuo fell victim to one of the many purges of Cultural Revolution in October 1974 because of his ties with former defence minister Lin Piao.³⁶³ Pai was succeeded by Li Chiang, who signalled that China was seeking a middle ground between self sufficiency and the need to source foreign imports of raw materials and technology. Li suggested the two objectives were complementary in that foreign trade could foster a greater degree of self reliance (not self sufficiency), subject to China not becoming dependent on unreliable or exploitative sources, the USSR experience was still quite fresh.³⁶⁴

As part of China's efforts to promote exports, an Economic and Trade exhibition was held in Wellington in September 1974. Attendance was estimated at 70-80,000 people although the

³⁶³ *South China Morning Post*, 30/10/1974

³⁶⁴ *China's Foreign Trade*, in ABHS 6944 HKG 84/3/1 Part 2

Department of Trade and Industry thought this could have been much higher if the Chinese had publicized the exhibition more effectively, as they had been advised. Few sales resulted and businessmen were reported to get little out of the venture because of the lack of knowledgeable representatives accompanying the stalls. New Zealand was asked to send a reciprocal exhibition to China in 1976 but resisted because of limited resources and doubts over the potential benefits. Instead it was proposed to send a series of specialist missions.³⁶⁵ China followed up the fair by participating in the New Zealand international trade fairs in 1977 and 1978.

The prominence of Chinese Commodity Fairs as a means of conducting trade decreased as official relations flourished. In the early 1970s it remained a good idea for a new trader to attend the fair to show they were worthy of Chinese attentions by attending the fair, although it was possible to show the necessary level of respect by attending just the opening and closing ceremonies of the fair. In effect, the Chinese used the fairs as a screening process for would be New Zealand importers. On average, only 25 New Zealand businessmen were attending fairs by 1978, almost all of them importers.³⁶⁶ Australia's Trade Commissioners estimated that the percentage of total import transactions conducted at the fair decreased from 40% in 1971 to 20% by 1975. In late 1974 the Chinese adopted a new marketing technique called the mini-fair which specialized in a select range of products, and was usually held in Peking, Shanghai, Tientsin, Dairen, or Canton. There was little point in New Zealand exporters attending the fairs later in the period.³⁶⁷

Aside from JTC talks and commodity fairs, trade development was continued by ministerial visits and delegations from prominent New Zealand traders and Chinese trading corporations. Examples included:

- Visit by Royal Society of New Zealand to China in April 1974 and return visit by Academia Sinica to New Zealand December 1974
- New Zealand medical mission visited China August 1974
- Yang Bo, Minister of Light Industry visited New Zealand September 1974
- Sha Feng, Chinese Minister of Agriculture and Forests visited New Zealand October/November 1974 to study New Zealand farming methods
- Chinese Wool Technical Mission visited New Zealand November 1974

³⁶⁵ IC 22 445

³⁶⁶ AATJ 7428 113/1 Part 12

³⁶⁷ ABHS 950 40/11 Part 7

- Chinese Animal Husbandry and Agricultural Survey Mission visited New Zealand November 1974
- Chen Chieh, Vice Minister of Trade visited New Zealand in September 1974 for opening of the Chinese exhibition and for a preliminary run over the ground for the trade talks due to be held early 1975
- Minister of Agriculture, Colin Moyle, visited China February 1975
- New Zealand Wool Board and Wool Marketing Corporation delegation visited China April 1975
- Delegation from Chinese Light Industrial Products Corporation visited New Zealand April 1975
- Chinese Forest Products Mission visited New Zealand June/July 1975
- Warren Freer, Minister of Trade and Industry and Minister of Energy and Resources visited China June/July 1975
- Chinese Chemicals Trade Mission visited New Zealand November 1975
- Chinese Textile Mission visited New Zealand 1975
- Embroidered goods Mission visited New Zealand 1975
- China National Native Products and Animal By Products Import and Export Corporation visited New Zealand in July 1976 to study forestry.
- Leader of opposition, Bill Rowling, visited China in September 1976.
- Chinatex textile mission visited New Zealand March/April 1977
- Chai Shu-fan visited New Zealand August 1977
- China Light Industrial Products Corporation visited New Zealand October 1977
- B. E. Talboys, Deputy Prime Minister, Minister of Foreign Affairs and Minister of Overseas Trade, visited China October/November 1977.
- Chinese Geothermal Study Mission visited in New Zealand early 1978
- Chinatex mission visited New Zealand March 1978

Stan Stanworth, General Manager of the New Zealand Export-Import Corporation (NZEIC) visited China in April 1975 sparking the corporation's long and largely successful involvement in the Chinese market.³⁶⁸ The NZEIC were initially looking to trade chemicals, wire, steel, vegetable and tung oils, and pig's bristles. Stanworth returned to China in August 1975 and secured exports of logs, hides/skins, and wool with a value of \$1.5m. Colin Moyle's visit to China as Minister of Agriculture in February 1975 proved interesting for several reasons.

³⁶⁸ IC 22 438

Firstly, it was instrumental to the resumption of Chinese wool purchases which had ceased in the 1974/75 statistical year. Moyle also argued for a long term purchase contract between the Wool Marketing Corporation and Chinatex to remove volatility and shipping problems. During his visit, Moyle upset New Zealand's ambassador by suggesting that there was little complementarity between the two economies and that China was unlikely to become an important trading partner. In Moyle's view, the Middle East was a more important market.³⁶⁹

Warren Freer's visit to China in June 1975 as Minister of Trade and Industry succeeded in securing contracts for the sale of hides and skins, aluminium ingots and rods, as well as saw logs. However, the main purpose of his trip was to sign an agreement under which New Zealand and Chinese firms would be able to register trade marks in the other's country.³⁷⁰ Freer appeared to achieve more success than Walding by virtue of his status as an 'old friend' of China following his groundbreaking visits to China in 1955 and 1959. In discussions with the Chinese, Freer used a two-pronged argument to stimulate Chinese purchases from New Zealand. Firstly, he explained that New Zealand's ambition to achieve political independence was being frustrated by its economic dependence on only a few markets. In other words, it was within China's power to help New Zealand maintain a truly independent stance. The argument struck a responsive chord because China liked to see itself as independent and a promoter of other country's independence from superpower influence. The Chinese were equally responsive to Mr Freer's second argument – that some New Zealanders still doubted the wisdom of the Labour Government's decision to recognize China and that the Government needed to demonstrate the benefits of the new relationship.³⁷¹

The overall outcome of all this activity was that trade in 1975 boomed and wool assumed a lower proportion of New Zealand exports. Four specialised Chinese selling missions visited New Zealand in 1975, which in conjunction with the New Zealand government making special import licences available to imports from China, ensured Chinese goods were well promoted. In a late-night off the record conversation with a New Zealand journalist, Chinese Minister of Trade Sha Feng commented that China was most interested in New Zealand's agricultural expertise.³⁷² Ambassador Bryce Harland believed China's political objectives were limited to preventing New

³⁶⁹ IC 22 438

³⁷⁰ ABHS 950 40/11 Part 8. During Freer's visit, a trademarks agreement was appended to the trade agreement, taking effect from June 1975

³⁷¹ Letter from NZ Trade Commissioner in Peking to Secretary of Trade and Industry, 26/6/1975. AATJ 7428 45/35/1 PART 5

³⁷² ABHS 950 40/11 Part 6

Zealand getting too close to the superpowers, especially the Soviet Union. He believed that China had made it clear that in New Zealand's case, political considerations had played a large part in the rapid development of trade, and that the Government had more scope to increase trade with China than with other countries.³⁷³

Deputy Prime Minister Brian Talboys' visit to China in October/November 1977 continued the trend of senior New Zealand politicians being granted concessions not available to other delegations. During discussions with Li Chiang, China announced its intention to buy 15-20 thousand tones of pulp, 12-20 thousand tonnes of newsprint and 10-15 thousand tonnes of kraft linerboard in the 1978, 1979 and 1980 calendar years. Smaller commitments were also given for the first sales of casein and reinforcing steel.³⁷⁴ The announcement on newsprint was particularly pleasing to New Zealand exporters who had struggled to get a foothold in the Chinese market. The commitments on pulp and liner board were assurances of the continuation of trade at current or slightly increased levels rather than new trade. Talboy's view was that China was unlikely to become a major market for New Zealand, but that it should be a stable market with growth prospects for a variety of New Zealand products.³⁷⁵

8.4.2 THE EFFECTS OF RECOGNITION ON TRADE

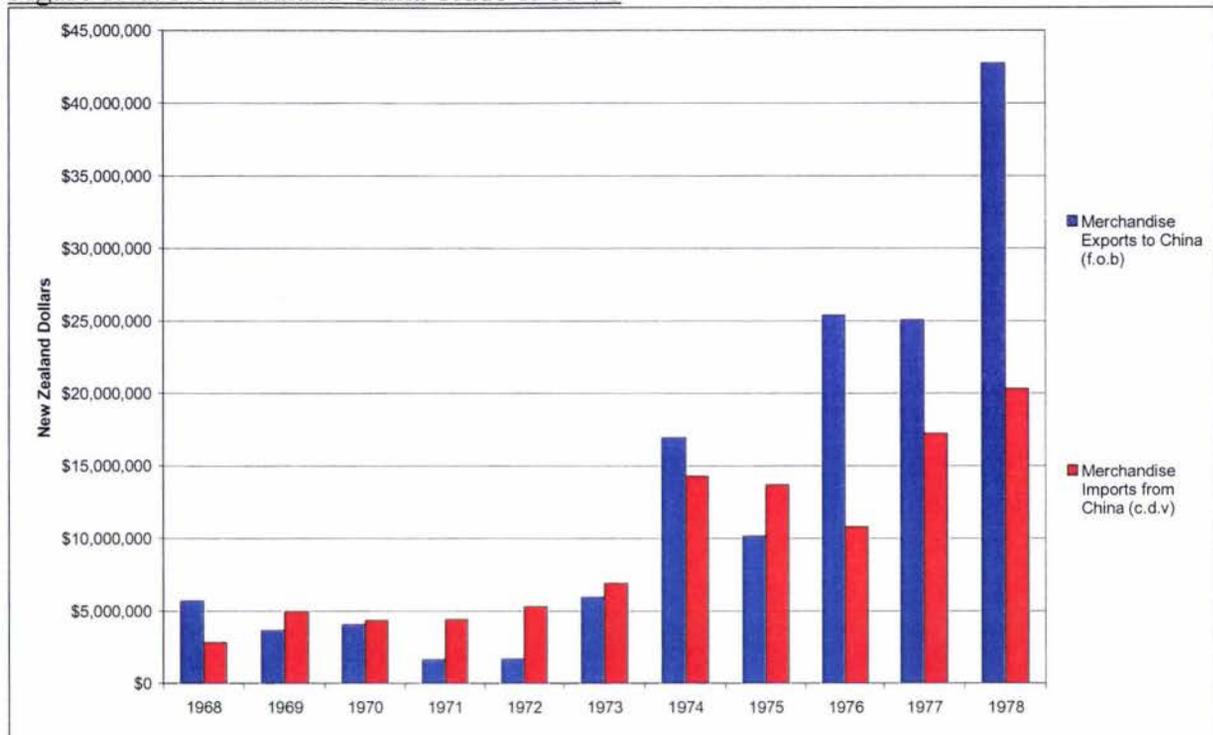
Given the rapid growth in New Zealand-China trade, two obvious questions present themselves. Firstly, how significant was the establishment of diplomatic recognitions to the expansion of New Zealand China trade? And secondly, how did New Zealand fair compared to other similarly placed countries? A useful starting point is to present a graphical analysis of trade in the years preceding and following recognition. Given that recognition occurred halfway through the 1973 statistical period, we would expect to see the most striking changes in the 1974 statistical year.

³⁷³ AATJ 7428 113/1 Part 8

³⁷⁴ ABIIS 950 40/11 Part 9

³⁷⁵ AATJ 7428 113/1 Part 12

Figure 8.4a: New Zealand China Trade 1968-78



Source: NZ Department of Statistics, *External Trade Statistics*, various issues. Data is June years.

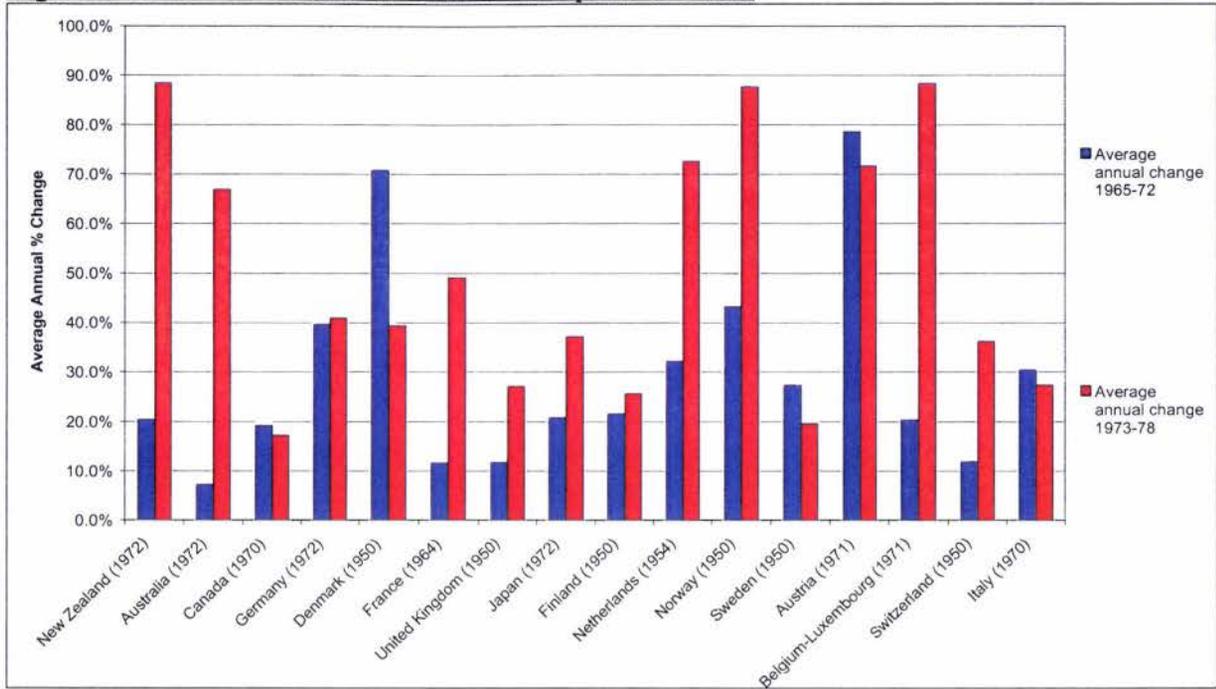
Figure 8.4a shows exactly such a step-up. In terms of the experiences of other countries, a 1971 comparison by a New Zealand Government agency on the effects or recognition between the United Kingdom (recognized 1949), France (recognized 1964), and West Germany (did not recognize) concluded there would be little advantage.³⁷⁶ An academic visiting New Zealand in 1972 also indicated that non-recognition on by Japan and West Germany had not hindered their trade with China while simultaneously noting Canada had benefited significantly after recognizing China, largely at Australia's expense.³⁷⁷ The balance of evidence suggested that the benefits of recognition would remain unknown until recognition had been accorded. New Zealand's experience after recognition suggested that there was a significant advantage – New Zealand exports to China in the year to June 1973 were 250% above the previous year and increased again by 185% in the year to June 1974. Figure 8.4b shows that New Zealand's export performance in the front-door period (i.e. following recognition) was unrivalled for OECD³⁷⁸ countries for which data is available.

³⁷⁶ ABHS 950 40/11 Part 2

³⁷⁷ ABHS 950 40/11 Part 3

³⁷⁸ Organisation for Economic Cooperation and Development. The OECD comprises developed countries only.

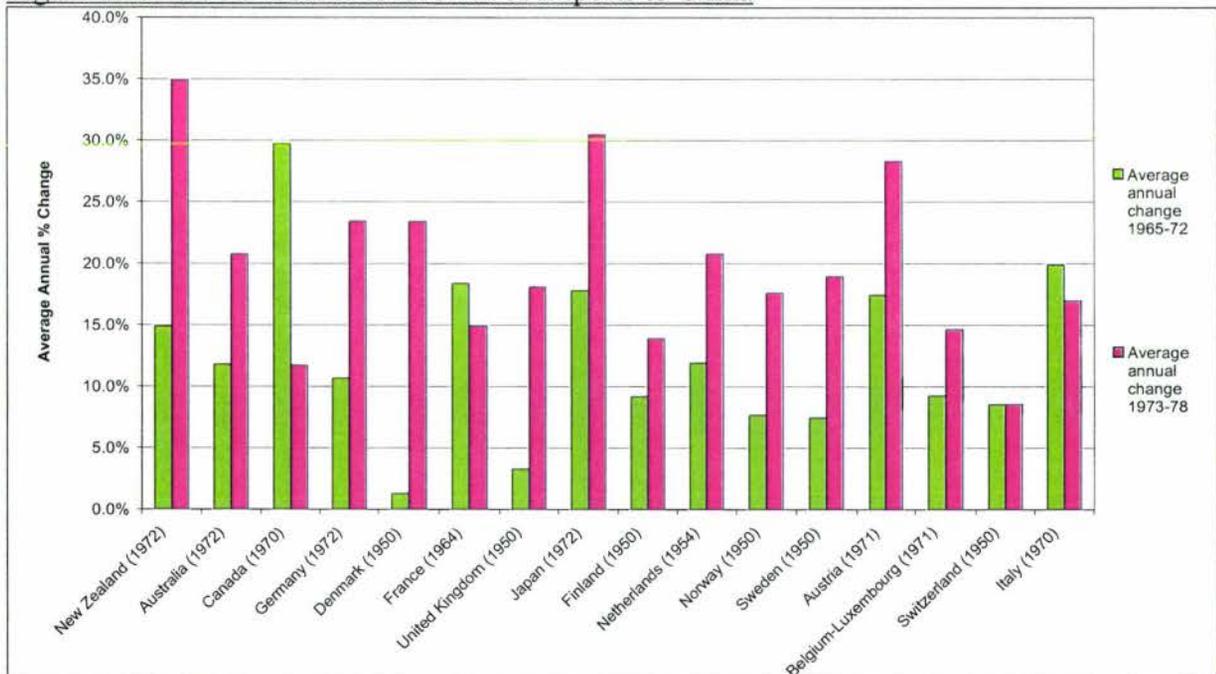
Figure 8.4b: OECD Countries Growth of Exports to China



Source: Calculated from *International Trade by Commodities Statistics SITC Rev.2 - Historical Series 1961-1990 Vol 2*, Paris: OECD. Brackets indicate the year that diplomatic relations were established.

But looking at the timing of recognition, there is no clear pattern across OECD countries as to whether recognition significantly enhanced exports to China. New Zealand, Australia, Denmark, and Belgium-Luxembourg appeared to benefit significantly from recognition in the early 1970s while others did not appear to benefit from early recognition. Figure 8.4c indicates a similar story for imports.

Figure 8.4c: OECD Countries Growth of Exports to China



Source: Calculated from *International Trade by Commodities Statistics SITC Rev.2 - Historical Series 1961-1990 Vol 2002*, Paris: OECD.

Despite the mixed evidence, there is little doubt that New Zealand benefited tremendously from according recognition to the PRC in 1972.

8.4.3 THE JOINT TRADE COMMITTEE

The Joint Trade Committee (JTC) provided an excellent forum to discuss issues affecting the trade and proved instrumental in its expansion in the front-door period. Chinese Vice-Minister of Trade, Chen Chieh, travelled to New Zealand to open the Wellington exhibition and hold informal trade discussions before the first JTC meeting in April 1975. During these preliminary talks, the Chinese raised the possibility of reciprocal trade in New Zealand ironsands for Chinese oil. Following the first oil shock in 1973, China rapidly developed her oil resources to take advantage of the high world price. But in 1974, Beijing was only prepared to export oil to Japan, Hong Kong, the Philippines and New Zealand with New Zealand's ambassador believing that the offer was made for political reasons.³⁷⁹ Prime Minister Rowling was interested in the proposal and set-up an interdepartmental committee. It was found that there were limited supplies of ironsands for export and that the titanium content made them unsuitable for the Chinese metallurgy industry. Similarly, the high wax content of Chinese crude precluded its refinement at the Marsden Point refinery at that time.³⁸⁰ Until these problems were resolved, refined products would be considered for importation, although China's refinery capacity was fairly limited.³⁸¹

The inaugural JTC talks took place in Wellington in April 1975 between officials from the Chinese Ministry of Foreign Trade and the Department of Trade and Industry.³⁸² Agenda items remained relatively unchanged over subsequent meetings and generally comprised:

1. Review of the Present Trade Situation
2. Technical Cooperation
3. New Zealand Exports to China
4. Chinese Exports to New Zealand
5. Shipping
6. Trade Promotion Activities

³⁷⁹ *South China Morning Post*, 25 November 1974, ABHS 950 40/11 Part 7

³⁸⁰ AATJ 7428 113/1 Part 8

³⁸¹ IC 22 438

³⁸² AATJ 7428 45/35/1 vol 2

The first meeting saw the tabling of draft texts for: 1) a trade marks agreement; 2) a MFN shipping clause for inclusion in the agreement; and 3) a standardized letter which the Chinese might submit for exclusion from New Zealand's shipping tax which was a source of considerable annoyance to the Chinese.³⁸³ New Zealand expressed concern about the narrow range of goods exported to China and suggested other commodities China might wish to consider purchasing. China responded likewise. In discussions on Tallow, the Chinese delegation indicated that they bought tallow only from New Zealand, Australia, and Canada. When asked why they did not buy from the United States the Chinese replied that the US was a 'first world' country; New Zealand belonged to the 'second world'. Wherever possible it was Chinese policy to promote trade with the 'second world' rather than the 'first world'. Moreover, Wellington had full diplomatic relations with China; Washington did not. In other words the trade with New Zealand was to a large extent governed by political factors.³⁸⁴

Despite New Zealand extending \$200,000 of special trade licences to China in 1974/75 and 1975/76, supplemented with \$25,000 of special handicraft licences in 1976/77, Chinese imports stagnated.³⁸⁵ Chinese Concerns about the growing trade imbalance were raised at the second JTC talks in April 1976. Imports of textiles were of particular concern to the Chinese, who feared that 1976 trade would be below that of 1974 or 1975 – a fear that was subsequently realised. New Zealand's response was that there was relatively little New Zealand could do at the time – the economy was in recession, with an adverse balance of payments position, and the worst terms of trade for thirty years. The Chinese appeared to accept that 'the New Zealand economic situation had not been conducive to trade development'.³⁸⁶ They also appeared reasonably relaxed about New Zealand's import licensing scheme because of its non-discriminatory nature, although they noted that the percentage of Chinese exports subjected to import licensing was quite high.³⁸⁷

By the time the third JTC talks came around in 1977, New Zealand's trade with China was in a very favourable position. Much of the discussion at the third round of JTC talks centered on the poor performance of China's exports instead of the expansion of New Zealand's exports.³⁸⁸ The

³⁸³ AATJ 7428 113/1 Part 6

³⁸⁴ IC 22 445

³⁸⁵ AATJ 7428 113/1 Part 10

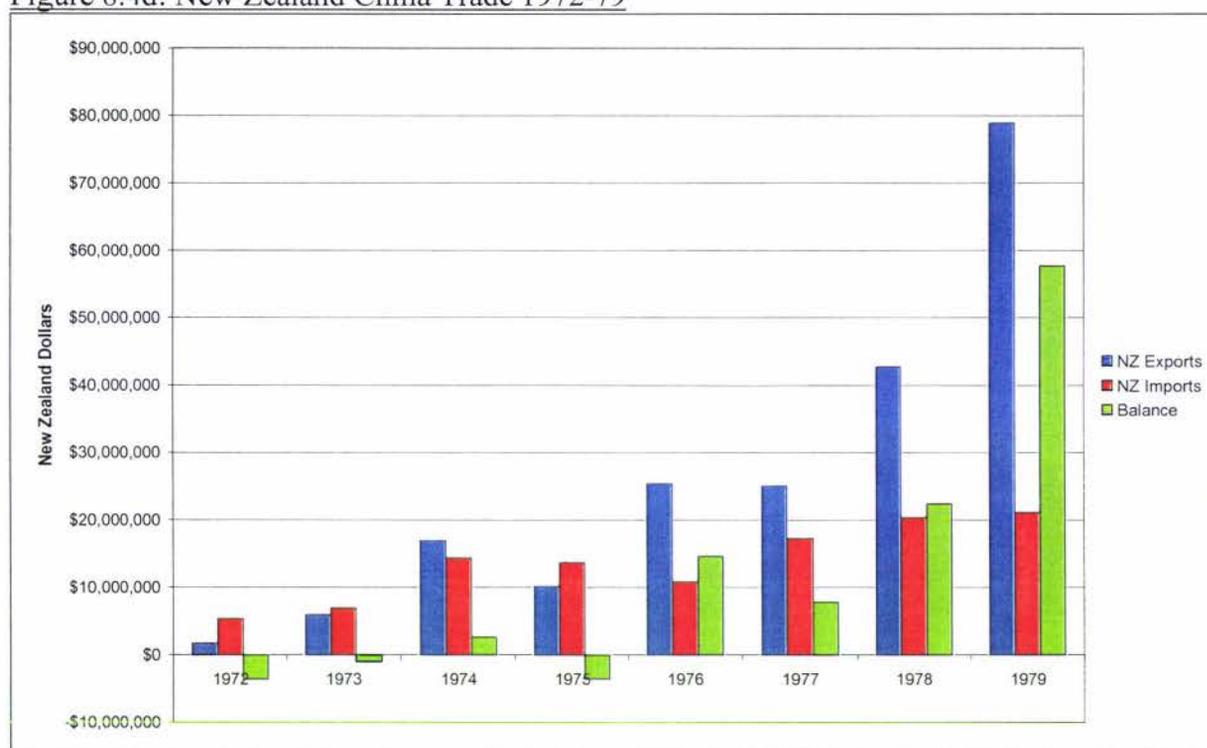
³⁸⁶ AATJ 7428 113/1 Part 10

³⁸⁷ AATJ 7428 113/1 Part 10

³⁸⁸ New Zealand's Trade Commissioner in Beijing believed that Chinese concessions and initiatives in the areas of hides and skins and logs were largely responsible for the turnaround in the balance of trade, and it was therefore recommended that New Zealand not push for additional concessions in traditional exports. Similarly, it was not

Chinese acknowledged that New Zealand's economic problems³⁸⁹ and their own poor marketing were the major reasons for its languishing exports to New Zealand. Something that the Chinese did not acknowledge during the JTC talks was that in many cases, the minimum orders processed by Chinese producers was greater than could be absorbed by the New Zealand market.³⁹⁰ Moreover, China always serviced her larger export markets in Japan, North America, and Europe before attending to smaller markets like New Zealand.³⁹¹ The limited expansion in Chinese exports that did occur resulted from active promotion activities and visits to New Zealand by the trading corporations, although outside of textiles and tea it remained difficult to identify areas which possessed significant potential for exports to New Zealand.³⁹²

Figure 8.4d: New Zealand China Trade 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*, various editions. Data is for June years.

The fourth JTC talks held in Beijing in May/June 1978 followed a similar line to the third. China was continuing to expand her trade to achieve economic independence/self reliance with

recommended that Chinese attention be drawn to the difficulties in getting trading corporations to look at new exports. On average one enquiry per week received a 'not interested' response from the trading corporations. AATJ 7428 113/1 part 10

³⁸⁹ New Zealand's Trade Commissioner believed the Chinese saw this as a temporary situation. AATJ 7428 113/1 part 10

³⁹⁰ McKinnon, J. (1999). 'Breaking the Mould: New Zealand's Relations with China' in Brown, B. (ed.). (1999). *New Zealand in World Affairs 1972-1990*, Wellington: Victoria University Press, p244.

³⁹¹ Woodfield, E.A. (1986). 'Trading Relationship' in Trotter, A. (1986). *New Zealand and China: Papers of the Twenty-First Foreign Policy School*, Dunedin: University of Otago, p106.

³⁹² AATJ 7428 113/1 part 10

the new policy of accepting credit/deferred payments being officially sanctioned. The Chinese delegation indicated its concern that the trade imbalance was intensifying and requested New Zealand give consideration to revising its tariff on textiles. In particular, the Chinese believed they were being disadvantaged by New Zealand's granting of Generalised System of Preferences (GSP)³⁹³ tariff to many of China's competitors (including Hong Kong, Taiwan, Malaysia, India, Pakistan, Thailand, Brazil) and in effect the Most Favoured Nation Status granted under the New Zealand-China trade agreement amounted to least favoured nation status. GSP status accorded imports a preference of up to 20% over MFN countries with over 90% of imports admitted free of duty. New Zealand indicated that it would give prompt and sympathetic consideration to granting China developing country status, qualifying China for the GSP tariff. Careful not to upset its friends, New Zealand consulted the United States, Australia, Canada, and the United Kingdom to see if they had any objections to New Zealand according China such status. They did not, and developing country status was accorded in September 1978, making New Zealand the first Western country to do so.³⁹⁴ Granting GSP status was one of the few steps that the Government of a market based economy such as New Zealand's could take to foster to Chinese exports.

In terms of other major developments in New Zealand-China trade, neither currency fluctuations nor the decline of the Export Commodity Fairs appeared to have a great influence. In the case of the former, the general trend was a continued appreciation of the Yuan relative to the New Zealand dollar as indicated below. While this would have aided New Zealand exporters and made Chinese exports more expensive, there is no reference to either in primary sources. Hedging mechanisms became available on major currencies from 1975, but these did not extend to the New Zealand dollar.³⁹⁵

³⁹³ The GSP tariff was similar to that employed by other countries under GATT and UNCTAD to give developing countries a hand up through lower tariffs. In the case of textiles, Chinese textiles were subject to a tariff of between 10% and 15% under MFN status whereas developing countries paid 0%.

³⁹⁴ AATJ 7428 113/1 Part 13. GSP status did not become operative until 13 October 1978.

³⁹⁵ ABHS 950 40/11 Part 7

Figure 8.4e: Yuan Per New Zealand Dollars 1972-1978



Source: Calculated from International Monetary Fund, *International Financial Statistics*, September 2002.

8.4.4 BARRIERS TO CHINA-NEW ZEALAND TRADE 1973-78

Most of the non-political barriers to China-New Zealand trade over the period 1954-72 continued between 1973 and 1978. Of these, shipping remained the greatest barrier in the period of front-door trading. No regular direct northbound shipping service between the two countries emerged. In 1973, exports to China continued to be sold FOB with the China National Chartering Corporation (CNCC) responsible for arranging collection from major New Zealand ports as required. Tallow and logs were frequent exceptions to this arrangement, being shipped CIF by New Zealand exporters. There were generally 6-9 CNCC sailings annually but difficulty in getting information on scheduling hindered New Zealand exporters.³⁹⁶ China's rapidly expanding trade meant that significant delays were experienced at already stretched Chinese ports. The vessel carrying New Zealand Forest Products first shipment to China in 1974 was forced to hove to off Shanghai for many weeks while waiting for a berth.³⁹⁷ Moreover, because New Zealand exports were shipped FOB, exporters were responsible for storage and other costs

³⁹⁶ IC 22 424. The number of sailings increased as exports of Forest Products increased.

³⁹⁷ IC 22 445. Attempts by boiler exporter Mason International Ltd to find an alternative carrier to the CNCC in 1974 proved unsuccessful - the CNCC merely suggested that the boilers should be transhipped in Hong Kong, IC 22 424.

resulting from delays on northbound shipping. Cargoes could sometimes wait for up to six months in store for a vessel to call.³⁹⁸

Southbound cargo from the PRC was usually transshipped from Hong Kong, Japan, or Singapore although occasional direct sailings were made by the CNCC. These ports were also highly congested resulting in importers being similarly disadvantaged to exporters. Importers generally knew the name of the initial carrying vessel from the mainland, but after transshipment they were unaware of the new vessel or when the goods would arrive in New Zealand. Because payment was effected at the time the goods left China, New Zealand importers could be out of pocket for a considerable period of time. As a result, regular New Zealand exporters began to write dates into contracts after which storage costs would fall to the appropriate trading corporation.³⁹⁹ Average transit times from the PRC to New Zealand for transshipped goods were two months compared to one month for direct shipments by the CNCC.⁴⁰⁰ Given this background, it is hardly surprising that many traders believed a regular direct shipping service would 'open the floodgates' for New Zealand sales to China.⁴⁰¹ However, the CNCC maintained that this was only possible if the volume of trade increased, and because China sold CIF and bought FOB, the CNCC effectively controlled shipping in and out of China.

Unfortunately these were not the only problems encountered with Chinese shipping. Problems with shipping logs for China between 1973 and 1975 became a major threat to New Zealand-China trade relations. A contract for pit-prop logs was signed in October 1973 after Joe Walding pressured a reluctant New Zealand Forest Service (NZFS) into supplying them. Surplus logs were rare and accordingly government policy was that export contracts for logs were not to be granted to new customers. This policy was waived in the interests of developing trade with China and because delays in constructing a new Tasman Pulp and Paper Company plant freed up supplies. On the Chinese side, the China Native Produce Corporation and Animal By-Products Import and Export Corporation (NPC) was similarly pressured to purchase the logs by the Ministry of Foreign Trade. During negotiations, NZFS emphasized the necessity of properly equipped ships to collect the logs. The first trial shipment of 10000m³ was to be collected by the CNCC from December 1973 to January 1974. Logs of the type finally agree were stockpiled at

³⁹⁸ ABHS 950 40/11 Part 9

³⁹⁹ AATJ 7428 113/1 Part 10

⁴⁰⁰ IC 22 445

⁴⁰¹ AATJ 7428 113/1 Part 6

Mt. Maunganui. Two ships sent by the CNCC were deemed unsuitable by the NZFS because they believed New Zealand watersiders would refuse to load them on safety grounds.⁴⁰²

Continued delays at Tasman meant that the stockpiled wood was still not required by the pulp mills. By this time the Chinese had located a suitable vessel, but it was much larger than was required. NZFS offered to divert additional saw logs from proposed exports to Japan and in August 1974 NZFS sent a representative to Beijing to finalise a revised contract. However, the inability of the NPC to confirm the uplift date and their insistence that the price be \$2/m³ lower than that obtained from the Japanese blocked agreement.⁴⁰³ The NPC then reverted to insisting the original contract be fulfilled. But by this time the pit props had been re-allocated to other buyers, and fresh production could not be supplied in time for the new uplift date of mid-September 1974, causing the NPC to allege that NZFS was attempting to renege on the original contract. Negotiations broke down, leading to the New Zealand Trade Commissioner to fear for the future of Chinese log purchases.⁴⁰⁴ Discussions by the New Zealand Export-Import Corporation (NZEIC) with the NPC confirmed the Chinese were sour about the breakdown of talks.⁴⁰⁵ In the view of the New Zealand Trade Commissioner, the lack of adequate shipping was clearly the major hurdle to increased New Zealand-China trade.

He was not alone in this view. The General Manager of the New Zealand Export-Import Corporation (NZEIC) also believed that shipping was the major problem. In particular, NZEIC found the CNCC difficult to deal with and they often threw up objections which could have sunk the negotiations by New Zealand exporters of forest products and hides and skins. In the latter case, the Trade Commissioner contacted the Ministry of Foreign Trade, described the situation and reported the efforts of the New Zealand and Chinese trade Ministers would come to nought unless the CNCC was more helpful. The intervention apparently worked as the problems with the CNCC evaporated. However, exporters still found they had little control over the shipment of goods. Problems with infested vessels were also common, together with watersiders refusing to load vessels.⁴⁰⁶

Even the Chinese trading corporations were frustrated with the CNCC. Chinatex purchased 5300 tonnes of wool in the latter half of 1975 to be delivered by the end of that year, but the

⁴⁰² IC 22 451

⁴⁰³ IC 22 438

⁴⁰⁴ IC 22 451

⁴⁰⁵ AATJ 7428 113/1 Part 8

⁴⁰⁶ AATJ 7428 45/35/1 Part 6

CNCC only delivered 1600 tonnes to the great annoyance of Chinatex. Its import manager stated that the inability of the Chartering Corporation to meet Chinatex's requirements was having a threefold detrimental effect. Firstly, delays caused disruption at Chinese mills (the 'end users') who were beginning to question the advisability of continuing purchases from New Zealand, when they could not be given definite arrival dates. Secondly, the Corporation itself had to pay for storage and insurance in New Zealand when ships failed to turn up within the time-span specified by contract. Thus the delay of the 'October' ship had cost the corporation \$80,000 and the non-arrival of the 'December' ship would undoubtedly cost more. Thirdly, the corporation faced a falling off in offers from New Zealand suppliers.⁴⁰⁷

These problems were not limited to wool - the Department of Trade and Industry believed that Australia may have been gaining trade in hides and skins at New Zealand's expense because of that country's better shipping links. New Zealand's Trade Commissioner was informed by the NPC that it was not prepared to take a chance on contracting for any more New Zealand hides because of uncertain and unreliable shipping dates.⁴⁰⁸ Continued complaints about the CNCC service from both New Zealand exporters and Chinese trading corporations resulted in Warren Freer securing agreement that New Zealand exporters could quote prices CIF using their own shipping instead of being compelled to quote FOB and use Chinese shipping. Problems arising from transshipment in Japan and Hong Kong were also clarified, while exemption from shipping taxation was mutually granted later in 1975.⁴⁰⁹ These agreements were confirmed at the 1976 JTC talks and while did not represent the silver bullet of a regular and direct shipping service, they went some way to improving shipping links.

Shipping problems were not limited to the Chinese side. The NPC complained about the difficulties in unloading New Zealand wool and sorting it according to the end users. It was not possible to load vessels according to the bill of lading because of: 1) the multiplicity of suppliers;⁴¹⁰ 2) the fact that more than one New Zealand loading port is often involved; and 3) Chinese orders were generally small quantities of around 50 bales. The CNCC requested wool be assembled at one port but the high internal freight costs brought about by New Zealand's transport regulations made this uneconomic. Multiple ports of call in New Zealand raised the

⁴⁰⁷ ABHS 950 40/11 Part 9

⁴⁰⁸ AATJ 7428 113/1 Part 6

⁴⁰⁹ ABHS 6944 HKG 84/3/1 Part 2 and ABHS 950 40/11 Part 6. Prior to this agreement, Chinese ships were liable for income tax at 5% of the gross outward freight and passenger fares while New Zealand ships in China were levied a 3% shipping tax on outward bound cargoes and passengers from 1 July 1974.

⁴¹⁰ At least 14 New Zealand businesses were selling wool to China in 1975. AATJ 7428 113/1 Part 9

cost to the CNCC.⁴¹¹ There were also occasional problems of incompatibility of cargoes due to the low volume of freight and what the CNCC described as high New Zealand port charges. A delegation from the CNCC visited New Zealand in April/May 1976 in an attempt to solve the problems loading wool and appears to have largely succeeded by allocating one bill of lading per contract and colour coding of bales to aid identification.⁴¹² During a meeting with the CNCC, the Department of Trade and Industry again emphasized the need for a regular service between New Zealand and China, but to no avail.⁴¹³

Wellington hoped that many of the shipping problems could be rectified with the establishment of the Shipping Corporation of New Zealand (SCONZ). In particular, the Department of Trade and Industry thought the SCONZ could share the New Zealand-China route with the CNCC and recommended the General Manager of SCONZ visit China in 1975. A further promising improvement was the signing of a shipping agreement in May 1976 that extended most favoured nation status to ships, crews, cargoes and tonnage dues.⁴¹⁴ Discussions continued into 1977 with the CNCC maintaining that the 1000 tonnes of cargo exported from China to New Zealand per month did not justify a direct service. It had no objection to SCONZ commencing a regular service but noted that the Chinese Ministry of Foreign Trade stipulated that the CNCC would carry all export cargo. Without this return freight, a SCONZ service to China would not be viable. As a potential compromise, in 1978 the CNCC suggested that it would refer any excess cargoes to SCONZ and would allow SCONZ to carry southbound Chinese exports providing SCONZ keep it informed of space available on both its north and southbound services. From SCONZ's perspective, this arrangement would not be sufficient to justify a regular direct service, but would permit a supplementary service as required.⁴¹⁵

Fortunately, by 1977 ships from the rival state-owned China Ocean Shipping Company (COSCO) began to appear on New Zealand's coast. COSCO vessels were Chinese owned rather than being chartered and were of superior quality to those chartered by the CNCC. The arrival of COSCO ships considerably reduced problems in shipping, especially in forest products, by reducing the perennial problem of workers refusing to work poor quality chartered vessels. COSCO also operated a container service from Shanghai to Australia which they would consider extending to New Zealand. These developments considerably reduced the frequency and

⁴¹¹ AATJ 7428 45/35/1 Part 6

⁴¹² AATJ 7428 113/1 Part 10

⁴¹³ AATJ 7428 45/35/1 Part 6

⁴¹⁴ AATJ 7428 113/1 Part 10

⁴¹⁵ AATJ 7428 113/1 Part 10

seriousness of shipping difficulties towards the end of the front-door period. However, the ongoing lack of a regular direct shipping service remained the biggest hurdle to increased New Zealand-China trade.⁴¹⁶

The New Zealand Forest Service's experience also demonstrated how particular the Chinese were that contracts were carried out to the letter. A good record of contract completion was often a pre-requisite for continued or increased trade. Moreover, trading corporations were prepared to pay higher prices to suppliers who had a history of meeting contract terms and providing quality product. Friendship and reliability were the keys to successful business relations with Chinese Corporations.⁴¹⁷ Such requirements did not appear to be reciprocated, however. New Zealand importers often reported that Chinese corporations accepted orders for unavailable products.⁴¹⁸ In a similar vein, one New Zealand importer expressed concern about the quality of Chinese plastic moulding machines and the reluctance of China National Machinery Import & Export Corporation to resolve the issues.⁴¹⁹

New Zealand's trade protection measures continued to be reduced between 1972 and 1974. By September 1974, the restrictions on major Chinese imports were:⁴²⁰

Table 8.4a: NZ Trade Protection Applicable to Major Chinese Exports (CDV)

<u>Product</u>	<u>Import Licensing Provisions</u>	<u>Tariff Rates</u>
Tea	Exempt	Free on packages of 2.26kg or greater
Pig Bristles	Exempt	Free
Cotton fabrics	Exempt	5% unbleached, 10% bleached or died or printed
Textile Fabrics	Exempt	Mainly 15%
Crude animal materials	Exempt	Free
Made-up articles of textile materials	120% of 1973 licences	22.5%
Tulle, lace, embroidery etc	Exempt	25%
Clothing	120% of 1973 licences	Mainly 65%
Musical instruments, phonographs and records	Exempt	20%

⁴¹⁶ AATJ 7428 113/1 Part 11. In September 1978 the SCONZ notified the CNCC of its intention to operate a container service to Shanghai via Japan. While appreciative of SCONZ's attempts to improve shipping services, CNCC pointed out that southbound cargoes were limited to about 20 containers a month and such a service was therefore uneconomic. There was also the problem of serious congestion at China's ports, leading the CNCC to dissuade the SCONZ from commencing a service at that time.

⁴¹⁷ AATJ 7428 56/3/15 Part 1

⁴¹⁸ AATJ 7428 45/35/1 Part 6 and AATJ 7428 113/1 Part 10

⁴¹⁹ AATJ 7428 113/1 Part 6

⁴²⁰ IC 22 424

Glassware	120% of 1973 licences	40%
Other vegetable oils and vegetable fats	Exempt	Free

The combination of import licensing and tariff rates remained a substantial hindrance to trade, albeit a reducing one as restrictions were eased. Where New Zealand exporters attempted to introduce new products to the Chinese market, they often experienced great difficulty. Busy trading corporations generally did not respond favourably to new products and the inability of exporters to contact end users removed that potential avenue. ‘Special effort’ was required and usually involved exceptionally long and tedious negotiations, providing evaluation samples, and extraordinary patience on the part of the exporter. Trading corporations often came in and out of markets as finances and market conditions allowed, causing considerable frustration to exporters such as the NZEIC.⁴²¹ The problem of New Zealand firms undercutting each other’s prices also remained a problem. In particular, the NZEIC suggested that trade in hides and skins was being hindered by brokers, most of whom were allegedly foreign owned and disinterested in New Zealand’s welfare, selling below global prices. It recommended an industry-wide approach with one nominated seller to the Chinese, no doubt preferring to act in this capacity itself. At the same time, New Zealand’s Trade Commissioner was concerned about individual firms flooding Chinese Corporations with differing products and prices.⁴²² Exporters had difficulty establishing what their wool, logs, and skins were being used for and therefore had little idea as to whether what they were supplying was what was needed. If the product supplied was incorrect, sales could halt with no explanation.⁴²³

From an operational perspective, problems were developing in managing the development of trade between New Zealand and China. A shortage of manpower within both the Department of Trade and Industry and Ministry of Foreign affairs caused problems at times. Only one Trade and Industry officer was available to escort Vice Minister of Trade Chen Chieh’s visit in 1974 with the end result being that one day of the visit turned into a ‘fiasco’ when it was high-jacked by a self-interested New Zealand businessman.⁴²⁴ The arbitrary split of responsibilities between the two organisations also sometimes proved troublesome.

⁴²¹ IC 1 116/1 Part 1

⁴²² AATJ 7428 45/35/1 PART 6

⁴²³ ABHS 6944 HKG 84/3/1 Part 2

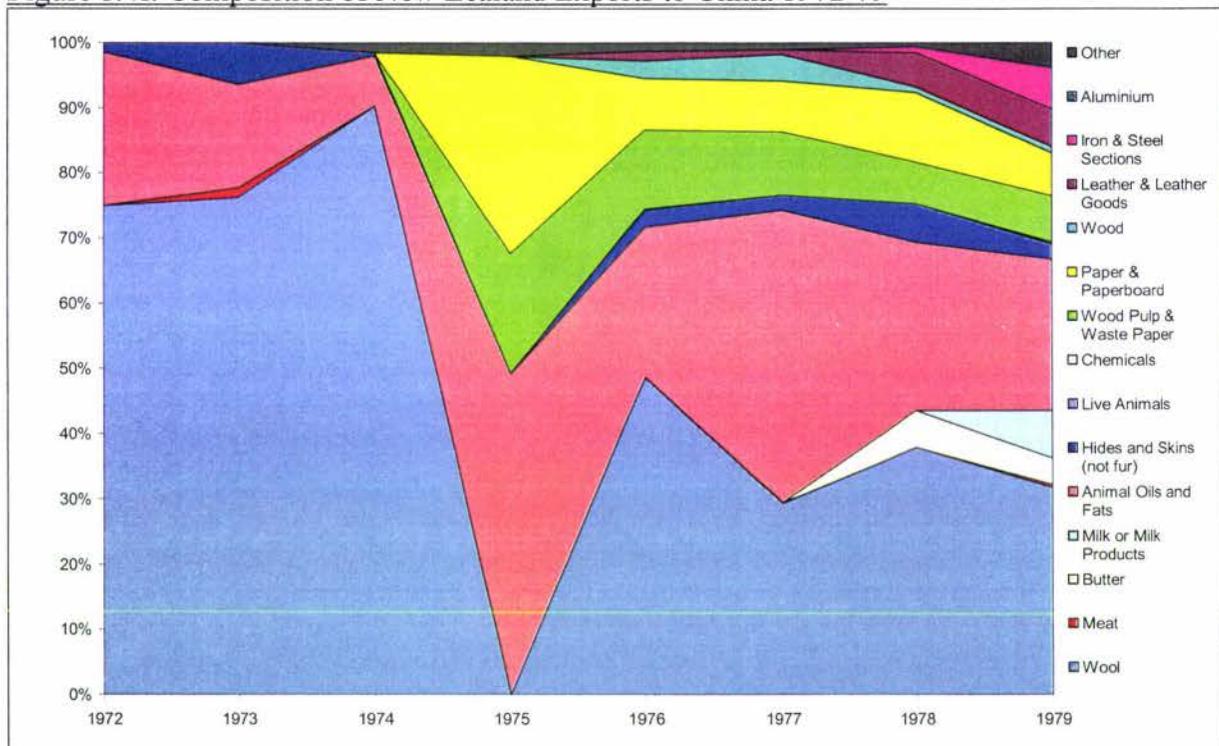
⁴²⁴ ABHS 950 40/11 Part 6

Aside from the above, the other great hindrance to trade was the inability of New Zealand exporters to supply enough of the commodities demanded by the Chinese. Such situations existed at various times for forest products, steel, aluminium, and tallow as discussed in the next sub-section.

8.4.5 NEW ZEALAND EXPORTS 1973-78

Once again, much of New Zealand's export performance can be explained by trends in individual export commodities, particularly wool, tallow, and forest products. Of these, the most striking aspects of New Zealand exports to China between 1973 and 1978 were a general diversification and a temporary halt to wool exports in the June 1975 statistical year.

Figure 8.4f: Composition of New Zealand Exports to China 1972-79

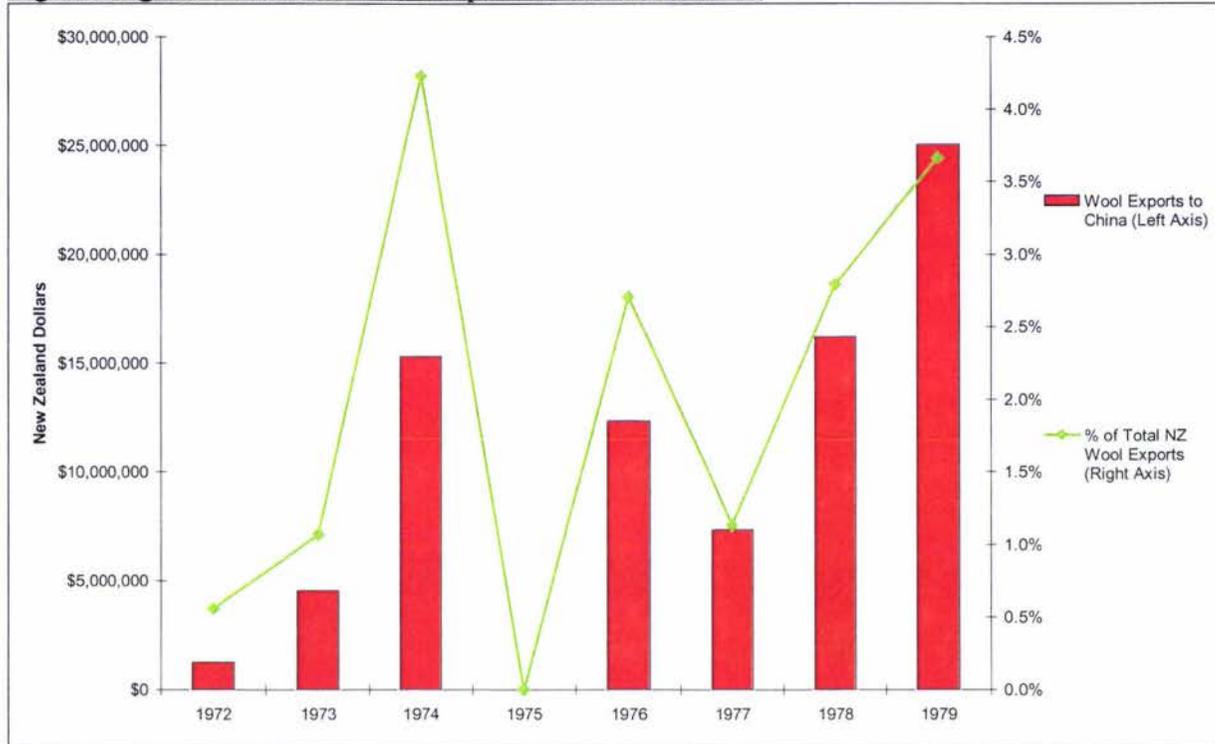


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Wool

New Zealand wool remained an essential input to the Chinese hand knitting yarn industry, and to a much lesser degree the Chinese paper-making industry from 1973 to 1978. Expectations were that this trade would increase in line with China's population and standard of living. However, China remained a relatively small player in the market for New Zealand wool with purchases peaking at 4.2% in 1974. Although wool remained the largest export to China, its importance declined from 76.3% for the June 1973 year to 23.18% for the year to June 1979.

Figure 8.4g: New Zealand Wool Exports to China 1972-79



Source: NZ Department of Statistics, *External Trade Statistics* and *Official Yearbook*. Data is for June years.

In absolute terms, wool exports to China increased hugely in 1973 and 1974 following diplomatic recognition, but they completely ceased in the 1975 season (see 8.4g), resulting in a sharp drop in New Zealand’s total exports to China. A combination of four factors explain the cessation of Chinese wool purchasing: 1) non-alignment of the statistical/financial periods in the two countries; 2) New Zealand’s Ambassador to Beijing reported that the Chinese may have been delaying purchases of imports until the 1975 calendar year due to balance of payments problems in 1974;⁴²⁵ 3) sales of Chinese woollen goods were down in 1975 reducing the derived demand for New Zealand wool;⁴²⁶ and 4) the Chinese did actually buy in early 1975 but shipping delays meant that the goods were not physically exported until the 1975-76 statistical period.⁴²⁷ The Manager of the import arm of the China National Textiles Import-Export Corporation (Chinatex) stated that this re-entry was in accordance with the request of New Zealand Minister of Agriculture, Colin Moyle, who had argued forcefully for the Chinese to re-commence their purchases on his visit in February 1975.⁴²⁸

⁴²⁵ ABHS 950 40/11/Pt 6 and ABHS 950 40/11/Pt 9.

⁴²⁶ *The Dominion*, 18 June 1975

⁴²⁷ AATJ 7428 113/1 Part 11

⁴²⁸ ABHS 950 40/11/Pt 9 and IC 22 451.

In 1975 the Wool Marketing Corporation (WMC) began its efforts to secure a long term purchase agreement, with assistance from Moyle. Such an arrangement had benefits to both parties. Chinatex had become disenchanted with the shipping arrangements provided by the CNCC and were unhappy at having to deal with a number of New Zealand companies when purchasing wool. Purchasing from the WMC could provide the price stabilisation and shipping facilities Chinatex were seeking. From the New Zealand side, a long term agreement would remove some of the volume and price volatility that had typified the trade. A March 1976 Cabinet Economic Committee approved the WMC entering into negotiations for an annual minimum quantity of at least 25,000 bales; and directed the New Zealand delegation to the 1976 JTC talks to pursue the question of a long-term arrangement for the sale of wool to China.⁴²⁹ Despite the apparent advantages, Chinatex never agreed a long term arrangement, even when New Zealand offered to enter into a reciprocal arrangement for Chinese textiles.⁴³⁰ According to Beijing, a long term agreement was not a pressing matter.⁴³¹ However, when China needed to purchase wool, it would 'take note of its friendly relations with New Zealand and give prior consideration to purchasing [New Zealand] wool'.⁴³² As the prospects of a long term WMC arrangement diminished, Chinatex requested that New Zealand sellers arrange their own shipping to China wherever possible.⁴³³ Ultimately, it would seem that the Chinese viewed the convenience of buying from a single supplier subservient to their desire to achieve the best price on every occasion. Negotiations for a long term agreement were finally abandoned in August 1978.⁴³⁴

Much of the New Zealand wool sold in the 1974/75 season was purchased by the WMC as part of its intervention policy in times poor prices. The overall trend in prices is indicated below. Chinatex's purchases in 1977 declined in line with the significantly higher prices, before recovering dramatically in the June years to 1978 and 1979 as Chinatex accepted prevailing world prices.

⁴²⁹ ABHS 950 40/11 Part 9

⁴³⁰ IC 22 451

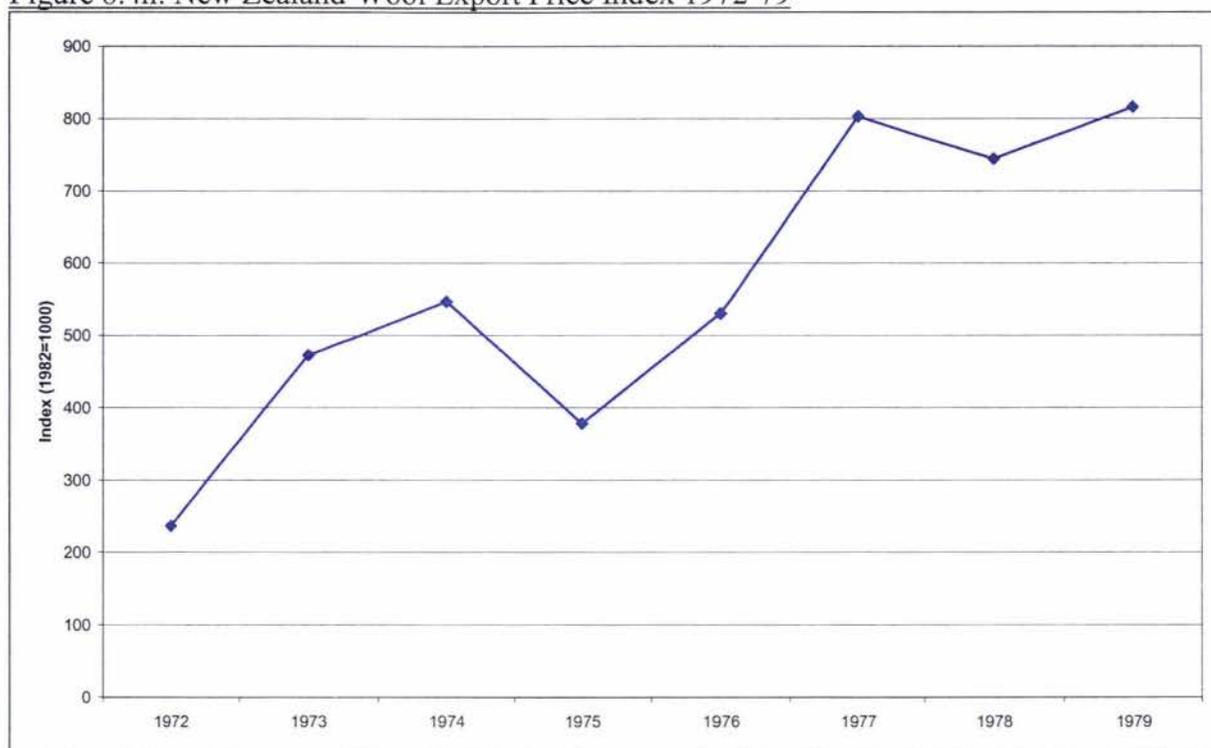
⁴³¹ ABHS 950 40/11 Part 7

⁴³² IC 22 445

⁴³³ AATJ 7428 113/1 Part 9

⁴³⁴ AATJ 7428 113/1 Part 13

Figure 8.4h: New Zealand Wool Export Price Index 1972-79



Source: NZ Department of Statistics, *Official Year Book*, various years. Data is for June years.

Forest Products

China made no secret of its long term deficiency in forest products in three main categories: 1) wood pulp; 2) paper and paperboard/linerboard; and 3) wood in the form of logs or sawn timber. Chinese purchases were largely governed by price considerations with New Zealand facing strong competition from Canada and Scandinavia. After promising but volatile trade between 1954 and 1972, no sales were recorded in June years of 1972-1974 (see figure 8.4i below). Reasons for this included a shortage of logs, shipping problems, problems in ascertaining the requirements of end users, and Japanese sources offering the Chinese New Zealand product at discounted prices.⁴³⁵ Sales of logs following shipping difficulties in 1973/74 only recommenced after the intervention by Warren Freer as Minister of Trade and Industry in 1975. Significant sales of pulp and linerboard recommenced in the year to June 1975 amidst Chinese assurances that they could take all the pulp and liner board New Zealand could supply, and expanded substantially through to June 1979 as supplies of logs became available.⁴³⁶ A lack of supply was the main factor constraining forest product exports.⁴³⁷ Bowaters (later Tasman Pulp and Paper

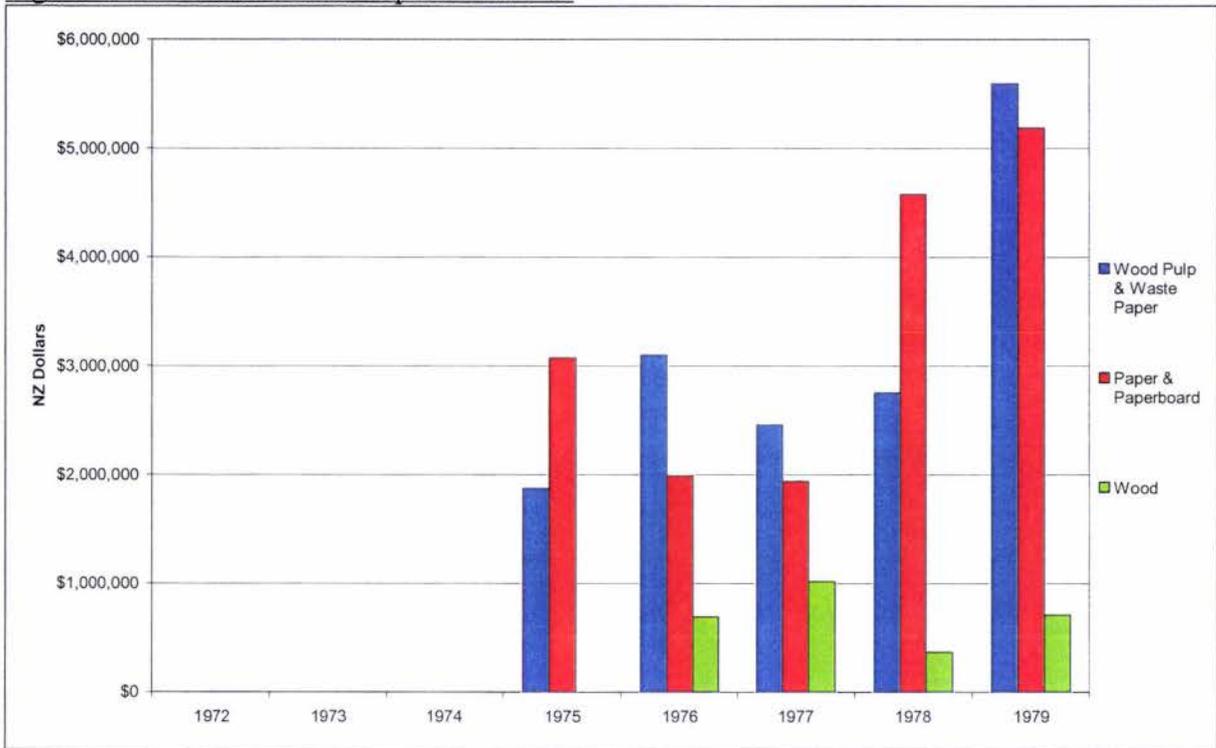
⁴³⁵ AATJ 7428 113/1 Part 8

⁴³⁶ *Evening Post*, 28 March 1974. Following Deputy Prime Minister Talboys' visit in 1977, contracts for 20,000 tons of unbleached liner board and 20,000 tons of pulp were signed. By 1977 New Zealand's Trade Commissioner thought that NZFP and Bowaters would not wish to increase their sales to China for fear of becoming too dependent on China, the third largest export market for these companies. ABHS 40/11 Part 9.

⁴³⁷ AATJ 7428 113/1 Part 11

Company Ltd), New Zealand Forest Products (NZFP), and Caxton Paper Mills were all active in trade with China.

Figure 8.4i: Forest Product Exports 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Animal Oils and Fats

Up to 1973 New Zealand and Australia were the main suppliers of tallow to China, but Canada increased its sales to such an extent that by 1975 its sales rivalled those of Australia and New Zealand.⁴³⁸ However, by 1977 New Zealand had expanded its tallow exports to such an extent that it was the principal supplier of tallow, with China taking approximately 30% of New Zealand's tallow exports.⁴³⁹ In the same year tallow receipts exceeded wool receipts. Prospects for the future seemed bright with tallow usage expected to increase as living standards rose.⁴⁴⁰ Colyer Watson and Company Ltd and Craig Mostyn and Charles Ashton Ltd dominated the tallow trade throughout the period. A Trade Commissioner's proposal for a long term arrangement with the Chinese met with little enthusiasm from these two suppliers.⁴⁴¹ Attempts by the Chinese to play the NZEIC off against Colyer Watson in 1977, by giving each firm the counter offer of the other, failed when the two companies realised what was happening and

⁴³⁸ IC 22 438

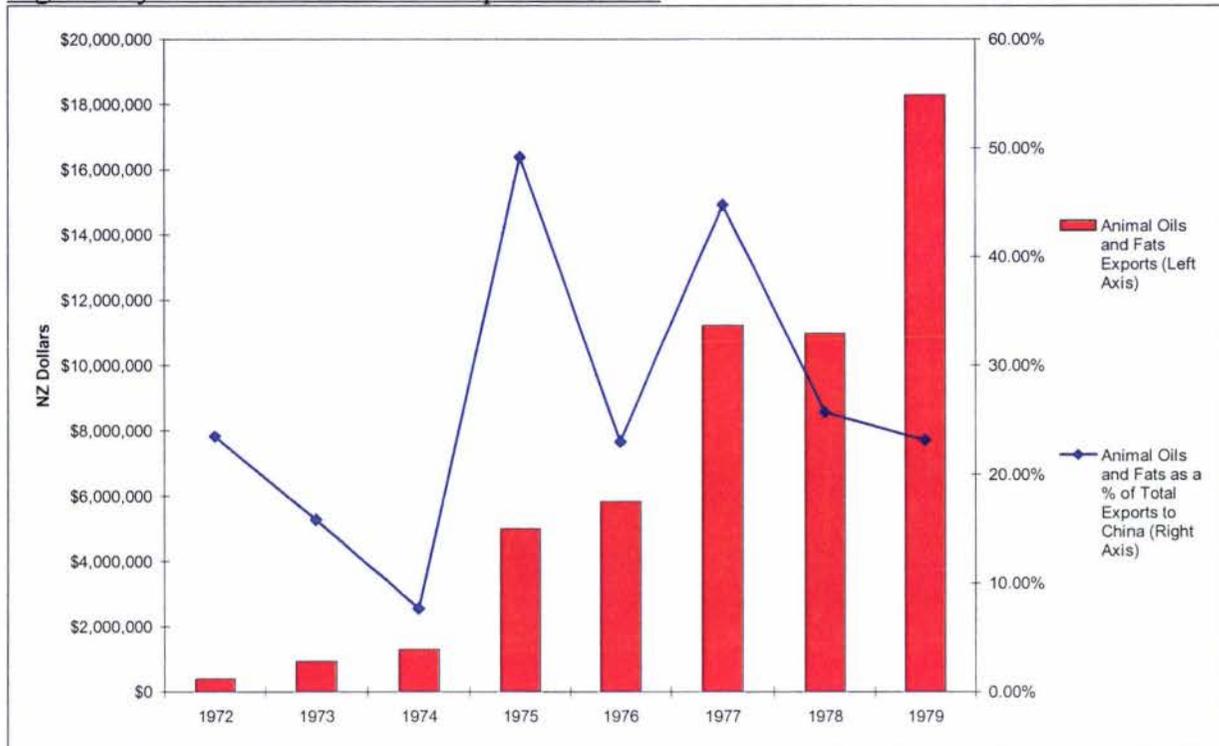
⁴³⁹ AATJ 7428 113/1 Part 11

⁴⁴⁰ IC 22 438

⁴⁴¹ ABHS 950 40/11 Part 7

cooperated to ensure a mutually acceptable conclusion. A small amount of casein was sold to China for the first time in the June 1978 statistical period. The overall trend is indicated below.

Figure 8.4j: Animal Oils and Fats Exports 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Hides and Skins

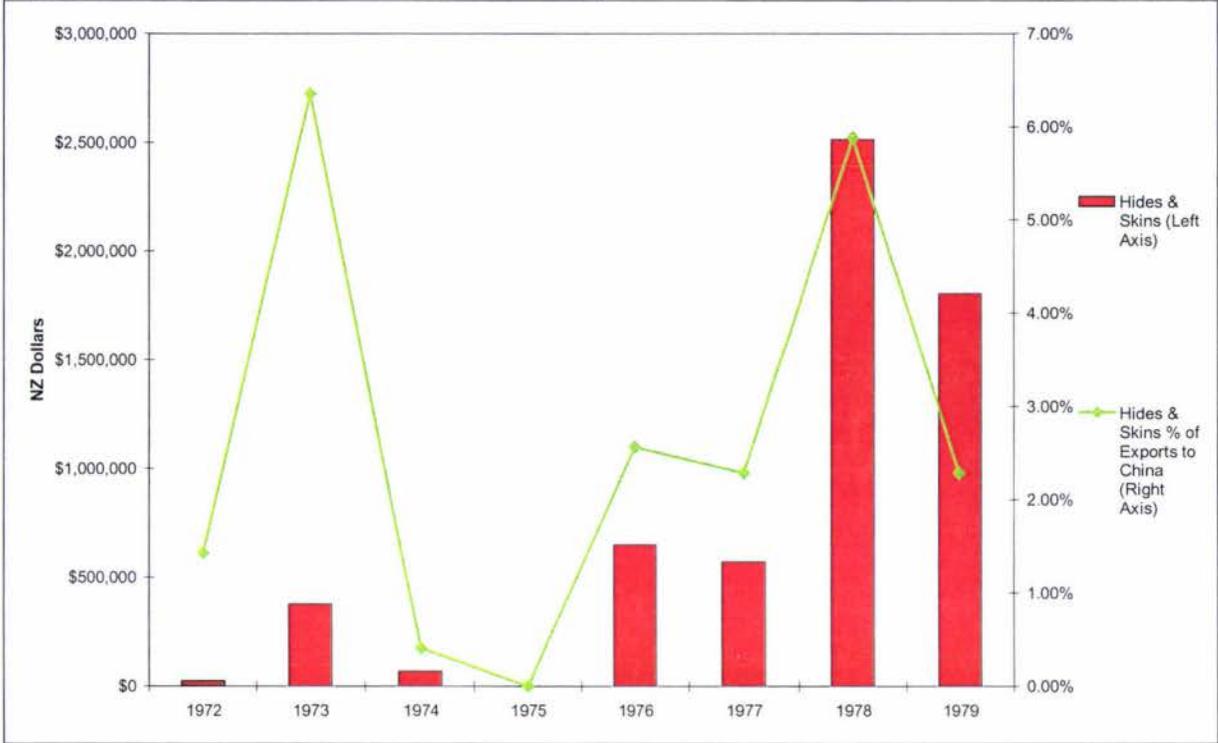
New Zealand hides and skins were usually transformed into leather products such as gloves and footwear. Prior to 1972, the Chinese preferred unprocessed hides in line with their preference to process locally.⁴⁴² After only a very small amount of sales in 1972, significant sales were made in 1973 before exports stopped again in 1975 due to uncertainty surrounding shipping arrival dates. In 1974 the New Zealand Trade Commissioner was told by one Chinese trading corporation that an end user was not prepared to take a chance on contracting for anymore New Zealand hides because of the difficulty in planning production around unreliable shipping dates.⁴⁴³ The year to June 1976 proved to be very significant. Not only did the value of sales increase hugely, but sales of semi-processed hides were achieved for the first time by Minister of Foreign Trade Warren Freer during his visit in mid 1975. Bio-security and durability problems in transshipping raw hides through Japan (the traditional route) saw the Chinese switch their purchasing to semi-processed hides wherever possible from 1976. The initiative was then taken up by NZEIC which overcame initial disappointment to record significant sales by June 1976.

⁴⁴² IC 22 445

⁴⁴³ AATJ 7428 113/1 Part 6

An excellent working relationship with the NPC resulted, no doubt helped by their willingness to purchase pigs bristles in return.⁴⁴⁴ Other firms involved in the trade were Colyer Watson and Co Ltd and A.J. Hollander Ltd. Although New Zealand prices were generally higher than Australian competition, the higher quality of the New Zealand product meant the NPC were generally willing to pay the premium, shipping difficulties aside.⁴⁴⁵

Figure 8.4k: Hides and Skins Exports 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Livestock

Livestock exports were irregular and not large over the period 1973-78. In May 1976 35 Angus cattle were exported to China to a total value of approximately \$35,000. This sale ran into veterinary difficulties with six of the cattle returning positive tests for Brucellosis leading to the Chinese to refuse payment. A prolonged dispute ensued, discouraging the Chinese from making further purchases until the year to June 1979.⁴⁴⁶

Dairy Products

Individual trading corporations occasionally expressed some interest in casein, milk powder and butter oil. But at the first JTC meeting, the Chinese Ministry of Foreign Trade noted ‘there was

⁴⁴⁴ AATJ 7428 113/1 Part 10
⁴⁴⁵ AATJ 7428 113/1 Part 11
⁴⁴⁶ AATJ 7428 113/1 Part 10

no scope for large sales of ... dairy products'. Dairy product consumption remained small between 1973 and 1978 with milk being consumed close to the point of production. Despite this, in 1977 \$2.4m worth of butter was exported followed by a further \$3.1m in 1978. Also in 1978, \$5.8 million worth of whole milk powder was sold after the visit of a New Zealand Dairy Board delegation to Beijing. Thus it seemed China's living standards had finally reached a level where trade in dairy products became a possibility. New Zealand butter and milk seemed to be preferred over EEC suppliers for use in the Chinese confectionary and biscuit manufacturing industries. Prospects for increased sales of dairy products to China looked promising.⁴⁴⁷

Steel

Chinese interest in galvanized sheets was recorded in 1973 although there seemed little prospect for the sale of billets. Nonetheless, the NZEIC continued to push for steel sales culminating in a small shipment of approximately 2,000 tonnes (\$355,000) of steel to China in the June 1978 statistical period. Larger sales would have resulted if it weren't for a shortage of reinforcing steel due to high domestic demand.⁴⁴⁸ The following year sales of shaped steel, steel rod, and steel tube were exported with a total value of approximately \$5 million. By 1979 steel exports represented about 6.3% of total New Zealand exports.

Meat

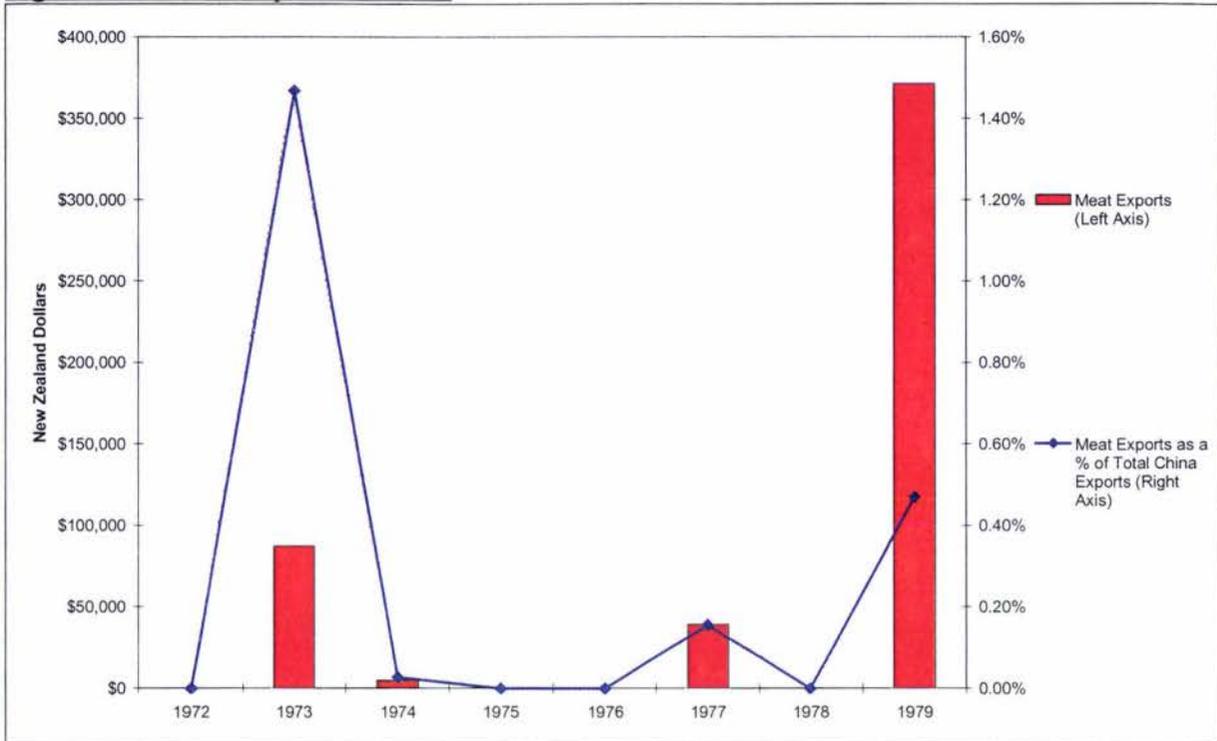
Beef samples were forwarded to the Native Produce Corporation in 1973 but little came of the evaluation. At the first JTC meeting, the Chinese noted 'there was no scope for large sales of meat'.⁴⁴⁹ The only real prospect for meat exports depended on New Zealand capitalizing on the increasing number of foreigners living in Beijing or staying in hotels. This strategy appeared to be reaping dividends by 1979, although meat exports remained a small proportion of New Zealand's exports to China.

⁴⁴⁷ IC 22 454

⁴⁴⁸ ABHS 950 40/11 Part 13

⁴⁴⁹ IC 22 454

Figure 8.41: Meat Exports 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Other Exports

The range of New Zealand’s exports to China increased slightly over the period. Significant efforts were made to interest the Chinese in New Zealand manufactured goods. New Zealand Aerospace Industries Ltd went to great lengths to interest Beijing in their FU24 crop dressing aircraft but to little avail. The only exports of manufactured products achieved were Mason International Ltd’s sale of 15 packaged boilers to a total value of \$230,000 in 1974 and Ernest Hayes Ltd’s sale of three sample wind pumps to a total value of \$6000 in 1977.⁴⁵⁰ Little success was made in attempts to sell agricultural machinery and seeds. At the first JTC meeting, the Chinese noted ‘there was no scope for large sales of ... apples’⁴⁵¹ while the export of kiwifruit was deemed commercially risky because China could become a serious competitor.⁴⁵²

8.4.6 NEW ZEALAND IMPORTS 1973-78

Chinese exports to New Zealand underwent a mild diversification during the front-door period, but the problem of identifying products of interest to New Zealand consumers remained. The dominance of textiles reduced slightly as imports of tea and other imports increased. Problems

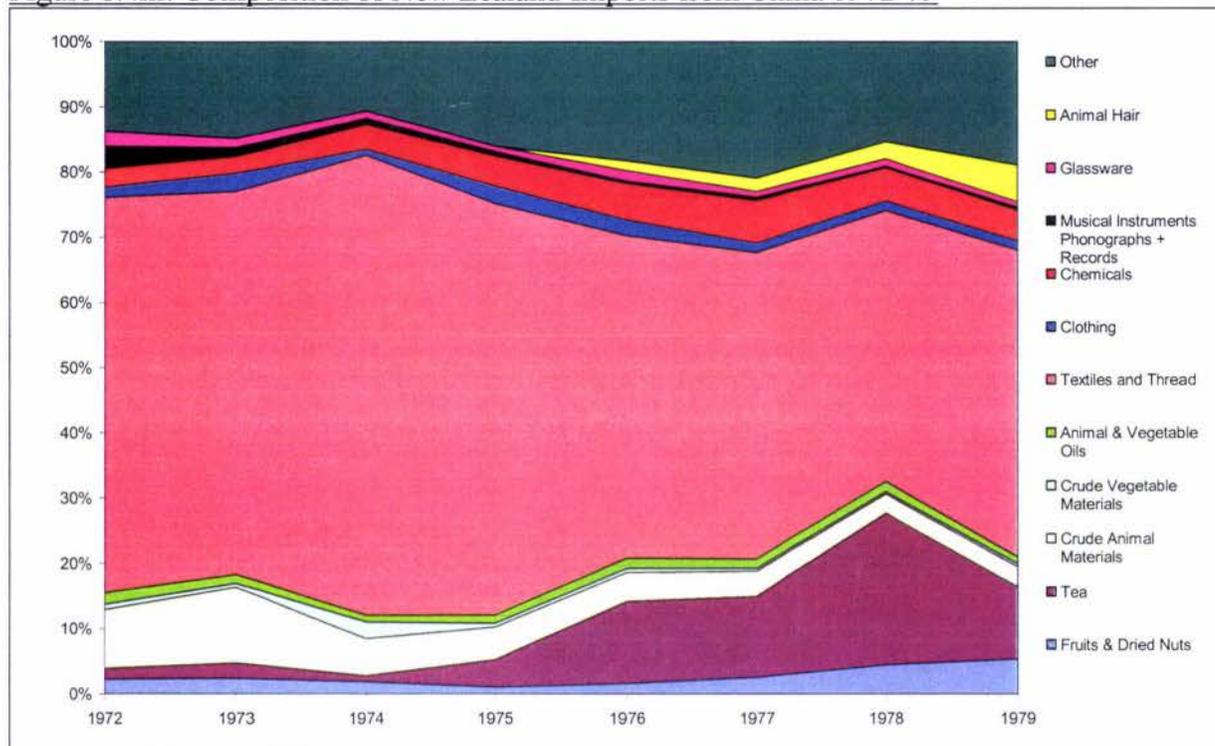
⁴⁵⁰ AATJ 7428 113/1 Part 9 and Part 11

⁴⁵¹ IC 22 454

⁴⁵² IC 22 438

of scale and the general lack of marketing of Chinese goods continued, although not to the same degree as the back-door period.

Figure 8.4m: Composition of New Zealand Imports from China 1972-79



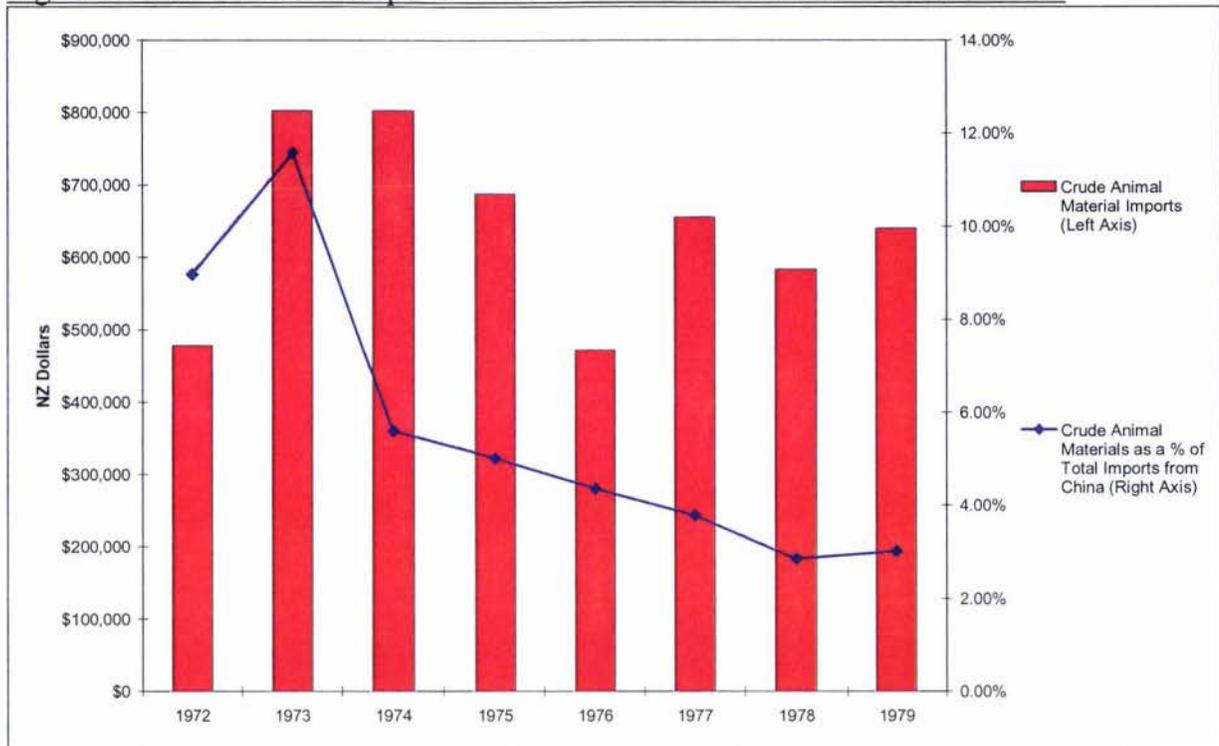
Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Crude Animal Materials:

The importance of crude animal materials, mostly pig bristles, declined in importance over the period 1973-78 as the New Zealand market reached saturation and synthetic alternatives became more attractive. Deterioration occurred despite the New Zealand Export Import Corporation becoming actively involved in the trade. NZEIC's initial attempts to secure supply proved unsuccessful due to shortages or the unwillingness of the Native Products Corporation to communicate. These problems evaporated soon after the Trade Commissioner raised the issue with the Ministry of Foreign Trade.⁴⁵³

⁴⁵³ AATJ 7428 113/1 Part 10

Figure 8.4n: New Zealand Imports of Crude Animal Products from China 1972-79

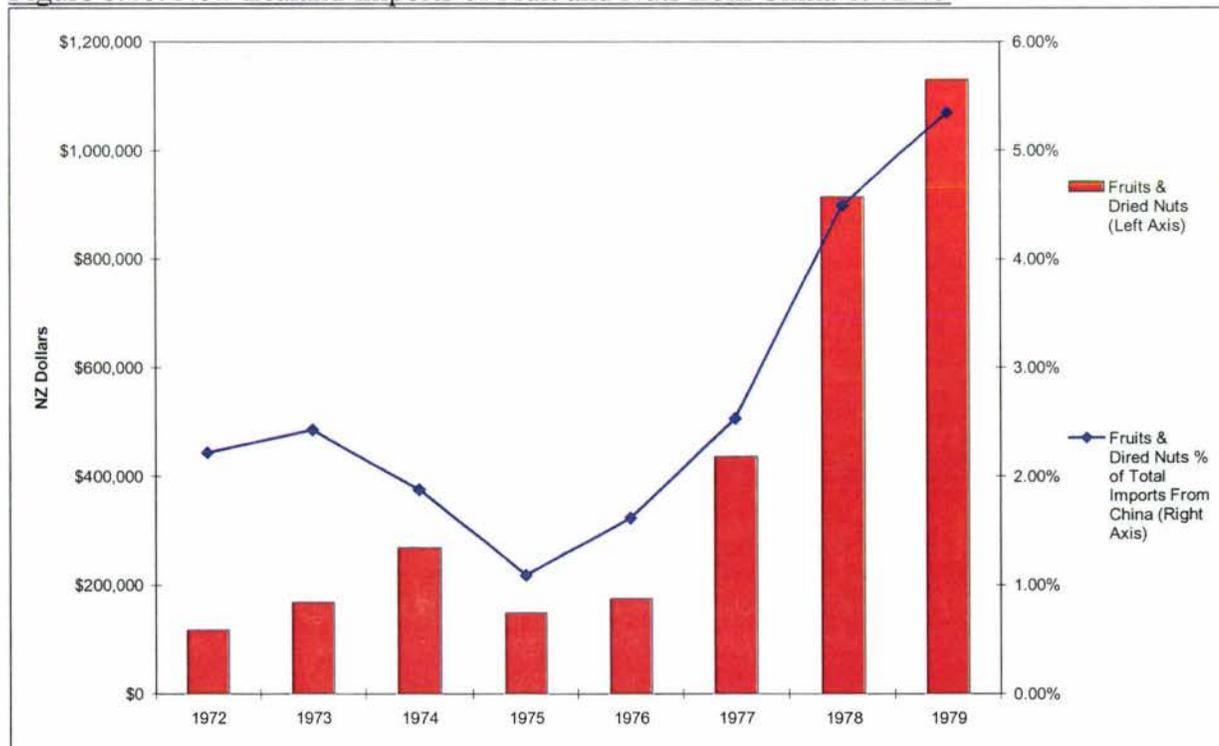


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Fruit and Nuts:

Imports of fruit and nuts continued to remain an important component of inward trade, especially from 1977.

Figure 8.4o: New Zealand Imports of Fruit and Nuts from China 1972-79

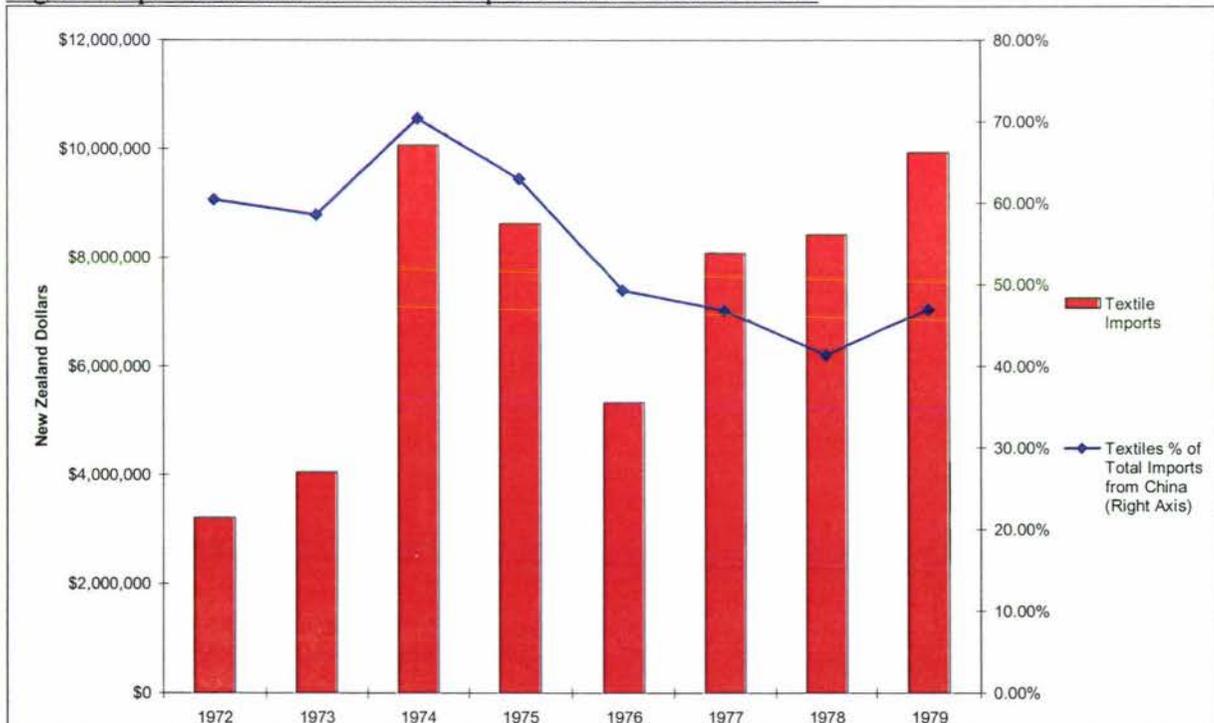


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Textiles:

China remained interested in increasing exports of textiles to New Zealand for the entire period with textile imports from China representing 5.5% of all textile imports in 1973/74, but a significant fall off in imports in the 1975 and 1976 statistical years caused considerable concern at the Chinese Ministry of Foreign Trade. New Zealand's Trade Commissioner believed part of the reason for the fall off was that the Chinese were unable or unwilling to supply the types of textiles demanded by New Zealand importers. Ron Howell of Vadco Traders suggested American buyers were willing to pay a higher price than other buyers resulting in a significant diversion of trade in that direction. Attempts by Chinatex to substitute woolen textiles were unsuccessful because of strong competition from New Zealand manufacturers. New Zealand officials also believed that Chinatex's interests were not always best served by the New Zealand sales agents selected.⁴⁵⁴ For their part, the Chinese thought the major reason for this was that many of China's competitors in the textile field were accorded developing country status thereby qualifying for New Zealand's lower GSP tariff. Importers supported this view, as did the Department of Trade and Industry, resulting in China being accorded developing country status in 1978. The rewards were immediate with 1979 textile imports increasing and returning to the levels achieved in 1974.

Figure 8.4p: New Zealand Textile Imports from China 1972-79



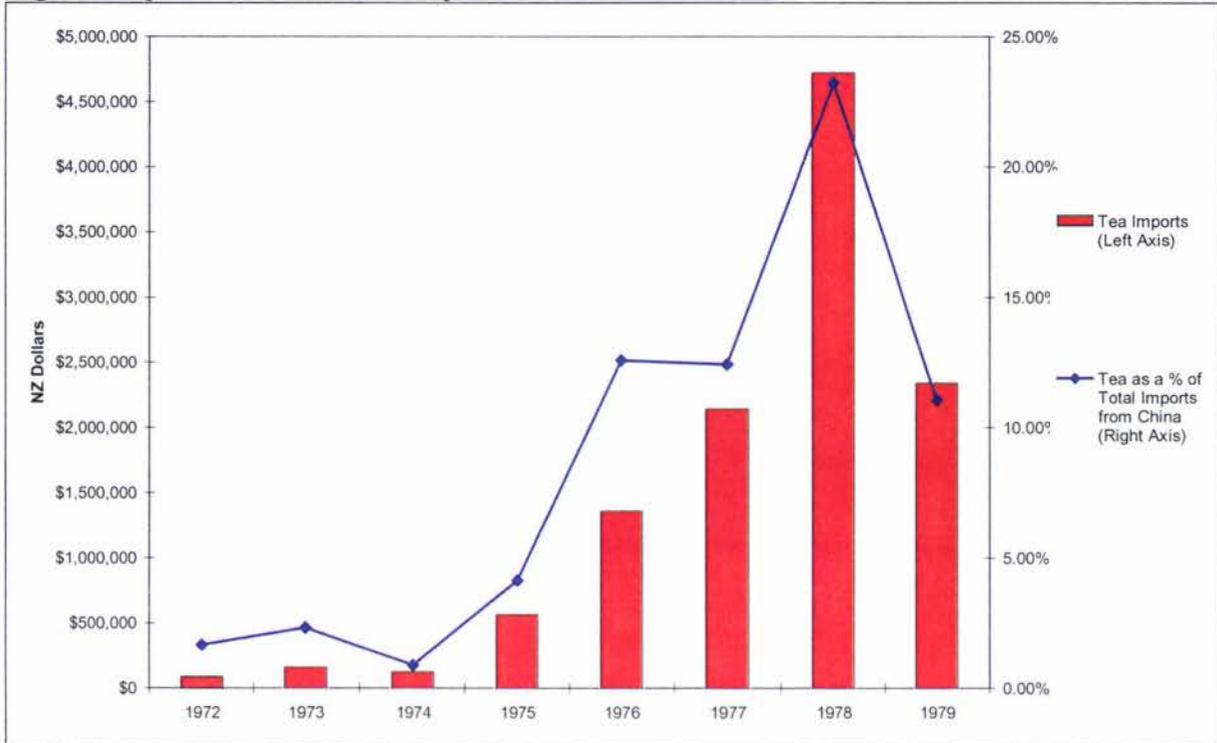
Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

⁴⁵⁴ AATJ 7428 113/1 part 10. McDonald Vadco remained the largest importers of Chinese textiles, although McCaul (NZ) Ltd were also a significant importer.

Tea:

Vadco Traders Ltd imported significant quantities of tea from 1975. The overall trend in tea sales is indicated in graphical form below. Tea imports peaked at 23.2% of total imports from China in 1978.

Figure 8.4q: New Zealand Tea Imports from China 1972-79



Source: NZ Department of Statistics, *External Trade Statistics*. Data is for June years.

Other Products:

China’s rapidly expanding oil exploration industry meant that from 1974 it could offer New Zealand petroleum products, including low octane gasoline and kerosene. Crude oil was also offered but was unable to be refined at Marsden Point.⁴⁵⁵ The significant of other imports remained relatively unchanged with specific imports including surgical instruments,⁴⁵⁶ car tools, paraffin wax, and ducks down.

⁴⁵⁵ IC 22 445

⁴⁵⁶ This trade developed as a result of a visit to Beijing by a group of New Zealand doctors in mid-1976. AATJ 7428 113/1 part 10

8.5 CONCLUSIONS

New Zealand-China trade recorded impressive growth in the front-door period. While significant growth would probably have occurred as a result of the natural expansion of both economies, average annual growth in total trade between 1973 and 1978 was twice that of the 1954-72 period.⁴⁵⁷ New Zealand's exports to China increased 618% while China's imports from all sources only increased 111%. On the return side, China's exports to increased 194% whereas New Zealand imports from all sources increased 135%.⁴⁵⁸ Of the OECD countries for which full data is available, New Zealand's exports grew faster than virtually any other country between 1973 and 1978.⁴⁵⁹ Given the centralised nature of China's economy, such extraordinary growth could not have occurred without considerable political goodwill towards New Zealand in Beijing.

Table 8.5a: OCED Trade with China 1973-78

Exports (date of recognition)	Average annual change					
	Exports		Imports		Total Trade	
	%	Rank	%	Rank	%	Rank
New Zealand (1972)	88.4%	1	34.9%	1	58.1%	2
Australia (1972)	66.9%	6	20.8%	7	45.2%	4
Canada (1970)	17.2%	16	11.7%	15	13.5%	16
Germany (1972)	40.9%	8	23.4%	4	34.2%	6
Denmark (1950)	39.4%	9	23.4%	5	16.2%	14
France (1964)	49.1%	7	14.9%	12	25.0%	10
United Kingdom (1950)	27.1%	13	18.1%	9	19.6%	11
Japan (1972)	37.2%	10	30.5%	2	33.7%	7
Finland (1950)	25.7%	14	13.9%	14	13.6%	15
Netherlands (1954)	72.6%	4	20.8%	6	34.7%	5
Norway (1950)	87.6%	3	17.6%	10	64.4%	1
Sweden (1950)	19.5%	15	18.9%	8	16.2%	13
Austria (1971)	71.7%	5	28.3%	3	31.9%	8
Belgium-Luxembourg (1971)	88.3%	2	14.6%	13	50.6%	3
Switzerland (1950)	36.2%	11	8.6%	16	27.6%	9
Italy (1970)	27.4%	12	16.9%	11	18.1%	12

Source: OECD, *International Trade by Commodities Statistics*, SITC Rev 2 Historical Series 1961-1990. Only OECD countries with full data for 1965-84 are included.

⁴⁵⁷ The respective average annual growth rates were 53.3% for 1973-78 and 26.8% for 1954-72.

⁴⁵⁸ See table 10.4b.

⁴⁵⁹ The United States, Ireland and Portugal actually grew faster. However, United States figures are distorted by the trade embargo while Ireland's and Portugal's figures are distorted by the fact that trade was virtually negligible prior to 1973.

The front-door period was particularly notable because the initiative for expanding New Zealand exports to China shifted from private businesses to the New Zealand Government. In many respects, the highly centralised nature of the Government and the greatly assisted efforts to increase trade with China. However, the options available were limited compared to a state trading nation such as China. Nonetheless, the Chinese Ministry of Foreign Trade made it clear to the New Zealand Ambassador that the reasons for the rapid growth in 1973 and 1974 were political. As with the period of back-door trading, political considerations remained the dominant factor governing bilateral trade. Numerous 'friendship' deals had been negotiated during the front-door-period as New Zealand was being rewarded for according the PRC diplomatic recognition, as opposed to being ignored or punished as it had been in the back-door period. As relations strengthened, particularly in relation to bilateral exchanges, the volume of trade increased rapidly. By the end of 1978, New Zealand's relations with the PRC were the equal of, if not superior to, virtually any other Western nation.

Table 8.5a.

New Zealand-China Trade Growth

June Years Ended	Total Two Way Trade (NZ\$)	% Change
1972	\$7,031,788	
1973	\$12,875,906	83.11%
1974	\$31,253,523	142.73%
1975	\$23,865,736	-23.64%
1976	\$36,207,745	51.71%
1977	\$42,302,335	16.83%
1978	\$63,077,616	49.11%
1979	\$100,025,697	58.58%

Sources: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Aside from political barriers, many of the hindrances to China-New Zealand trade experienced in the back-door period carried over to the front-door period. Foremost amongst these was the lack of adequate shipping. Problems in shipping logs to China in 1973/74 had the potential to hamstring New Zealand's burgeoning forest products trade. It was only through the combined efforts of traders, politicians, and officials from both countries that trade in forest products overcame this early hurdle. Thereafter, the Joint Trade Committee talks were instrumental in the rapid growth of New Zealand-China trade. By the end of the front-door period, New Zealand's exports had diversified into promising areas such as dairy products, metals, and newsprint while significant growth in tea and textiles propelled China's exports to record levels. China's huge

trade expansion and diversification demonstrated that Deng Xiaoping's economic policies embodied in the 'four modernisations' were beginning to take effect in 1978. Moreover, the transformation to a more market orientated economy promised significant further growth in foreign trade. New Zealand's highly favourable relations with China meant it was well placed to ride this wave.

9.0 1979 TO 1984: OPEN-DOOR TRADING

Political changes in China during 1978 and 1979 meant that the open-door period was the first in the history of New Zealand-China relations that political considerations played a secondary role to economic imperatives. After the excesses of the Cultural Revolution and the activities of the Gang of Four, there was a determined effort to usher in a new era of political stability and economic pragmatism. A central tenet of this new era was the continued modernisation of the Chinese economy in line with Zhou Enlai's 'four modernisations', largely through the large scale importation of foreign technology. New Zealand's favourable relations with the PRC meant that it was well placed to both assist and benefit.

9.1 NEW ZEALAND ECONOMIC POLICY AND PERFORMANCE 1979-84

With few exceptions New Zealand economic policy from 1978 to 1983 was a continuation of the ad hoc interventionism that had occurred since the National Government had come to power in 1975. 1984 was one of the great turning points in New Zealand history - the newly elected Labour Government embarked on a programme of comprehensive economic reform.

9.1.1 ENERGY CRISIS AND 'THINK BIG'

By 1978, New Zealand's economic situation had become perilous – the joint evils of stagflation and large balance of payments deficits were taking on a look of semi-permanence. In response the Government embarked on a series of 'think big' growth projects designed to combat the impact of the energy crisis and pull the country out of its economic hole. A second oil shock in 1979 provided further impetus to 'think big' projects. Labour problems plagued the projects but the more important question of whether the projects were competitive and an efficient use of resources was overridden by political imperatives. Economic conditions had changed substantially by the time the projects were completed in the early 1980s, rendering their usefulness dubious at best. However, had high oil prices remained high, history may have cast a far more favourable light on the Muldoon Government.

9.1.2 FURTHER CHANGES TO NEW ZEALAND'S PROTECTIONIST REGIME

The case for liberalising what had become an extremely uneven trade protection regime had become compulsive by 1978. However, instead of embarking on a comprehensive programme of liberalising, Muldoon adopted a programme of cautious liberalisation. His 1979 budget announced four major trade policy initiatives:

- (i) a relaxation of import licensing where local components were excessive in price;
- (ii) the tendering of some import licences for consumer goods;
- (iii) a broadening of the industry studies programme (the programme investigated industries that supposedly required high levels of protection);
- (iv) a modification of export incentives.

The initiatives were set in the context of the gradual phasing out of import licensing in favour of tariffs. Import licence tendering was seen as a method for testing if the protection was valid and if so, what level of tariff should prevail. The level of tariffs agreed under the industry studies programme demonstrated 'the Government's willingness to maintain high tariffs, by international standards, to support New Zealand manufacturers'.⁴⁶⁰ In spite of this, manufacturers began to accept lower levels of protection and 'a gradual and predictable movement towards the use of the customs tariff as the primary means of protection'.⁴⁶¹ Strengthened export incentives were justified as compensating exporters for the high cost of domestic inputs arising from continued domestic protection. Emphasis shifted from increasing exports to increasing foreign exchange reserves and the range of export market development expenditure eligible for the EMDTI scheme. By 1983 the liberalisation programme had largely been suspended 'in recognition of the effects of recession and the extent of potential import competition occurring through CER'.

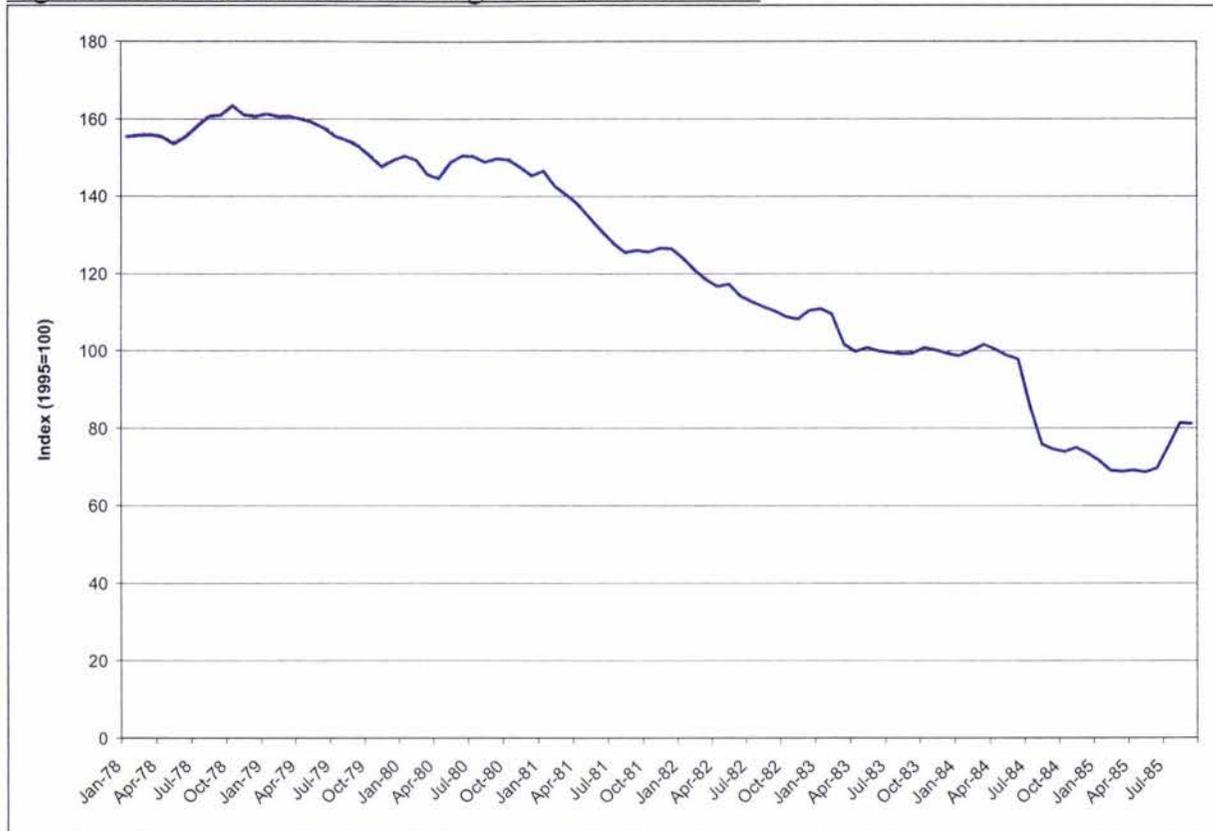
Labour's election victory in July 1984 signalled more rapid liberalisation. The dollar was immediately devalued (see figure 9.1a) and the removal of export incentives signalled.⁴⁶² Announcements on the rapid reduction of import licensing and tariffs quickly followed although their implementation was carried out in years after 1984.

⁴⁶⁰ *Financial Statement*, 1980.

⁴⁶¹ *Manufacturer*, 7 May 1984.

⁴⁶² The United States pressured New Zealand into signing the GATT Code on Countervailing Duties, effectively forcing the Government to remove export incentives by March 1985.

Figure 9.1a: New Zealand's Exchange Rate Index 1978-85



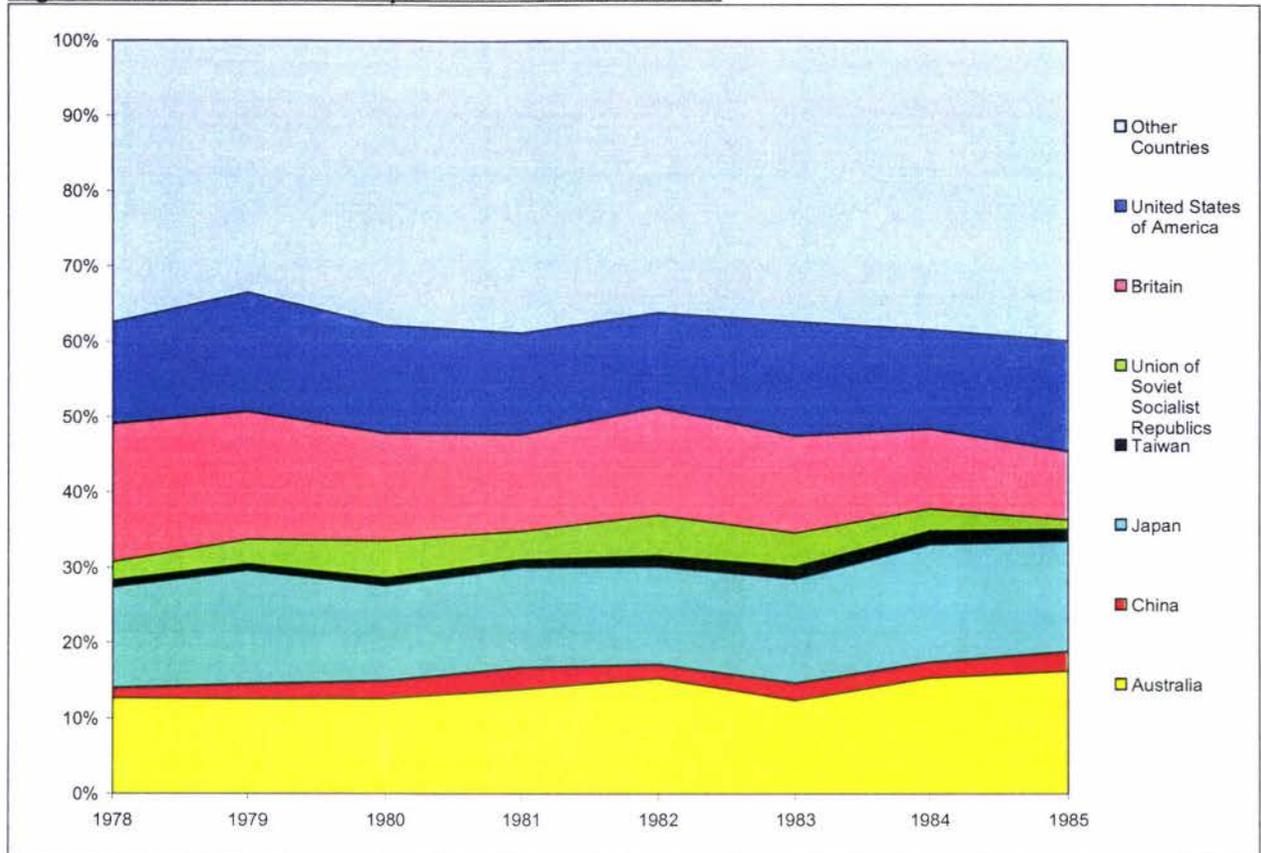
Source: International Monetary Fund, *International Financial Statistics*, September 2002.

9.1.3 TRADE DIVERSIFICATION

Despite a number of export incentive schemes, the pace of New Zealand's trade diversification continued to slow in the open-door period. By the 1970s it had become clear that the NAFTA agreement signed in 1966 was more a reduction of barriers agreement than a genuine free trade agreement. The frustrations both countries faced in dealing with other trading blocs and the second oil shock in 1979 provided both New Zealand and Australia with impetus to reach a wider agreement. Negotiations for a new agreement commenced in 1980 despite Prime Minister Muldoon being less than enthusiastic.⁴⁶³ His reservations and those of various industry groups on both sides of the Tasman delayed but ultimately did not prevent the signing of a Heads of Agreement in December 1982, with the final Closer Economic Relations (CER) agreement being signed in March 1983. The agreement was held up as a model agreement around the world and resulted in a significant increase in trans-Tasman trade, particularly in the late 1980s and 1990s. CER's effects on New Zealand-China trade were limited by the disparate commodities exported to each country.

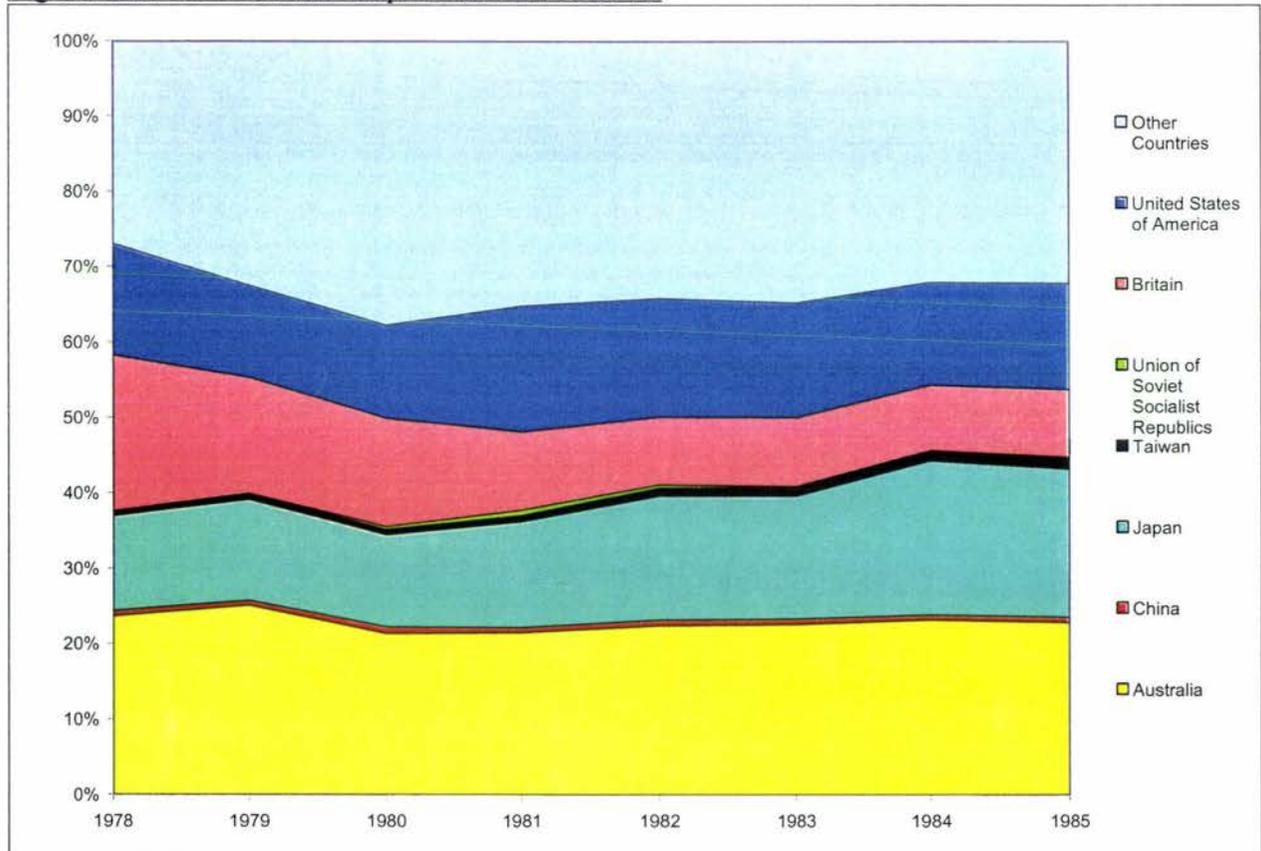
⁴⁶³ Gustafson, B. (2000). *His Way: A Biography of Robert Muldoon*, Auckland: Auckland University Press.

Figure 9.1b: New Zealand Export Destinations 1978-85



Source: NZ Statistics Department, *External Trade Statistics*, various years.

Figure 9.1c: New Zealand Import Sources 1978-85

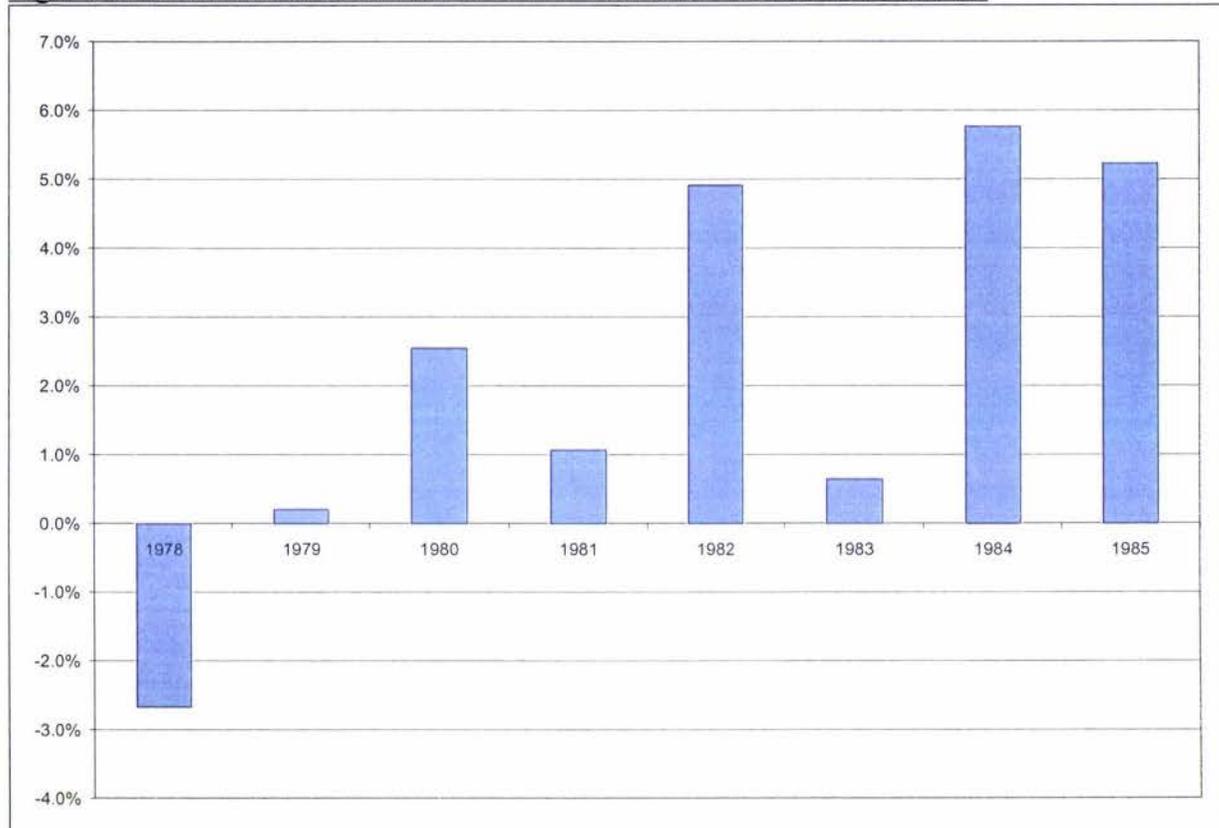


Source: NZ Statistics Department, *External Trade Statistics*, various years.

9.1.4 NEW ZEALAND'S ECONOMIC PERFORMANCE

Real economic growth recovered from the 1978 recession to record significant growth by 1981. It remained positive throughout the remaining years of the study period with 1984 being a particularly positive period. Imports expanded accordingly.

Figure 9.1d: New Zealand Growth in Real Gross Domestic Product 1978-85

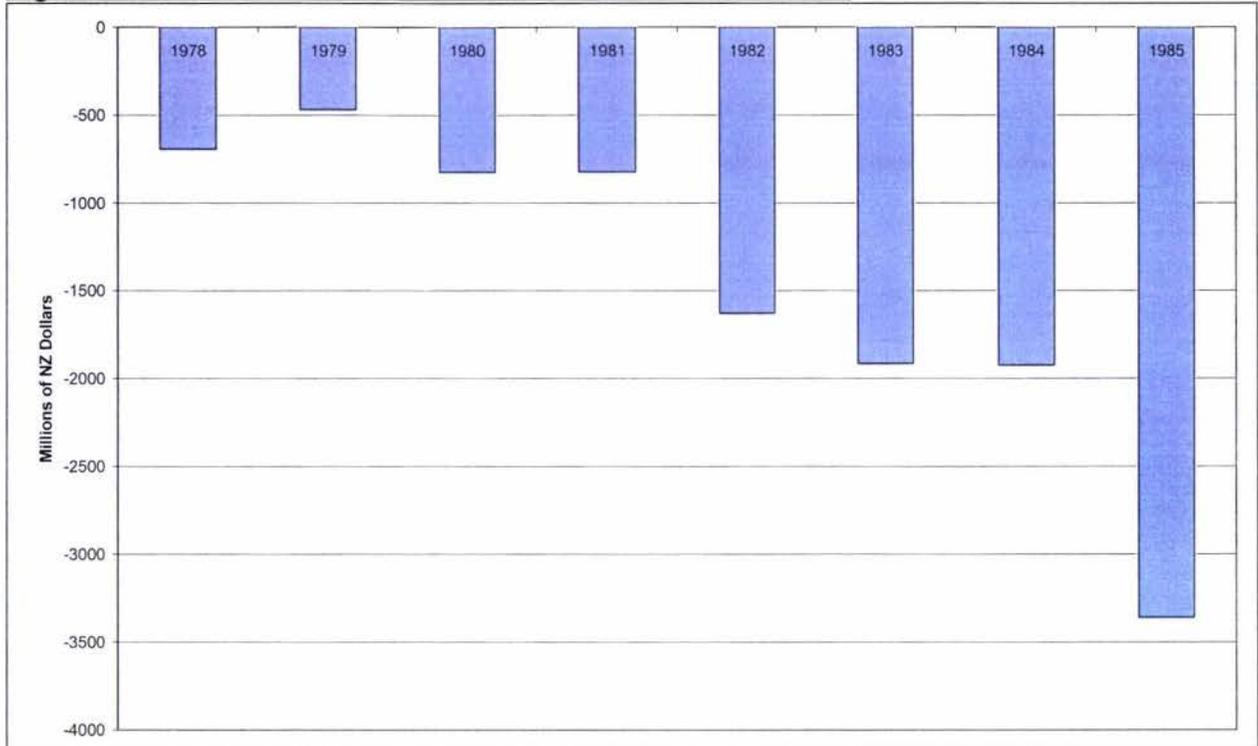


Source: Statistics New Zealand, various series. March Years at 1991/92 prices.

However, the balance on current account remained negative and continued to deteriorate. By 1985 the deficit was so large that the incoming Labour Government believed it had little option but to float the New Zealand dollar. Moreover, the 1980 budget deficit of NZ\$1 billion had blown out to almost NZ\$2.8 billion by 1985.⁴⁶⁴

⁴⁶⁴ *Budget*, 1980 and 1985. Figures are for March years.

Figure 9.1e: New Zealand's Balance on Current Account 1978-85



Source: Statistics New Zealand, by private request. Note that the composition of the Balance of Payments has changed substantially over time whereas the Balance on Current Account has remained consistent.

After a significant improvement in New Zealand's terms of trade in 1979, another rapid deterioration followed with the downward trend persisting into 1985, although not quite reaching the low of 1976.

Figure 9.1f: New Zealand's Terms of Trade 1978-85



Source: Statistics New Zealand, *INFOS*. Data is June years.

Despite Muldoon's attempts at gradual structural change, the country's national debt and income disparities with other countries continued to grow at an alarming rate. While significant reforms were implemented by the Muldoon Government between 1979 and 1984, the period is best characterised as one in which opportunities to radically change the structure of the economy were forgone.

9.2 CHINESE ECONOMIC POLICY AND PERFORMANCE 1979-84

9.2.1 THE FOUR MODERNISATIONS

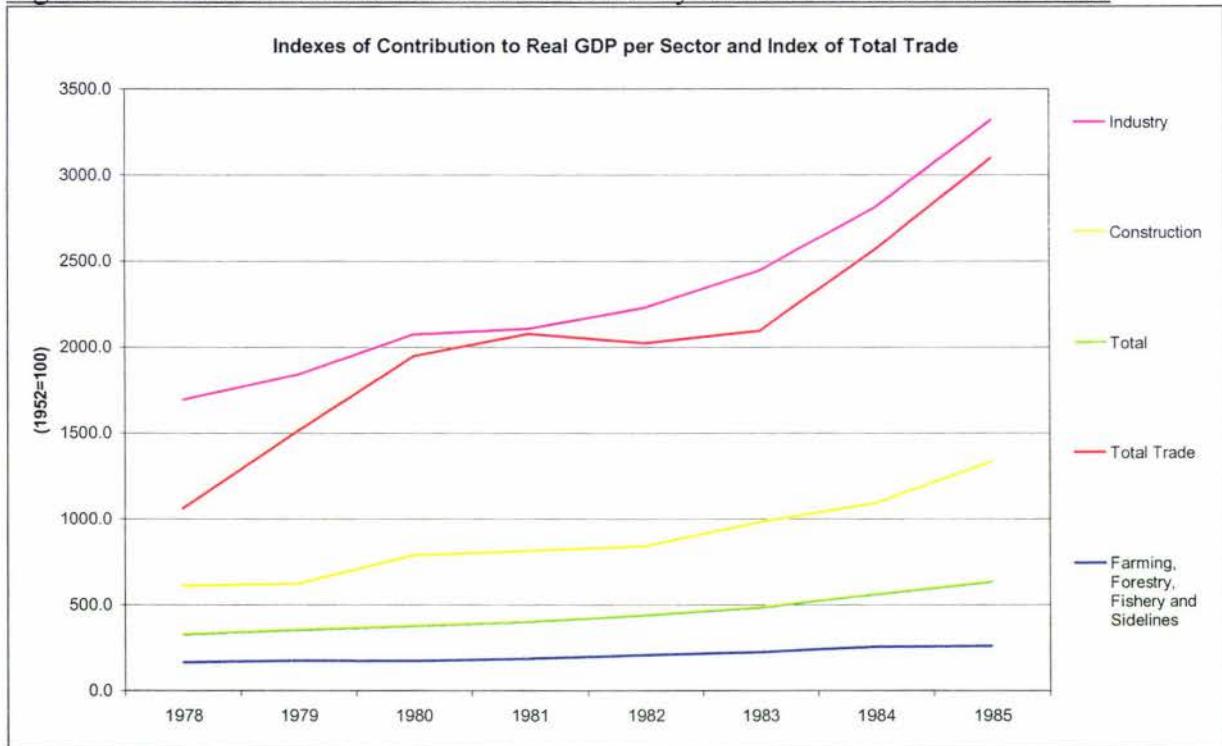
Deng Xiaoping's political resurrection was complete by December 1978, marking the start of the PRC's most significant social, cultural, and economic reforms. In a radical departure from the reverence accorded to the late Chairman Mao, Chinese Communist Party leaders concluded that the Maoist version of the centrally planned economy had failed to produce efficient economic growth and had caused China to fall far behind not only the West, but also the new industrial powers of Asia. Inadequate food supplies, rationed clothing and inadequate housing were cited as internationally embarrassing. As a consequence, the classic Communist Party line calling for a protracted class struggle was replaced by the Four Modernizations, although Deng and his associates did not yet have a blueprint for economic reform. Instead they experimented with increasing the role of market mechanisms in selected regions while reducing but not eliminating centralised planning and control. Direct foreign investment was embraced as a means of technology transfer. Joint ventures between foreign corporations and the Chinese government became commonplace, funded by foreign loans and buyback provisions. China joined the World Bank and IMF in 1980, giving it access to large amounts of foreign capital. As the market measures proved successful, they were extended to wider areas and eventually the whole country. The aim was not to abandon communism, but to improve it.

1979-81 was designated as a period of adjustment under which the major imbalances in the economy were to be corrected and the foundations for a well-planned programme of modernisation were to be laid. The schedules of Hua's ten-year plan were largely abandoned. Port and railway bottlenecks⁴⁶⁵ and an imbalance of heavy industry over light industry were early targets. The system of collective agriculture was abandoned in favour of the

⁴⁶⁵ The transport sector was widely regarded as the weakest sector of the Chinese economy.

contract/household responsibility system to provide greater incentives. Similarly, state-owned industrial enterprises were given control over their own activities. Initially any profit/surplus was transferred to the state although this was reduced later to the remittance of taxes with the balance being retained as a further incentive to improve performance. Another major element of the new economic policy was the establishment in 1979 of special economic zones in Shenzhen, Zhuhai, Shantou, and Xiamen. These were basically free-trade areas with substantial tax holidays for new enterprises. However, of greater significance to the Chinese economy in the long run was the conference of special economic zone status to the largest 12 coastal cities in April 1984. As port cities, these new zones greatly enhanced trade and technology exchange. The effects of the reforms were significant increases in production, especially in 1979 (see figure 9.2a). These promising results saw the reforms broadened and extended to other areas of China from 1982.

Figure 9.2a: Indexes of Contribution to Real GDP by Sector and Index of Total Trade

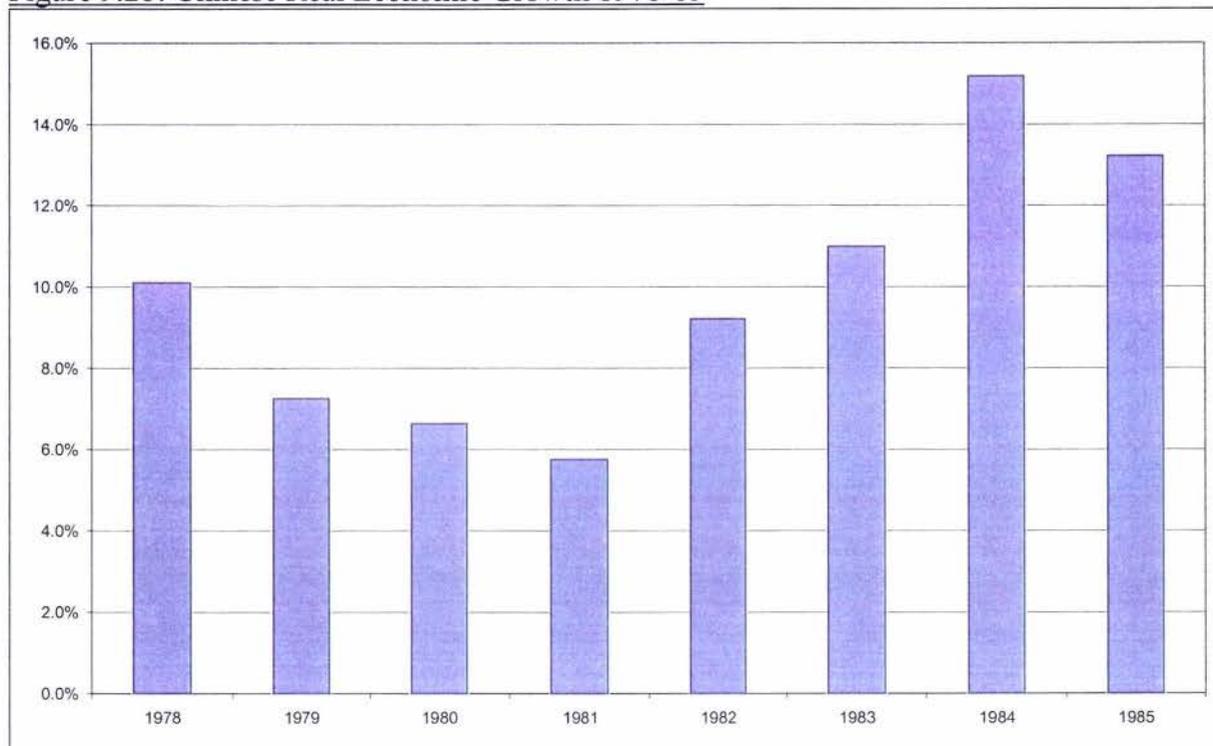


Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*, and *Almanac of China's Foreign Economic Relations and Trade 1987*. Indexes for Real GDP are based on sector contributions to GDP in millions of 1987 Yuan and Hundreds of Millions of nominal US dollars for total trade.

Economic growth remained impressive throughout the period 1979-84, with 1984 the standout year. The typical pattern for the period was a new raft of reforms causing a dramatic increase in investment demand, raising fears of overheating resulting in a slow down in reforms. Such a cycle is clearly evident in figure 9.2a with 1979 being the start of a new period of reforms and 1981 being a cooling off period before the cycle started again in 1982. China's trade and real

economic growth followed a very similar cycle. The implementation and effects of the economic reforms were not even throughout China.

Figure 9.2b: Chinese Real Economic Growth 1978-85



Source: Calculated from *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

Over the period of the economic reforms, the major change in the structure of the Chinese economy was that the service sector's contribution to GDP increased in line with the transfer of the burden for allocating goods and services from government to the price mechanism. The secondary sector's contribution decreased moderately and the primary sector's slightly (see below).

Table 9.2a: Structure of Chinese GDP

	Primary Sector	Secondary Sector	Service/Tertiary Sector
1979	31.2	47.4	21.4
1980	30.1	48.5	21.4
1981	31.8	46.4	21.8
1982	33.3	45.0	21.7
1983	33.0	44.6	22.4
1984	32.0	43.3	24.7
1985	28.4	43.1	28.5

Source: State Statistical Bureau of the People's Republic of China and the Institute of Economic Research of Hitotsubashi University: *The Historical National Accounts of the Peoples Republic of China 1952-1995*.

9.2.2 CHANGING TRADE POLICY

Adherence to the new doctrine of the Four Modernisations had a greater impact on China's foreign trade than any other area of economic policy. China gradually opened up its economy to the rest of the world – China's 'open-door' policy was born. Foreign trade assumed a far greater level of importance, largely by virtue of its usefulness as a source of foreign funds and method of technology transfer. Before the reforms, China's foreign trade remained under the exclusive control of twelve trading corporations acting under instruction from the Ministry of Foreign Trade. Trade was directed to meet the goals of the five-year plan. Chinese firms were isolated from open competition with foreign firms by the operation of a dual pricing system – domestic prices did not necessarily bear any relation to prevailing world prices.

After the reforms, foreign direct investment was permitted and encouraged to introduce new technologies and production processes to China in line with the Four Modernisations. Joint ventures with up to 49% foreign control were permitted, along with the extensive use of foreign credits. In addition, two new types of trading were sought:

- (i) compensatory trading, whereby China imported advanced technology and repaid in finished products;
- (ii) coordinated trading, whereby China imported advanced materials and re-exported them.

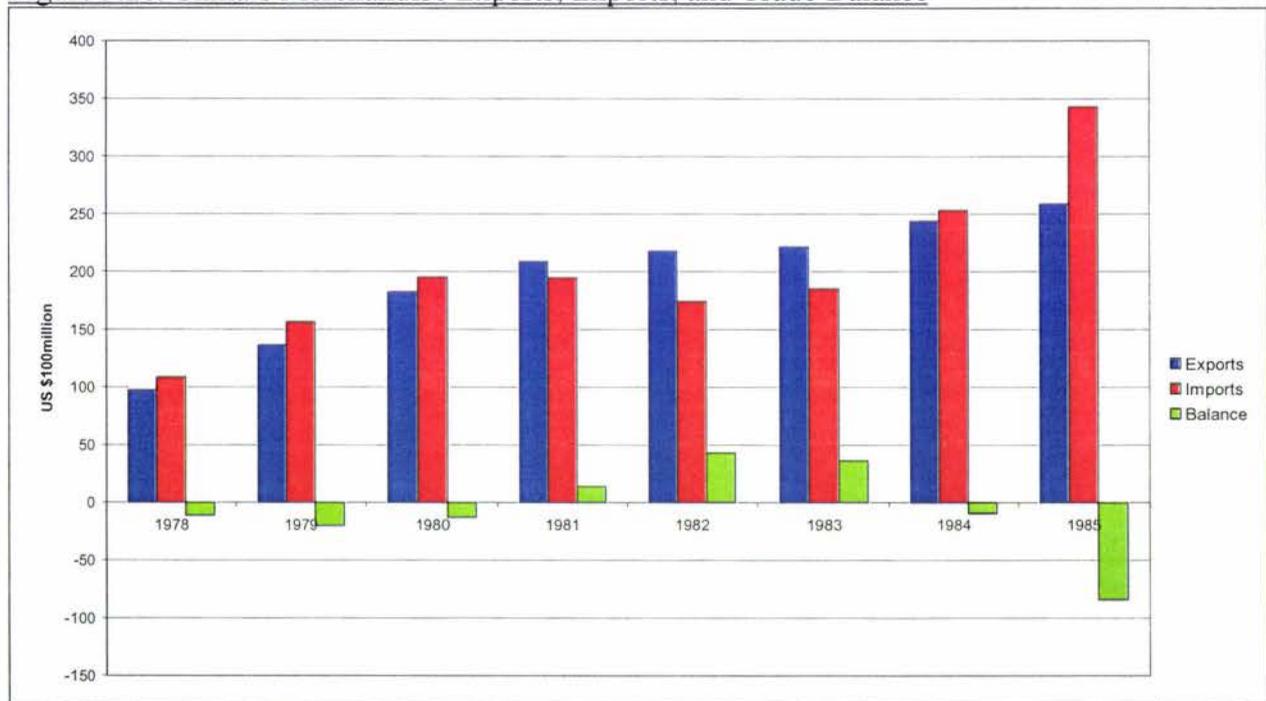
The monopoly of the trading corporations was broken up in designated 'special economic zones' as regional corporations were granted much greater powers to pursue foreign direct investment and increased trade. Decentralisation of international trade decisions saw the importance of the traditional commodities fairs decrease substantially. Smaller, more specialised fairs became more frequent, as did special exhibitions in China and overseas. Moreover, the number of trading corporations expanded almost exponentially as they came under localised control and management. In some cases, the same product might be handled by more than one corporation. Major products continued to be handled by special agents, while other products might be handled by provincial branches or other authorised enterprises. However, a degree of preference was still given to those countries that had established diplomatic relations with the PRC.

The proliferation of international trade and localised trading corporations created administrative problems. To clarify responsibilities, the management of China's foreign trade was placed under the 'centralised and unified management' of the newly formed Ministry of Foreign Economic

Relations and Trade. While the new ministry retained control of annual foreign trade plans, it could no longer interfere with the management of individual trading corporations. Specifically, trading corporations would be freer to act in their own interests, and would be responsible for their own profits and losses.⁴⁶⁶ Nonetheless, the huge increase in the volume of trade left the trading corporations seriously overworked, leading to correspondence with foreign traders receiving even lower priority.⁴⁶⁷

Deng and his associates believed that opening up China’s trade would significantly enhance China’s economic development. Inevitably, the opening of China’s foreign trade to the West saw a huge expansion in imports in 1979, and the largest trade deficit in the country’s history (see figure 9.2c below). The deficit was reduced in 1980 and eliminated in 1981. Surpluses were recorded in 1982 and 1983 before the economy again dipped into deficit in 1984 and 1985 on the back of large increases in imports.

Figure 9.2c: China’s Merchandise Exports, Imports, and Trade Balance



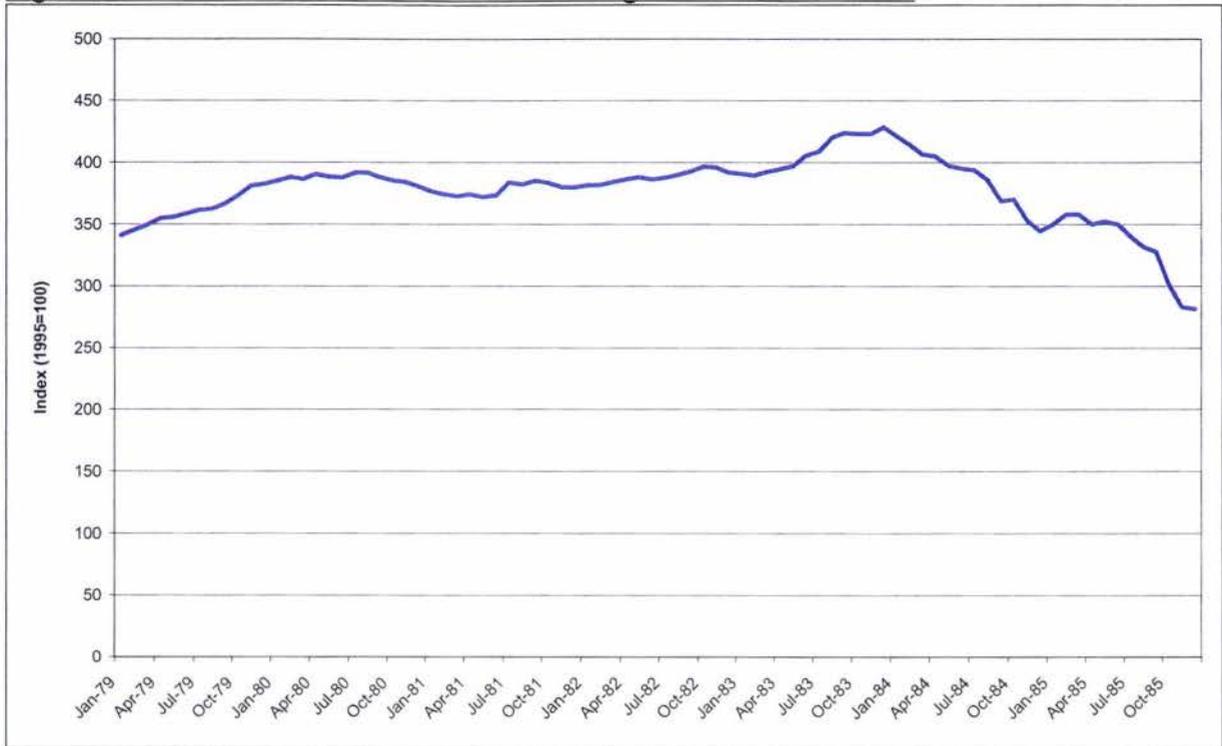
Source: *Almanac of China's Foreign Economic Relations and Trade 1987*.

Exports also increased substantially, but at a slower rate than imports. The Yuan was devalued several times in the 1980s to ease China’s balance of payments problems. The trend between 1979 and 1985 is indicated below.

⁴⁶⁶ AATJ 7428 113/1/6 Part 1

⁴⁶⁷ AATJ 7428 2/29/43. Trading corporations were already notorious for the inordinate amount of time it took them to respond to correspondence.

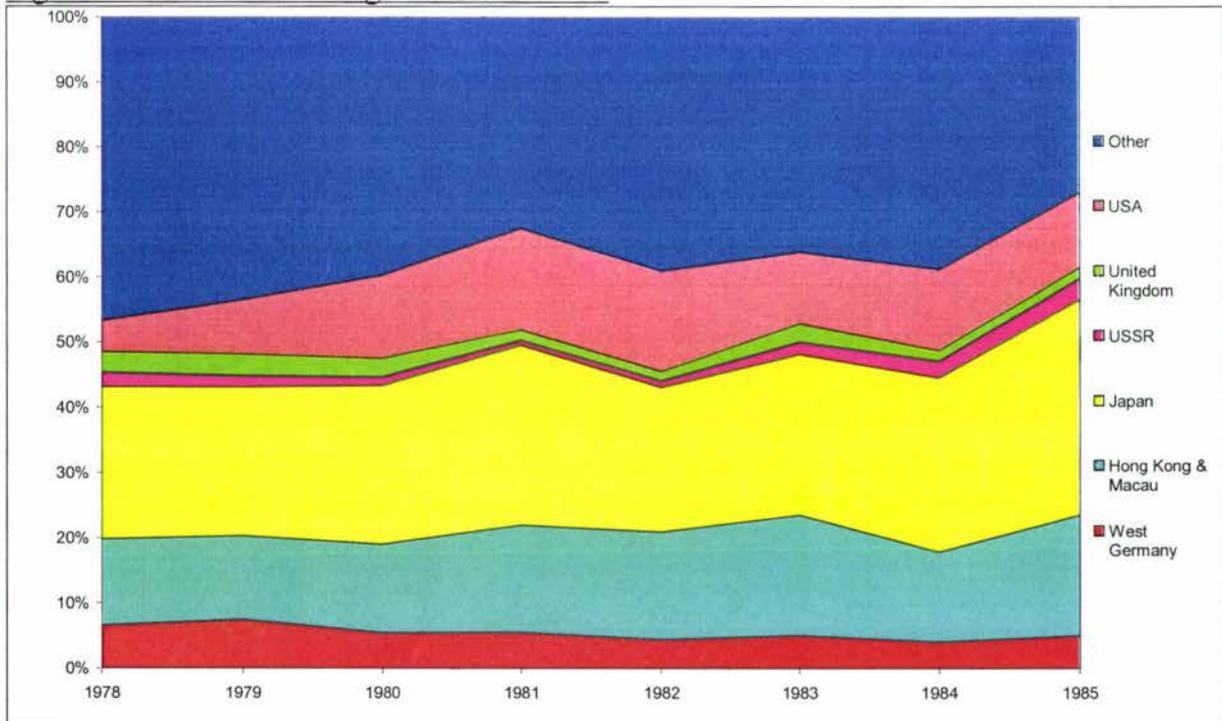
Figure 9.2d: China's Nominal Effective Exchange Rate Index 1979-85



Source: International Monetary Fund, *International Financial Statistics*, September 2002.

The establishment of diplomatic relations with the United States in 1979 and the signing of a trade agreement saw that country's share of Chinese trade increase dramatically as shown in figure 9.2e below. Japan further cemented its position as China's largest trading partner.

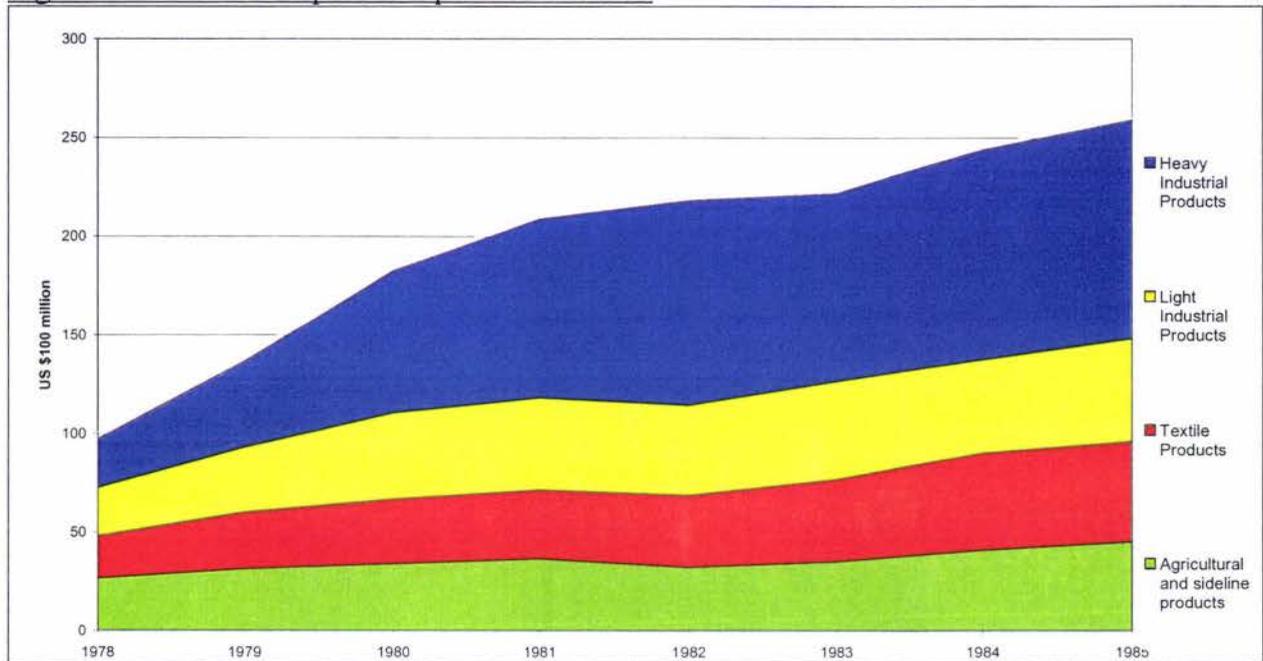
Figure 9.2e: China's Trading Partners 1978-85



Source: Mitchell, B.R. (2003). *International Historical Statistics: Africa, Asia, Oceania 1750-2000 (4th edition)*.

In terms of composition, exports of heavy industrial products increased by the far greatest degree (see figure 9.2f). It was in the open-door period that China finally became a major exporter of oil and related products.

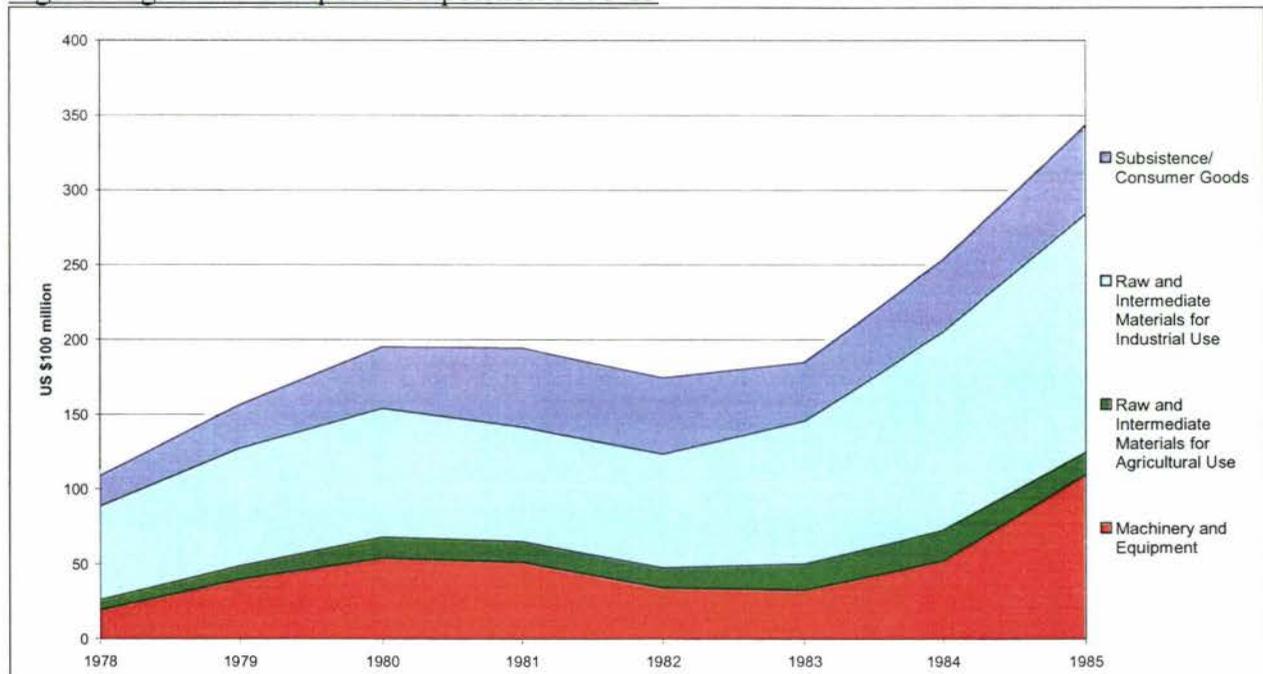
Figure 9.2f: China's Export Composition 1978-85



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*.

Imports of raw and intermediate materials continued to increase between 1979 and 1984 while imports of machinery and equipment increased from 1984 after the extension of special economic zone status to coastal cities (see figure 9.2g).

Figure 9.2g: China's Import Composition 1978-85



Source: *Almanac of China's Foreign Economic Relations and Trade 1987*.

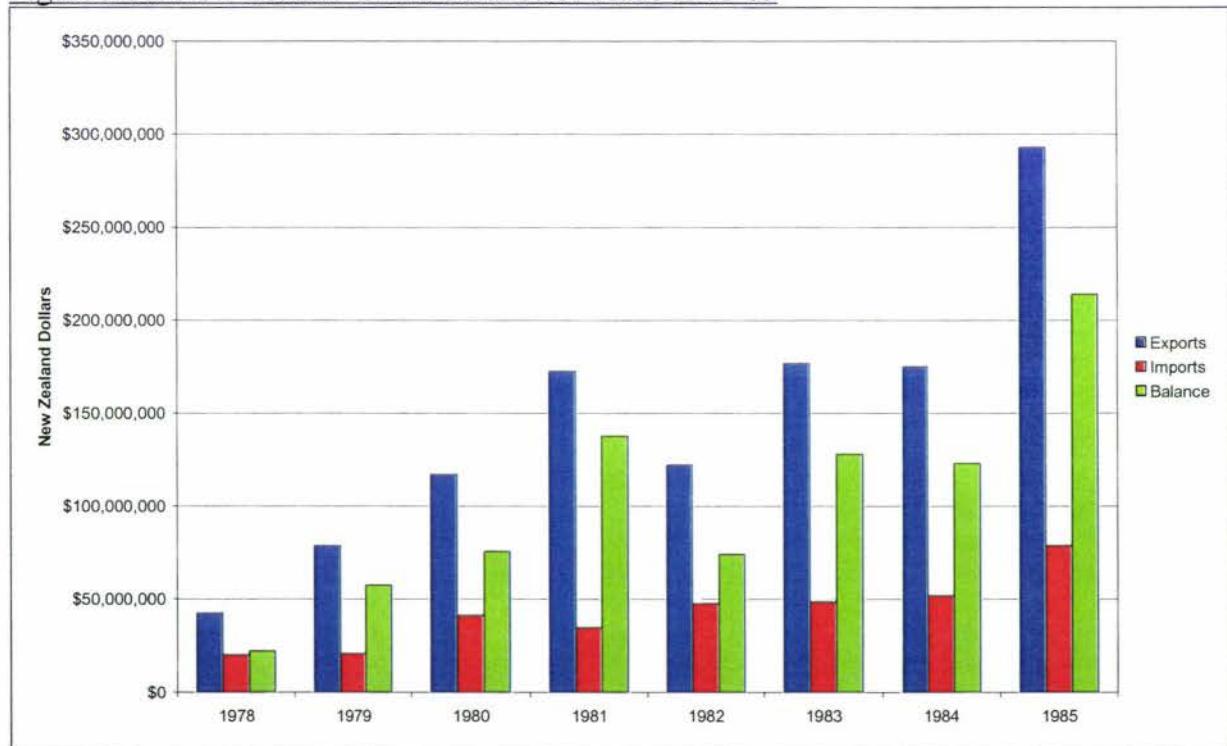
The remarkable effect of the open-door policy on China's trade is amply reflected by the fact that trade as a percentage of GDP increased from 9.80% in 1978 to 23.05% in 1985.⁴⁶⁸

9.3 NEW ZEALAND CHINA TRADE 1979-84

China's huge expansion in international trade more than carried over to New Zealand-China trade. Between 1979 and 1985, bi-lateral trade increased 272%, far outstripping the growth of total China trade of 105% and total New Zealand trade of 197%.⁴⁶⁹ While much of this growth can be attributed to the diplomatic recognition and improving relations achieved in the period 1972-78, there were also significant advances during the period 1979-85. This section identifies these advances and attempts to place them in the context the overall trading relationship.

Despite increased bilateral contact, China's exports to New Zealand increased at a slower rate than her imports, resulting in a widening trade deficit as shown below.

Figure 9.3a: New Zealand-China Balance of Trade 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

⁴⁶⁸ See table 5.4a.

⁴⁶⁹ See table 10.1a

As in previous periods, the principal reason for the imbalance was that China needed basic or raw materials for its manufacturing industries, i.e. wool, tallow, pulp, newsprint, steel, but in return exported a range of manufacturing goods to New Zealand that tended to be covered by New Zealand's import licensing regime because of significant domestic manufacturing. Over the period, New Zealand continued diversifying its exports into new commodities such as dairy products, meat, leather, steel and aluminium. On the import side, the small nature of the New Zealand market meant that the limited size of orders from New Zealand importers tended to be overlooked by China's trading corporations – China serviced her large markets in North America, the European Community, and Japan first. Problems with product quality and presentation had also discouraged some importers from sourcing from China. The other major problem was the continued lack of marketing by China and the resultant lack of knowledge about China's exports by New Zealand importers.⁴⁷⁰

The Department of Trade and Industry's general policy was to try and encourage Chinese imports by getting the Chinese to improve the marketing of their products, making them attractive to import licence holders, rather than by granting additional import licences. However, the relatively poor state of the New Zealand economy over some of the open-door period often negated New Zealand and Chinese attempts to increase China's exports to New Zealand. New Zealand's exports experienced a falloff in trade in 1982 on the back of increasing competition from South American wool producers and a general decline in demand for tallow, newsprint and metals.⁴⁷¹ Trade recovered in 1983 only to stagnate in 1984 prompting widespread concern amongst New Zealand officials. They needn't have worried – in 1985 the Chinese economy embarked on an expansion spree. Exports for the year to June 1985 expanded 35%. The large devaluation of the New Zealand dollar in 1984 was only part of the explanation. Other major contributing factors were the extension of China's economic reforms to new areas and a Chinese import blow-out that was so large that Chinese authorities implemented a foreign exchange freeze in March 1985.

9.3.1 BILATERAL TRADING RELATIONS 1979-84

Like the front-door period before it, bilateral trading relations during the open-door period centred on the programme of bilateral exchanges and trading missions. The Chinese continued

⁴⁷⁰ AATJ 7428 113/1/6 Part 1

⁴⁷¹ AATJ 113/1 PART 17

to place great importance on ministerial visits and judged the strength of relations with a country by the state of bilateral exchanges. In addition to numerous cultural exchanges, prominent ministerial exchanges over the period included:

- In March 1979, Vice Premier Chen Muhua visited New Zealand
- Rt. Hon. B. E. Talboys, Deputy Prime Minister and Minister of Foreign Affairs and Trade of New Zealand, visited China in May 1979
- Hon Duncan Macintyre, Minister of Agriculture visited China August 1979
- New Zealand's Minister of Forests, V.S. Young, visited China in March/April 1980
- Vice Premier Li Xiannian visited New Zealand in May 1980
- Rt. Hon. Robert Muldoon, Prime Minister of New Zealand, visited China in September 1980. Muldoon held lengthy talks with Chairman Hua, Vice-Chairman Deng, and new Premier Zhao
- Vice Minister of Foreign Trade Liu Xi-wen visited New Zealand September 1981
- Zhu Xuefan, Vice Chairman of the Standing Committee of the National People's Congress, visited New Zealand in November/December 1982
- Min of Overseas Trade Warren Cooper led Economic Mission to China in March 1983
- Premier Zhao Ziyang visited New Zealand in April 1983
- New Zealand's Minister of Science and Technology led a delegation of DSIR officials to China in April 1984
- In May 1983, New Zealand's Under-Secretary for agriculture led a New Zealand dairy industry mission to China
- Chinese Minister of Light Industry in New Zealand July 1984
- China's Minister of Light Industry visited New Zealand in September 1984
- Mike Moore, Minister of Overseas Trade and Marketing visited China from 12-19 December 1984

Numerous other delegations were exchanged between the two countries including:

- China National Textile Import Export Corporation in New Zealand February 1979
- China National Cereals, Oils, and Foodstuffs Import and Export Corporation in New Zealand March 1979
- A Chinese animal husbandry delegation visited New Zealand in May 1979
- New Zealand Wool Board delegation in China April 1979
- Representatives of the Shipping Corporation of New Zealand visited China May 1979

- China National Animal By Products Import Export Corporation in New Zealand June 1979
- China National Machinery Import Export Corporation in New Zealand June 1979
- New Zealand Wool Board delegation in China July/August 1979
- China National Light Industrial Products Import Export Corporation visited New Zealand August 1979
- China National Textile Import Export Corporation in New Zealand September/October 1979
- China National Native Produce Import and Export Corporation delegation in New Zealand October 1979
- China Native Products Corporation delegation visited New Zealand October 1979
- Chinatex wool delegation visited New Zealand November 1979
- New Zealand Steel Ltd delegation visited China October 1979
- New Zealand Dairy Board held a technical seminar in Beijing in November 1979
- China National Light Industrial Products Import Export Corporation visited New Zealand January 1980
- China National Machinery Import Export Corporation visited New Zealand February 1980
- Chinese veterinary delegation visited New Zealand March 1981
- China International Trust and Investment Corporation (CITIC) delegation visited New Zealand February 1982
- New Zealand-China Trade Association delegation to China March 1983
- China's Ministry of Foreign Economic Relations and Trade visited New Zealand in December 1984

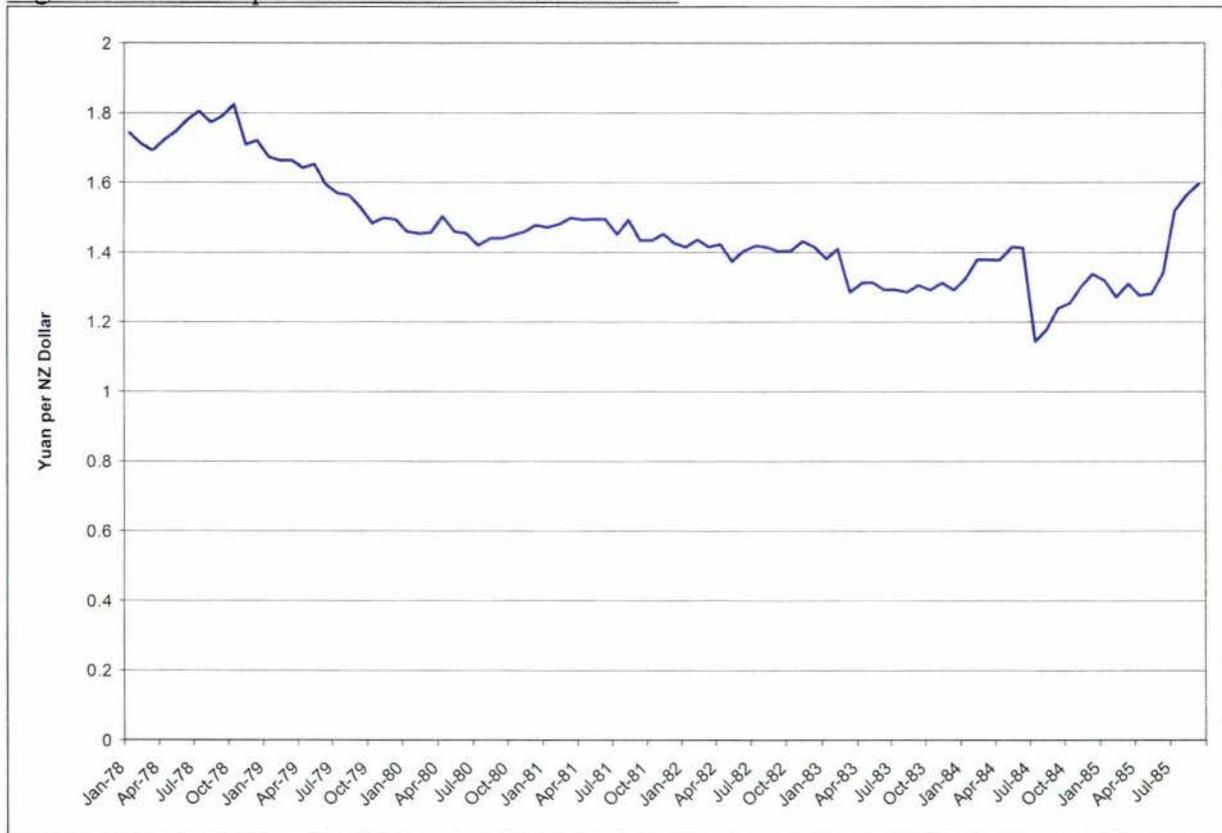
China wanted to step up its programme of bilateral exchanges in line with the 'four modernisations' programme. New Zealand concerns about the coordination and funding of such visits led to the formation of a Supporting Activities Programme (SAP) fund. In its first year of operation, commencing 1 July 1979, the fund was allocated \$150,000. It covered both economic and cultural exchanges and operated on the basis that each country paid their own international airfares, with internal costs borne by the host country. Under the programme, fifteen agricultural students came to New Zealand in 1979 while eighteen New Zealand teachers were contracted to teach English in China.⁴⁷² The SAP fund for 1980/81 remained at \$150,000 before gradually

⁴⁷² AATJ 7428 113/1 Part 13

increasing to \$190,000 by 1983/84.⁴⁷³ The delegation approach to doing business remained more effective than individual firms ‘going it alone’ throughout the open-door period, but joint government/business delegation was even more effective. During 1984 there were 48 separate Chinese missions or trade visits to New Zealand, comprising a total of 215 people. About 300 people from New Zealand visited China.⁴⁷⁴

The New Zealand’s dollar continued its gradual depreciation against the Yuan over the period 1979 to 1984, reflecting the New Zealand’s deteriorating balance of payments position. It was devalued significantly in July 1984 and floated in March 1985. Such a fall undoubtedly had a positive effect on exports to China in the 1984/85 year – exports increased 67% compared to -0.9% in 1983/84, although no reference was made to its effect in official sources.

Figure 9.3b: Yuan per New Zealand Dollar 1978-85



Source: Calculated from the cross rates contained in International Monetary Fund, *International Financial Statistics*, September 2002.

⁴⁷³ AATJ 7428 113/1 Part 19

⁴⁷⁴ AATJ 7428 113/1 Part 20

9.3.2 CONTINUED DEVELOPMENT OF TRADE IN THE OPEN-DOOR PERIOD 1979-84

Bilateral trade in the new open-door period began with the Chinese inviting Deputy Prime Minister/Minister of Overseas Trade, Brian Talboys, to lead an economic delegation to China in early 1979. Thirteen businessmen from many of New Zealand's largest companies accompanied Talboys in May 1979. Talks were held with Premier Hua Guofeng, Vice Premier Yu Qiuli, Foreign Trade Minister Li Qiang, together with the Chinese trading corporations and other arms of state. During a meeting between Talboys and Li, the two ministers agreed that the potential existed to double trade from the 1978 figure of NZ\$80 million within two years. Once again, exports of agricultural products, machinery, and expertise appeared to interest the Chinese the most. Opportunities for joint ventures in primary product processing and hotel construction and design also existed.⁴⁷⁵ The New Zealand Export Import Corporation (NZEIC) organised a successful trading seminar for New Zealand business following the return of the delegation.⁴⁷⁶

Photograph 9.3a: Muldoon Meets with Chinese Vice Premier Chen Muhua



Source: Chinese Embassy to New Zealand, <http://www.chinaembassy.org.nz>. Muldoon meets Chinese Vice-Premier Chen Muhua, 13 March 1979, Wellington.

⁴⁷⁵ Economic Delegation to China. (1979). *Report of the Economic Delegation to China*, Wellington: Department of Trade and Industry.

⁴⁷⁶ AATJ 7428 113/1 Part 15

In the late 1970s, the economic reforms within China increasingly began to catch the eye of New Zealand business. The establishment of special economic zones and the possibility of joint ventures on Chinese soil proved enticing. These new enterprises were financed by a combination of foreign investors and the China International Trust and Investment Corporation (CITIC), acting as a form of merchant bank. However, China's adoption of virtually all forms of credit did not signal a lax approach to the use of credit – the memories of Western imperialism in the nineteenth century and its experiences with the Soviet Union in the twentieth century precluded any over-commitment.

China expected foreign firms to make proposals for joint ventures, compensatory trading, and coordinated trading which would be assessed on a case-by-case basis by the trading corporation concerned. However, the policy of self-reliance had not been abandoned – the Chinese had simply become more aggressive in pursuing those things they required and intended paying for them with increased export revenue. For those products China could produce herself, she sought to acquire the technology and manufacturing facilities rather than paying a foreign producer for the finished product. The Department of Trade and Industry cautioned New Zealand exporters of some of the problems involved. In particular, it suggested that if there was demand for a particular technology, there might well be room to negotiate a straight sale.⁴⁷⁷ If this was not possible, the Department warned of the bureaucratic problems of operating a joint venture or other trading arrangement in China. While trading corporations were often relatively efficient, other essential elements of Chinese infrastructure such as transport, customs, immigration, and state security were not. Construction in China was also fraught with dangers for the unwary particularly because the Western concept that time is money was absent from Chinese construction sites. The Department recommended contractual clauses providing compensation for delays beyond the control of the exporter, and if this proved impossible, the contract price should be loaded to take account of unforeseen delays and risks.⁴⁷⁸

In relation to New Zealand, China was predominantly interested in joint-venture proposals to develop its agricultural sector. Agriculture had been accorded top priority in the modernisation programme. Some of the first joint venture proposals to be discussed were the establishment of recombining⁴⁷⁹ and ultra high temperature milk plants in China. The Dairy Board was invited by the China National Cereals, Oils, and Foodstuffs Import and Export Corporation to enter

⁴⁷⁷ AATJ 7428 45/35/1 Part 8

⁴⁷⁸ AATJ 7428 45/35/1 Part 8

⁴⁷⁹ For the production of milk and ice cream.

discussions for the development of such plants following the visit of some of their technical experts to China in 1978. Around the same time the Wool Board was invited to discuss a modernisation programme for the Chinese woollen textile industry and in particular, new woollen factories. In 1979, China's Minister of Foreign Trade invited New Zealand experts to discuss the development of a model farm in the Guangxi province. Geothermal energy and ironsand technology were also of interest. A number of New Zealand firms including Fletchers, ENEX, Mainzeal, Vacation Hotels, Lockwoods, Jasmad Group, and Fisher and Paykel expressed interest in participating in the construction of hotels and motels to accommodate China's tourism boom. Fletchers and Mainzeal went on to submit a proposal for hotel construction but this was not accepted because the financial aspects were 'not favourable' to the Chinese. Joint venture arrangements were sporadically criticised in the New Zealand media on the grounds that New Zealand was 'giving its technology away'.⁴⁸⁰

With the huge expansion in New Zealand-China trade in the 1970s, and the inordinately slow process of negotiating with the Chinese,⁴⁸¹ the Trade Commissioner's post in Beijing became overworked. It was acknowledged that the office was under-resourced in 1978, but the usual remedy of appointing a local marketing officer was considered inappropriate for a state trading country for China, even if a suitable local could be found. Instead, the Trade Commissioner successfully proposed the appointment of a further trade officer to the embassy. Such an appointment would allow officers to concentrate on specific commodities allowing more effective representation of New Zealand exporters. It was believed that occasional telex's and visits were an inferior method of trade promotion compared to regular visits to the trading corporations by Trade Commissioners.

In any event, there were clear signs towards the middle of 1979 that the modernisation process was slowing. China's ad-hoc approach to modernisation meant that many industries experienced bottlenecks as one part of the productive process was upgraded while other parts remained outdated or suffered resource shortages. The National People's Congress outlined a three year phase of 'readjustment, restructuring, consolidation and improvement' as the modernisation programme took on a more coordinated approach. At the same time the Chinese implemented a new Joint Venture Law to cope with foreign investment which had previously been illegal. New codes for criminal law and procedures were also introduced to deal with the influx of foreign

⁴⁸⁰ For example, a 2YA rural report 14/4/79. AATJ 7428 45/35/1 Part 9

⁴⁸¹ For example, finalisation of contracts often took 10-12 meetings on the part of the Trade Commissioner.

nationals. Work on joint-ventures and other new relationships continued although there was growing scepticism amongst western nations about the opportunities China's modernisation really offered.⁴⁸² It seemed probable that increased trade in traditional commodities was more likely than any explosion of joint-venture arrangements. Expanding the newly established Chinese markets for dairy products, meat, leather, steel and aluminium appeared the key to increasing New Zealand's exports to China.

There were, however, a few exceptions to this general trend. During the Duncan Macintyre's visit to China in August 1979 as Minister of Agriculture, a memorandum of understanding was signed with Guanxi Provincial authorities for the establishment of a model livestock farm. The memorandum was based around a proposal from Ashworth Morrison Cooper, Agrico Developments of New Zealand Ltd, ANZDEC, and Lincoln College for the provision consultancy services in developing the farm. The consortium formed the China-New Zealand Agricultural Consultants Company – CHNZAGCO, and visited the two 600 hectare sites in June 1979. It was expected that development of the predominantly beef farm would take three years. A two year contract was finally signed in March 1980. While the consulting contract was not large in terms of export earnings, the spin-offs from purchases of New Zealand stock, equipment, and technology were expected to be significant. It was estimated that \$100,000 of agricultural machinery and equipment was exported to China as a result. Moreover, as New Zealand's expertise in this area became more widely known, additional contracts and sales were likely to be forthcoming.⁴⁸³ CHNZAGO succeeded in having their contract for Guanxi extended for a further 12 months and picked up a US\$1 million contract for a sheep farm in Shangxi region under a two year contract from 1 March 1983.⁴⁸⁴

A similar consultancy proposal in the area of geothermal energy was submitted in 1980. By 1980 Feltex and the Wool Board had joined the rush to sew up joint-venture agreements. Both submitted proposals to the Chinese for the development of carpet manufacturing facilities. Virtually all of China's carpets were hand manufactured. The Wool Board was also negotiating for the establishment of a Shetland knitting plant in Nantong whereby New Zealand would supply 25% of the cost of machinery in exchange for the plant exclusively using New Zealand

⁴⁸² AATH 7428 113/1 Part 14

⁴⁸³ AATJ 7428 113/1 Part 14

⁴⁸⁴ AATJ 7428 113/1 Part 17

wool.⁴⁸⁵ The agreement ended after a Chinese regulatory change required the plant to be self funding.⁴⁸⁶ Other New Zealand organisations negotiating with the Chinese included the Dairy Board for a small milk recombining/UHT plant in Beijing, and Fisher and Paykel Ltd for a whiteware plant. On his visit to New Zealand in May 1980, Vice Premier Li suggested that a joint venture pulp and paper mill be established in New Zealand. However, both parties eventually concluded that such a proposal was not possible. Aside from model farms and the Shetland knitting plant, all proposals put forward by New Zealand businesses up to the end of 1980 failed to progress beyond developmental stages.

The 5th Session of the Joint Trade Committee was held in Beijing, 9-11 June 1980. China's delegation emphasised the economic readjustments being undertaken in China with only passing mention of the trade imbalance. China admitted that it had problems with quality, lack of variety, poor packaging, and supply of their goods. Both countries expressed satisfaction in the strong growth in their exports (72% for China and 49% for New Zealand). Proposals for further economic cooperation were discussed, especially the Chinese proposal to establish a packaging paper plant in New Zealand. However, the Chinese made it clear that the same proposal had also been made to Australia, and that there would be only one plant. New Zealand also informed PRC of its intention to pursue trade with Taiwan in a more systematic, but non-official manner. The Chinese replied that they had no objection to any people-to-people contacts provided they were 'not on an official or governmental basis' nor were 'unofficial in form but official in nature'.⁴⁸⁷

Attempts at economic cooperation from the New Zealand side were aided by the establishment of a New Zealand-China Trade Association by C.B Stanworth (NZEIC) C.R. Howell (Vadco), and N.E.G Zohrab (Tasman Pulp and Paper Company) in June 1980. Designed to operate as a sister organisation to the Chinese Council for the Promotion of International Trade (CCPIT), the Association's objectives were to 'promote friendship and understanding between the business communities of China and New Zealand, to improve communications and strengthen trade relations by providing a marketing forum in New Zealand and practical services for those

⁴⁸⁵ The Wool Board signed a cooperative venture agreement with Jiangsu authorities for the establishment of a Shetland knitting plant based on the exclusive use of 850 tonnes of New Zealand wool per annum.

⁴⁸⁶ Source: Roger Buchanan, NZ Wool Group cited in McKinnon, J. (1999). 'Breaking the Mould: New Zealand's Relations with China' in Brown, B. (ed.). (1999). *New Zealand in World Affairs 1972-1990*, Wellington: Victoria University Press, p. 248.

⁴⁸⁷ AATJ 7428 113/1 Part 15

engaged in trade with China'.⁴⁸⁸ It invited numerous delegations to New Zealand and sought to improve awareness of China as a trade destination by publishing New Zealand China Trade Journals and Yearbooks. In 1982 the association requested private enterprise representation at the JTC. Trade and Industry responded that this had not been 'normal practice' and that the Department's consultation with private enterprise prior to JTC session should remain.⁴⁸⁹ At the association's invitation, the CCPIT visited New Zealand in August 1981 and formed the view that Chinese goods were in an unfavourable position in the New Zealand market because of import licensing. New Zealand's response was that importers could not be forced to buy from China and import licensing covered only 21% of New Zealand imports.⁴⁹⁰ McDonald Vadco acted as agents for and organized Chinese exhibitions at 1981 and 1983 New Zealand International Trade Fairs in Auckland.⁴⁹¹

By the time of the 6th JTC talks, in Wellington in July 1981, China and New Zealand were discussing commodities and items of interest in unprecedented detail and a high degree of openness, reflecting the friendly bilateral relations. China was much more critical of New Zealand's import licensing regime and its role in hindering the growth of China's exports, and suggested New Zealand should do something to ease the plight of China's languishing exports. New Zealand responded by pointing out that import licensing had been considerably liberalised, particularly with regard to textiles, and further liberalisation would occur in coming years. New Zealand also respectfully suggested once again that the Chinese increase their trade promotion activities and improve the quality and supply of their goods. Delays at Chinese ports were highlighted and accompanied by a request that the Most Favoured Nation agreement in relation to shipping be honoured. Emphasis was also given to resolving veterinary protocols as some Chinese officials were keen to import livestock from New Zealand, yet the veterinary division of the Chinese Ministry of Agriculture would not allow importation and did not offer solutions to the problem.⁴⁹²

Despite concerns over the import licensing regime, China assured New Zealand that she would continue to be looked on favourably as a source for raw materials. The Chinese also expressed their appreciation to the New Zealand government for the steps taken to assist China's exports,

⁴⁸⁸ AATJ 113/1 Part 17

⁴⁸⁹ AATJ 7428 113/1 Part 17

⁴⁹⁰ AATJ 7428 113/1 Part 15

⁴⁹¹ AATJ 7428 113/1/6 Part 1

⁴⁹² AATJ 7428 113/1 Part 16

namely the Special Trade Licence scheme and Developing Country Handicraft Scheme whose allocations increased consistently and significantly over the open-door period:

<u>Period</u>	<u>Special Trade Licence Allocation</u>	<u>Developing Country Handicraft Allocation</u>
1978/79	\$200,000	Unknown
1979/80	\$250,000	Unknown
1980/81	\$275,000	\$50,000
1981/82	\$350,000	\$100,000
1982/83	\$403,000	\$200,000
1983/84	\$450,000	\$250,000
1984/85	\$500,000	\$275,000
1985/86	\$680,000	\$500,000

Source: AATJ 7428 113/1, various volumes.

China's allocation was approximately twice that of many other countries. In addition to these amounts, significant additional licences were made for 'in store promotion of Chinese goods: \$150,000 approved for James Smith in late 1981; \$100,000 to Arthur Barnett in 1982/83; and in 1983/84 \$375,000 of additional licences were granted for a variety of goods from China for in store promotional campaigns.⁴⁹³ By 1985/86, China's allocation of \$680,000 was well above the average of \$360,000 and the highest of any country except the Philippines. Imports from China were also greatly aided by additional allocations of ordinary licences for hand knotted carpets and other goods to coincide with international fairs and promotions. Because of New Zealand's obligations as a member of GATT, and a private trading economy, there was little more that could be done.⁴⁹⁴ New Zealand's special trade licences scheme and the import licensing regime that gave rise to it were finally abandoned in 1987 following a long period of retrenchment dating back to the 1960s. Tariffs were to become the primary means of protection in line with GATT policy.⁴⁹⁵

In the area of economic cooperation, the JTC talks noted the success of the NZEIC and Christchurch firm Mairs in signing a joint-venture agreement for a tannery in Guangdong. Williams Development Holdings Ltd in association with a Hong Kong firm successfully negotiated a hotel refurbishment Guilin. Fletchers were also involved with an apartment housing

⁴⁹³ AATJ 7428 113/1/6 Part 2

⁴⁹⁴ AATJ 7428 113/1 Part 17

⁴⁹⁵ AATJ 7428 113/1/5 Part 1

project in Yiu Shu⁴⁹⁶ while Carrian Williams secured a hotel construction contract. The Reserve Bank offered Fletchers favourable financial help only to retract it because of New Zealand's balance of payments problems and Carrian Williams success without financial assistance. China usually expected favourable finance conditions but New Zealand's position as a capital importing country meant financing construction in China was difficult.⁴⁹⁷ Many of the non-construction proposals put forward by New Zealand businesses fell over because of China's 'period of readjustment' revisions or the inability to come up with compensatory trading provisions. Yet overall, New Zealand businesses appear to have fared better than other countries in their attempts at economic cooperation.⁴⁹⁸ Other successful joint ventures established in the open-door period included milking machinery (Oteng), paper (Hunts), and clays (Ceramco).⁴⁹⁹

Continued interest in joint ventures by New Zealand business interests was in evidence during the visit of a CITIC delegation in February 1982 and the 7th JTC talks in September 1982. Many of New Zealand's largest companies continued to negotiate with Chinese trading corporations and regional authorities. In 1982 the Chinese moved to streamline its foreign trade bureaucracy by merging the Ministry of Economic Relations with Foreign Countries with the State Import Export Commission, the Ministry of Foreign Trade, and the Foreign Investment Commission to form the Ministry of Foreign Economic Relations and Trade. Decentralisation of responsibility from Beijing resulted in an explosion in the number of trading corporations. During his visit in September 1980, Muldoon commented that 'there seems little doubt that for all but the biggest undertakings, initial approaches can now be made locally'.⁵⁰⁰ Importer L.D. Nathan dealt with just three corporations in the mid-1970s compared to 63 by 1985. Instead of national delegations being sent to New Zealand, delegations from individual cities became the norm. Similarly, trading corporations were no longer directed to export – if domestic sales were more profitable then the corporations were free to redirect their production.⁵⁰¹

By the time of the 8th JTC talks in November 1983, China had become New Zealand's 7th largest trading partner. 1983 was also the year in which a Chinese Premier, Zhao Ziyang, visited New Zealand for the first time; and the year in which the Australia New Zealand Closer Economic Relations and Trade Agreement (ANZCERT or CER) was signed. Zhao's visit was notable for

⁴⁹⁶ The first stage value was approximately \$20 million.

⁴⁹⁷ AATJ 7428 113/1 Part 17

⁴⁹⁸ AATJ 7428 113/1 Part 16

⁴⁹⁹ AATJ 7428 113/1 Part 21

⁵⁰⁰ AATJ 113/1 Part 15

⁵⁰¹ AATJ 7428 113/1 Part 15

the keen interest taken in Chinese bids for government tenders – from 1979 New Zealand sought overseas tenders for contracts worth NZ\$2 million or more, subject to the tenderer counter-purchasing New Zealand goods or services. In response to Zhao's enquiries, Minister of Overseas Trade, Warren Cooper, wrote to the Minister responsible for the Government Stores Board requesting that if a Chinese bid was very close or equal to other competitive bids, consideration be given to China's efforts to increase trade with New Zealand. However, New Zealand could not give any guarantees because of the competitive tender process.⁵⁰²

At the JTC talks, New Zealand's delegation again sought long-term purchase agreements for principal commodities. China responded that with the possible exception of a five-year contract for 2000 tonnes of whey powder for the production of infant formula, China was not in a position to enter into such commitments (although by 1984 long-term agreements had also been signed for pulp and steel rods/bars). New Zealand's delegation then turned its attention to the high tariffs facing New Zealand dairy products – 80% for butter, 40% for milk powder, and 20% for whey – and requested a substantial reduction. China indicated that the tariffs were designed to foster domestic production while reflecting the essentialness of the commodity. For their part, China requested that New Zealand (i) extend GSP status to products currently excluded; and (ii) increase the value of special trade licences issued; (iii) favourable consideration be given on an equal basis to Chinese bids for government tenders. New Zealand responded by saying that its depressed economy was having an adverse effect on China's exports and that moves towards liberalisation were continuing. Over 70% of China's exports to New Zealand by value received some form of GSP preference and China's Special Trade Licence allocation had been increased from \$200,000 to \$250,000 in spite of the fact that such discriminatory licences were illegal under GATT. In other respects, it was up to China to produce and market products (and tenders) that were attractive to New Zealand purchasers.⁵⁰³

The New Zealand Export Import Corporation continued to be a significant player in New Zealand-China trade over the open-door period. It continued to sell large quantities of hides and skins while also becoming active in aluminium foil, steel, and wood products. On the import side, it attempted to import electric motors and encouraged the purchase of Chinese hydro-electric components on state hydro projects such as the Clyde Dam.⁵⁰⁴ A contract for generators was signed and included provisions requiring that China counter-purchase an equal value of New

⁵⁰² AATJ 7428 113/1 Part 20

⁵⁰³ AATJ 7428 113/1 Part 20

⁵⁰⁴ AATJ 7428 113/1/6 Part 1

Zealand products. A joint Chinese/NZEIC tender for electricity pylons ran into problems over Chinese reluctance to offer their best price first up – something which was at odds with traditional Chinese negotiating techniques.⁵⁰⁵

Chinese officials continued to explore avenues for increasing exports to New Zealand into 1984. The possibility of long-term barter trade – Chinese oil and machinery for New Zealand pulp, paper, tallow – was again raised. New Zealand officials pointed out that while interesting, such proposals were difficult to implement because of the number of New Zealand firms involved in such trade. Instead, it was suggested that China look at long-term agreements for individual commodities. Meanwhile, New Zealand officials became concerned that the diversification of export commodities achieved with other Pacific Rim and South East Asian countries had not carried over to China, and export growth had slowed or possibly begun to stagnate. The narrow range of agricultural products exported to China was extremely vulnerable to global supply and price variations, as well as changes in Chinese importing policy. Potential reasons for the slowdown were considered to be: (i) small New Zealand firms having difficulty competing with large foreign corporations with extensive capital and technical backing; (ii) the very high costs of conducting business in China (high establishment and maintenance costs, communication difficulties, geographic distance, expensive transportation, and cultural differences); (iii) restraints China's state control of trade and capital places on the development of commercial ties; and (iv) China's importation policies – in particular the policy of not importing other countries' value added products unless absolutely necessary.

Despite these problems, it was expected that China would continue to be a valuable market because the self sufficiency it sought was unlikely to ever be achieved in the areas in which New Zealand specialised. However, exporting raw materials was unlikely to expand New Zealand's participation in the Chinese economy. Joint-ventures were the vehicle China's authorities had provided for foreign participation, and New Zealand would have to continue to vigorously pursue opportunities in areas in which it had a comparative advantage. In short, New Zealand's agricultural producers needed to lift their game beyond the supply of raw materials.⁵⁰⁶ Despite the extremely good bilateral political relations, many New Zealand firms were finding it difficult to close deals with China. Feltex abandoned negotiations on a carpet plant after four years of talks, but continued to supply around NZ\$1 million worth of carpet to hotels. CHNZAGCO

⁵⁰⁵ AATJ 7428 113/1 Part 17

⁵⁰⁶ AATJ 7428 113/1 Part 20

began to review its business in China because of the high project development costs and little confidence that contracts would result. High-level ministerial visits were the best way to push reluctant Chinese bureaucrats into committing – contracts for four joint-venture projects were signed during Minister Yan Bo's visit in mid 1984.⁵⁰⁷ Mike Moore, the new Labour Minister of Overseas Trade and Marketing led a trade mission to China in December 1984. Top of the agenda was the failure of New Zealand firms to bring joint-venture negotiations to fruition. Moore raised the issue with General Secretary Hu Yaobang who indicated that China would appreciate concessionary finance, aid, and counter-purchase proposals from New Zealand.⁵⁰⁸ New Zealand's adherence to multilateral trade and status as a capital importer limited its ability to meet such requests.

Concerns were also beginning to emerge about the administration of trade policy towards China. In July 1984 the Beijing embassy put forward a paper titled 'What to do with China: A Modest Proposal' which highlighted the failings of the current administration of China trade policy and put forward practical proposals for the advancement of trade relations. Virtually all New Zealand's officials involved in China trade believed that the relationship had reached a plateau, and unless new efforts were made, New Zealand would be left behind. By this time it was clear that New Zealand (and Australia) had received favourable treatment after recognising China because both countries carried far less historical baggage in their relations with China than many other Western nations, and were therefore able to overcome the legacies of the 1950s and 1960s more rapidly. However, by the early 1980s many other countries had achieved positive relations with China and New Zealand's advantage was being quickly eroded.

On the economic front, New Zealand was failing to adequately penetrate the potentially huge market. At the heart of the proposal was the belief that New Zealand was insufficiently committed to pursuing a closer relationship with China, especially in comparison to Australia, and that the efforts of the embassy were not being matched in Wellington. There was also a view that New Zealand's activities to date had been either reactive or 'one offs'. The separation of duties between the Ministry of Foreign Affairs and Department of Trade and Industry came under close scrutiny, as did staffing levels. Compared to Australia and the United States, whose trading difficulties/complexities with China were perceived to be far fewer, New Zealand's lack of resources was very evident. The key recommendations of the embassy's proposal were:

⁵⁰⁷ AATJ 7428 113/1 Part 21. The contracts signed were mostly in relation to the dairy industry.

⁵⁰⁸ AATJ 7428 113/1 Part 21

- (i) a inter-departmental China unit be established in Wellington comprising a senior officer (part time devoted to China) and two full time officers together with a moderate increase in funds;
- (ii) a revamped China Exchange Programme (replacing the Supporting Activities Programme) be established to fund exchanges with its budget increasing from \$185,000 to \$300,000 initially, and \$400,000 as exchanges were stepped up;
- (iii) the frequency of high-level ministerial visits be increased.⁵⁰⁹

Dairy and forestry industries were singled out as having the greatest potential for growth. The market for dairy products was considered largely untapped. New Zealand had large forests coming on line in the early 1990s, but the Chinese had yet to be convinced of the multitude of uses radiata pine could be put to. Moreover, New Zealand exporters lacked access to the soft financing or development assistance facilities used by competitors such as Australia and Denmark to sweeten commercial deals with China. New Zealand was also lagging behind in the granting of aid/official development assistance to China. The election of the Labour Government in July 1984 provided an ideal opportunity to reassess New Zealand's efforts towards China. The Department of Trade and Industry and Ministry of Foreign Affairs did not see eye to eye on the best way forward, but agreed that it was desirable that interested departments exchange views on what to do. The end result was that an Inter-departmental Committee comprising representatives from the Ministries of Foreign Affairs, Agricultural and Fisheries together with the Department of Trade and Industry, DSIR, and New Zealand Forest Service was established and began meeting in 1985.⁵¹⁰ Funding continued to be split between the votes of Foreign Affairs and Trade and Industry.

At the 9th JTC session held in Beijing in October 1984, New Zealand expressed its support for Chinese accession to the WTO and hoped that China would in turn help address some of the difficulties being faced by agricultural countries such as New Zealand. The Chinese delegation also noted that it would like to see the trade imbalance narrowed in two to three years. Oil was considered a commodity that would go along way in addressing the imbalance and the Chinese urged the New Zealand government to make it possible for a crude oil deal to be concluded. New Zealand expressed interest but noted the Marsden Point oil refinery was owned by a consortium of oil companies rather than the state.

⁵⁰⁹ AATJ 7428 113/1 Part 20

⁵¹⁰ AATJ 7428 113/1 Part 20 and 21

Re-assessment of the New Zealand-China trading relationship continued into 1985 with the Beijing embassy recommending a substantial strengthening of staff in Beijing and the establishment of a trade consulate in Shanghai. By the end of 1983, the Beijing embassy had a Trade Commissioner, Assistant Trade Commissioner, and a locally recruited Marketing Officer in addition to the seconded services of a Marketing Officer from the Hong Kong Commission. By comparison, Canada had 10 Trade Commissioners in China with numerous marketing personnel, and New Zealand's embassy in Tokyo had 3 Trade Commissioners and an assistant Trade Commissioner plus marketing personnel. The 1984 opening of 4 new Special Economic Zones and 14 coastal cities to foreign investment intensified the resource deficiency. In December 1985 New Zealand's Trade Commissioner Hong Kong was accredited to cover south China as an interim measure until the staff resources in both Hong Kong and Beijing could be increased.⁵¹¹ The true nature of the resource inadequacy is illustrated in Table 9.3b:

	<u>1974-84</u>	<u>1984-85</u>
Govt to Govt Understandings	1	6
Institutional Understandings	1	9
Commercial Understandings and Joint Ventures	4	15
Staff	9	10
	<u>First 6</u> <u>Months of</u> <u>1984</u>	<u>First 6</u> <u>Months of</u> <u>1985</u>
Trade Related Inward Visits	32	61
Chinese Groups to New Zealand	27	82
Outward Telex and Telegrams	1153	1519
Source: AATJ 7428 113/1 Part 22		

The message was clear – if New Zealand wanted to protect her interests in China, let alone expand them, it would be necessary to adopt a new approach and significantly increase resources in Hong Kong, Beijing, and Wellington. The fact that the bilateral relationship was in great shape was insufficient to guarantee tangible benefits. New Zealand needed to ensure that she could match and better the policy instruments and practical machinery employed by other countries, especially Australia, to curry favour with Chinese decision makers. The inefficient separation of foreign affairs and foreign trade was explicitly recognised and addressed in December 1988 when the foreign trade functions of the Department of Trade and Industry were

⁵¹¹ AATJ 7428 113/1 Part 21. The signing of the Sino-United Kingdom agreement in December 1984 on the relinquishing of Hong Kong also meant that Hong Kong would play an important role in trade with China.

merged into the Ministry of Foreign Affairs to form the Ministry of External Relations and Trade. The merger provided a more unified approach towards expanding trade with China and allowed the outputs from subsequent input/funding increases to be maximised.⁵¹² The merger assisted New Zealand's coordination of trade with China, but New Zealand was always a step behind Australia in employing positive and practical initiatives to develop trade with China. In 1987 New Zealand's Ambassador to China predicted that the early attention paid to New Zealand was made possible by New Zealand's close proximity to Australia. Some statistics suggested that Australia was more successful in securing trade with China than New Zealand. Undoubtedly the problem was one of huge tasks and small resources. Nonetheless, the degree of success achieved by New Zealand suggests that the limited resources were used wisely.

9.3.3 BARRIERS TO CHINA-NEW ZEALAND TRADE 1979-84

Once again, shipping remained a major barrier to New Zealand-China trade during the open-door period, but to nowhere near the same degree as the back-door and front-door periods. The standard Chinese line remained that there was insufficient cargo to make a direct New Zealand-China service economic. Chinese exports were mostly shipped to Hong Kong, and to a lesser extent Kobe, to be transhipped to New Zealand. New Zealand exports continued to be shipped FOB with the China National Chartering Corporation (CNCC) or China Ocean Shipping Corporation (COSCO) arranging collection at New Zealand ports. However, bulk tallow and logs were sold CIF by seller's charter along with some exports of meat, dairy products and hides. COSCO owned higher quality vessels began to become more common in 1977 and 1978, reducing instances of watersiders refusing to work the often lower quality CNCC chartered vessels. 21 Chinese owned or chartered vessels called in 1978 compared to 15 in 1977 with 1979 callings expected to be higher again. While calls were still not regular, the increased frequency reduced the instances of New Zealand exports sitting on the wharf awaiting collection. Increased use of containers also reduced many shipping problems.

Despite the gradual improvement in services, the Shipping Corporation of New Zealand (SCONZ) continued its discussions with the CNCC and China National Chartering Corporation (CNCC) and China Ocean Shipping Corporation into 1979 with a view to securing a more definite cargo-sharing arrangement. A more meaningful arrangement had been negotiated by 1979 but SCONZ continued to pursue other possibilities to improve the shipping, namely: (i)

⁵¹²In 1993 it was renamed the Ministry of Foreign Affairs and Trade.

more regular transshipment of containers to China through Japan; (ii) movement of containers to Australia to link up with the regular COSCO service to Australia; and (iii) centralisation of containers in New Zealand as an inducement for COSCO to call at New Zealand ports. Mitsui OSK Lines, Japan Line Ltd, and P&O offered container transshipment services to China via Japan. New Zealand Unit Express, a joint service operated by the China Navigation Company, Mitsui OSK Lines, and Nedlloyd Lines also operated a service to Kobe. SCONZ, Japan Line, and J. Lauritzen Lines offered a refrigerated cargo service to China on an inducement basis.

The increasing bureaucratic rivalry between the CNCC and COSCO made it difficult to obtain consensus on improving shipping links with New Zealand.⁵¹³ Nonetheless, the SCONZ commenced a six-weekly container service to China via Kobe. It was acknowledged that the service was more likely to increase China's exports to New Zealand rather than the other way round. The major constraints on the service were the lack of control over shipping from Kobe to China and restricted space from New Zealand. COSCO roll-on roll-off vessels made several calls at New Zealand ports in the year to June 1981 but none in 1982. Despite this absence, the choice of carriers meant that by 1982 both northbound and southbound shipping services were operating without major problems aside from port congestion at Hong Kong and Chinese ports. The congestion began to ease from 1982 as the Chinese ports were upgraded. In general, the CNCC carried about 90% of northbound cargo while southbound cargo was dominated by the New Zealand Unit Express shipping from Hong Kong. In New Zealand, the main calling ports were Timaru (logs); Auckland, Napier, Bluff and Lyttelton (tallow); Auckland, Tauranga, Napier, Picton and Nelson (wool, hides, steel and pulp). The major ports in China are Hsin-Kiang, Shanghai, and Whampoa. The costs of shipping from New Zealand to China were significantly higher than those faced by New Zealand's competitors – a factor that significantly affected trade in forest products and metals.⁵¹⁴ By 1983, shipping between New Zealand and China was generally running smoothly despite the continued absence of a direct liner service. Excluding bulk items, liner trade was about two northbound to one southbound.⁵¹⁵

It was not until 1985 that Jebsen (NZ) Line and their New Zealand agent Geo. H. Scales Ltd commenced a direct liner service between New Zealand and China. This provided total of 7 direct sailings and 24 sailings by transshipment in Hong Kong annually. By the time of the 10th

⁵¹³ AATJ 7428 2/29/43

⁵¹⁴ AATJ 7428 113/1 Part 17

⁵¹⁵ AATJ 7428 113/1 Part 20

JTC session in October 1986, China had upgraded many ports, resulting in the New Zealand delegation noting that it had no shipping problems.⁵¹⁶

Aside from shipping, the other major barrier to New Zealand-China trade was the different quality testing methods applied to New Zealand agricultural exports, preventing the export of New Zealand livestock and dairy products. In March 1980 Maritime Pacific signed a contract for the export of 1228 Friesian cattle to China. The cattle were tested for and cleared of disease before leaving New Zealand. But on arrival in China, Chinese authorities re-tested them and found about half gave a positive test for Infectious Bovine Rhinotracheitis. As a consequence, the Chinese proposed to slaughter the cattle concerned. Similar problems were encountered with sheep exports. At the heart of the problems experience was an apparent Chinese distrust of New Zealand testing procedures. Moreover, Chinese officials did not provide details of their testing methods to New Zealand. In an effort to resolve the impasse, a delegation of Chinese veterinarians was invited to New Zealand in March 1981 to view New Zealand's testing methods. At the conclusion of the visit, New Zealand officials were unable to gauge whether it had been successful with the Chinese simply saying they would review their findings and advise in due course. Despite considerable efforts by New Zealand, the veterinary testing issue remained unresolved until March 1985 when a comprehensive veterinary protocol for cattle and sheep was finally signed.⁵¹⁷ Livestock exports ceased in the intervening period. Protocols for bovine semen and apples were signed October 1984 and April 1985 respectively.⁵¹⁸

In terms of Chinese exports to New Zealand, the Department of Trade and Industry believed the biggest problems were:⁵¹⁹

- minimum orders required by Chinese producers were often too large for New Zealand market;
- limited marketing effort by Chinese;
- China's range of export products was narrow and tended to be controlled by import licensing;
- China served its largest markets (Japan, North America, and the EEC) first;
- Products were sometimes of a lower quality and higher price than competitors such as Taiwan and South Korea.

⁵¹⁶ AATJ 7428 113/1 Part 24

⁵¹⁷ AATJ 7428 113/1/6 Part 2

⁵¹⁸ AATJ 7428 113/1 Part 24

⁵¹⁹ AATJ 7428 113/1 Part 24

By 1983, nearly 65% of imports from China received some preference under New Zealand's GSP rates. Approximately 80% of goods were free from import licensing by 1983. Despite the gradual relaxation of licensing, there were numerous instances of licences being declined. The New Zealand Export Import Corporation attempted to import electric motors only to be refused import licences.⁵²⁰ In 1978 the following tariff rates applied to major Chinese exports:⁵²¹

<u>Product</u>	<u>Tariff Rates 1972</u>	<u>Tariff Rates 1978 (Including GSP)</u>
Tea	Free (packs ≥2.26kg)	Free (packs ≥2kg)
Pig Bristles	Free	Free
Cotton fabrics	5% unbleached, 10% bleached	Free
Textile Fabrics	Mainly 15%	Free
Crude animal materials	Free	Free
Made-up textile materials	22.5%	22.5%
Tulle, lace, embroidery etc	25%	Free
Clothing	Mainly 65%	Mainly 45%
Glassware	40%	22.5%
Other vegetable oils/fats	Free	Free

For its part, China retained its two column tariff for each commodity – a minimum rate of 5% to 150% applied to the goods of those countries with which China had treaties or agreements conferring reciprocal favourable treatment, and a general rate of 7.5% to 400 percent applying to imports from other sources. New Zealand's trade agreement meant that it qualified for the lower rates. China's tariffs applied to New Zealand exports were generally higher than the tariffs applied to Chinese exports to New Zealand. Some of the tariffs applicable to New Zealand's principal exports in 1979/80 were as follows:⁵²²

<u>Product</u>	<u>Tariff Rates 1979/80</u>	
	<u>Minimum (Applies to New Zealand)</u>	<u>General</u>
Live Animals	Free	Free
Whole Milk Powder	40%	60
Butter	80%	120
Tallow	80%	120
Hides and Skins	Mostly 20%	Mostly 25%
Leather	70%	100%
Logs	15%	20%
Processed Wood	Mostly 60%	Mostly 80%

⁵²⁰ Evening Post 15 February 1984, p16

⁵²¹ AATJ 7428 113/1/6 Part 1

⁵²² AATJ 7428 113/1 Part 15

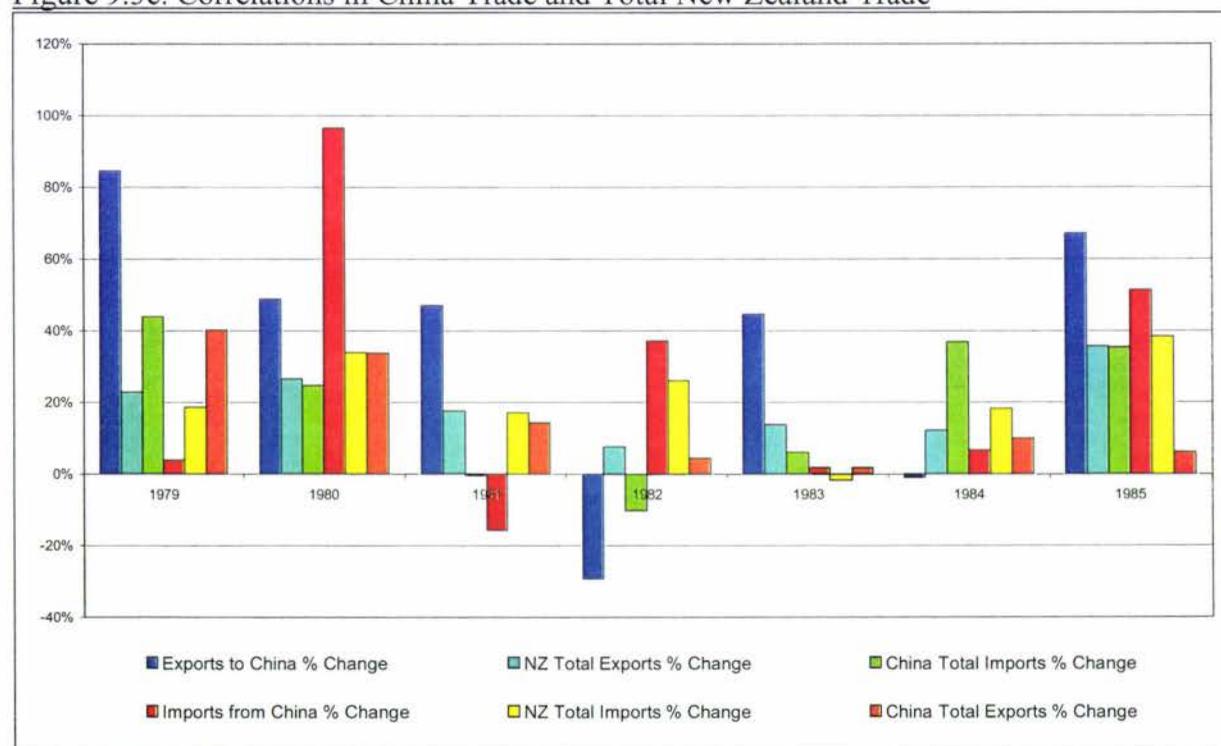
Wood pulp	12.5%	15%
Newsprint/Kraft Linerboard	20%	25%
Wool	20%	25%
Aluminium	10%	10.5%
Aluminium foil	70%	100%

In very broad terms, raw materials, heavy equipment, and construction needs were subject to lower tariff rates than consumer goods.

9.3.4 THE PREDOMINANCE OF ECONOMIC FACTORS IN THE OPEN-DOOR PERIOD

A recurring theme of section 9.3.3 has been the predominance of economic factors over political factors. One of the most obvious determinants of trade growth was New Zealand’s economic growth – the growth of imports from China dropped off markedly in 1979, 1981, and 1983 corresponding with a significant slowdown in the New Zealand’s real economic growth.

Figure 9.3c: Correlations in China Trade and Total New Zealand Trade



Source: As for table 10.4a.

In contrast, China’s real economic growth averaged 9.2% over the open-door period and did not decrease below 5% in any year – fertile ground for the expansion of New Zealand’s exports. Interestingly, New Zealand’s exports to China were more highly correlated with total exports than China’s total imports while the relationship was reversed in the case imports from China –

these were more highly correlated with New Zealand's total imports than China's total exports. However, it is difficult to infer the reasons for the differences.

Table 9.3e: Correlation Matrix 1979-85

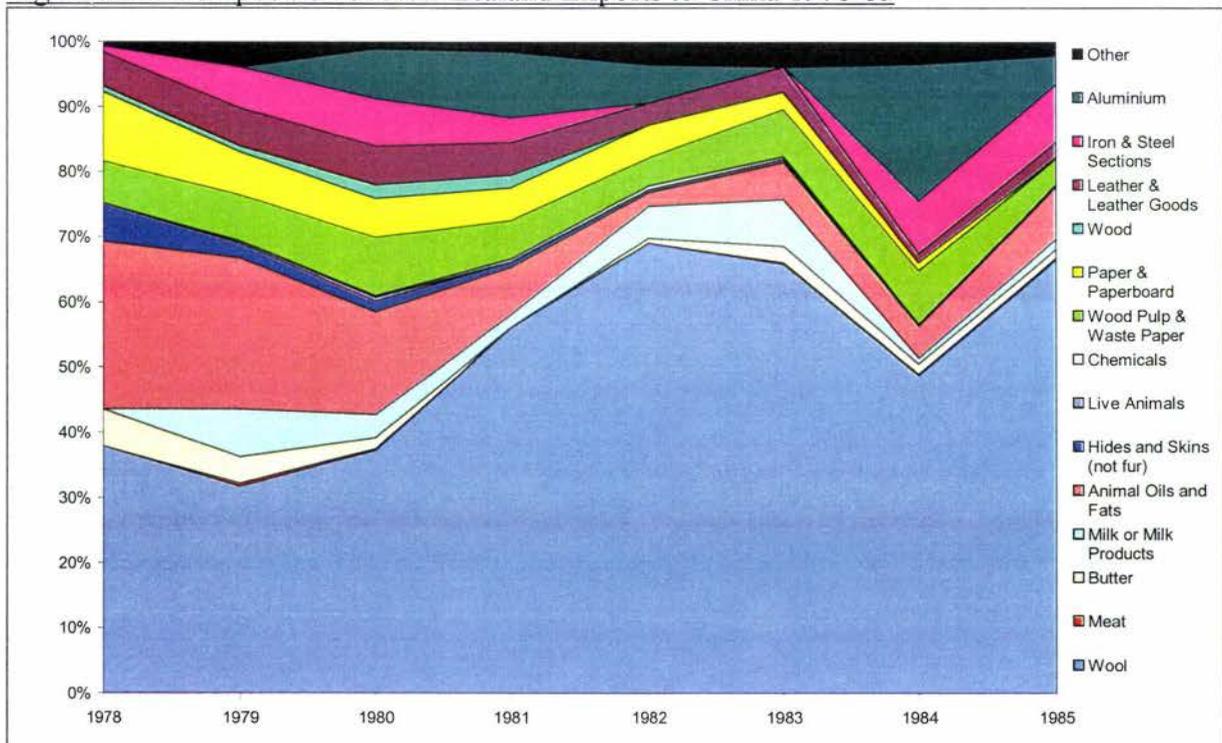
	R^2	<u>Correlation Coefficient</u>
NZ Real GDP to Imports from China	0.8816	0.9390
China Real GDP to Exports from NZ	0.7830	0.8848
NZ Exports to China/NZ Total Exports	0.9007	0.9490
NZ Imports from China/NZ Total Imports	0.9370	0.9680
NZ Exports to China/China Total Imports	0.8287	0.9103
NZ Imports from China/China Total Exports	0.7840	0.8854

Source: See Table 10.4a.

9.3.5 NEW ZEALAND EXPORTS 1979-84

As with previous periods, wool remained the dominant commodity in New Zealand's export trade with China. However, there were signs of significant diversification, particularly with regard to aluminium and steel.

Figure 9.3d: Composition of New Zealand Exports to China 1978-85

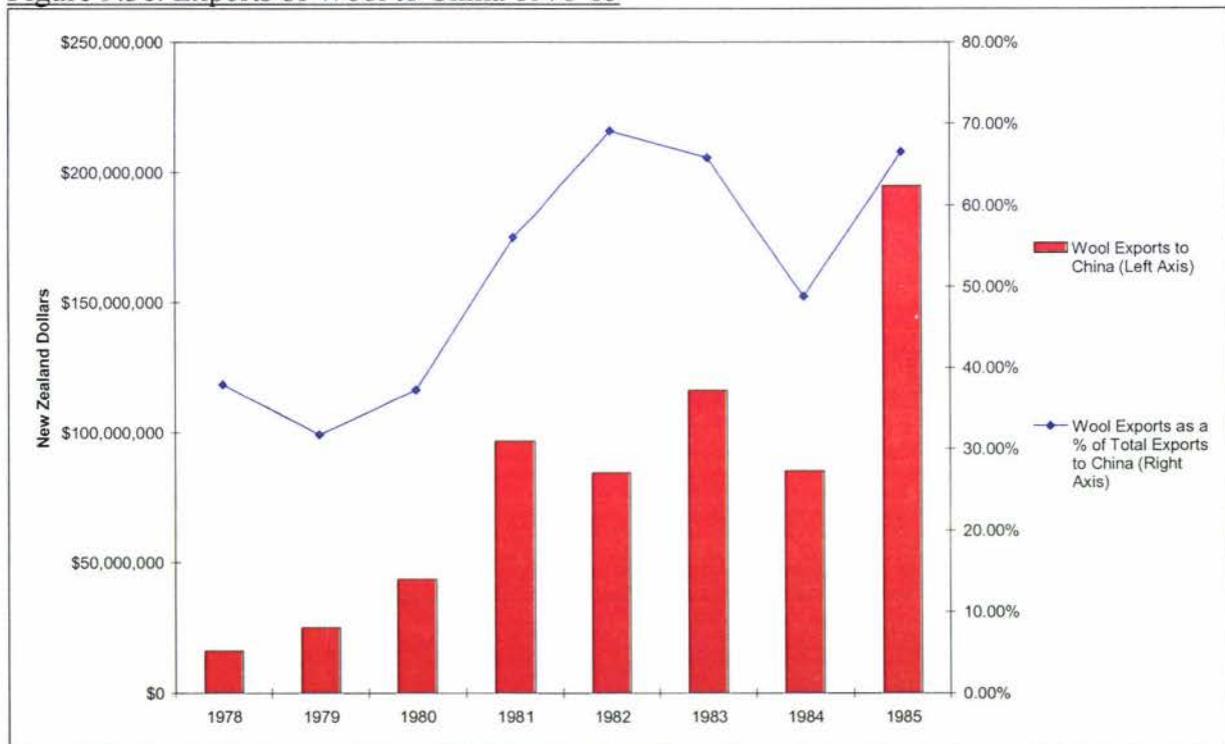


Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Wool

By 1979, the Wool Board had abandoned discussions on selling wool directly to the Chinese. With exports of greasy wool for China's knitting yarn production expanding nicely (New Zealand was now the largest exporter of wool to China, with China being New Zealand's seventh largest market), much of the focus in the open-door period concentrated on expanding the range of wools exported to China. Considerable efforts were made to interest the Chinese in carpet and new types of textile wools. The drive achieved some success in July 1979 when Chinatex purchased approximately \$500,000 of new wool types. China's purchases of a wider range of wools continued into the 1981 year with fine wools for machine knitting, and second shear wool being imported for blending into hand-knotted carpets. China was New Zealand's largest export market for wool in 1981 before dropping down to fourth in 1982 in the face of increasing competition from Argentina.

Figure 9.3e: Exports of Wool to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

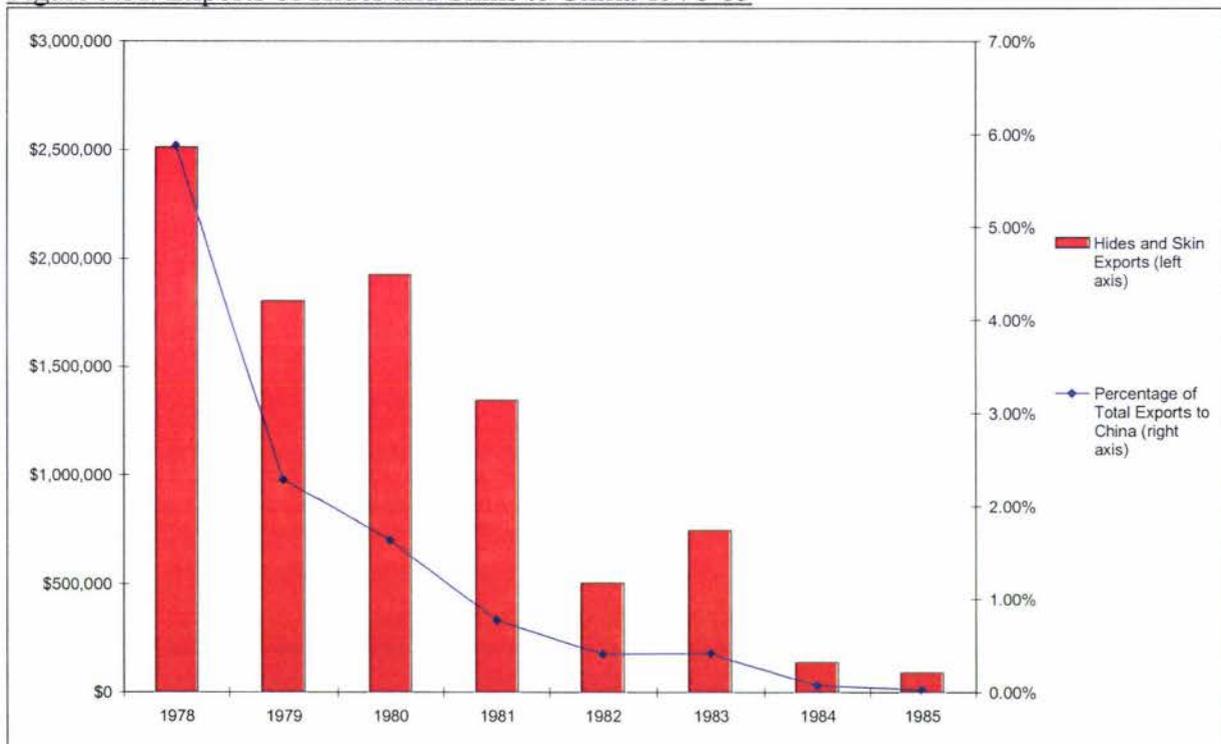
Concern about the low value added on New Zealand wool exports continued throughout the open-door period. More than 50% of New Zealand's total wool exports were scoured whereas more than 96% of wool exports to China were unscoured. The New Zealand Woolscourers Association urged Chinatex to import scoured wool, believing the savings on freight and New Zealand's extremely competitive scouring industry would negate any additional foreign

exchange required.⁵²³ There was also concern about the problems created by a power struggle between Chinatex and the Ministry of Textiles.⁵²⁴ China's import boom in 1984/85 saw wool exports reach record levels with China taking 13.2% of New Zealand's total wool exports.⁵²⁵

Hides and Skins

The importance of hides and skins in New Zealand-China trade declined dramatically over the open-door period. Initially, the drop off in sales to China was because of high prices.⁵²⁶ Between October 1978 and October 1979 world prices boomed and the Chinese simply refused to purchase at the higher prices.⁵²⁷ Chinese purchases increased again in 1980 after the visit of a delegation from the Native Products Corporation. But thereafter exports of hides and skins failed to represent a major component of New Zealand China trade.

Figure 9.3f: Exports of Hides and Skins to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Animal Oils and Fats

⁵²³ AATJ 7428 113/1 Part 17

⁵²⁴ AATH 7428 113/1 Part 20

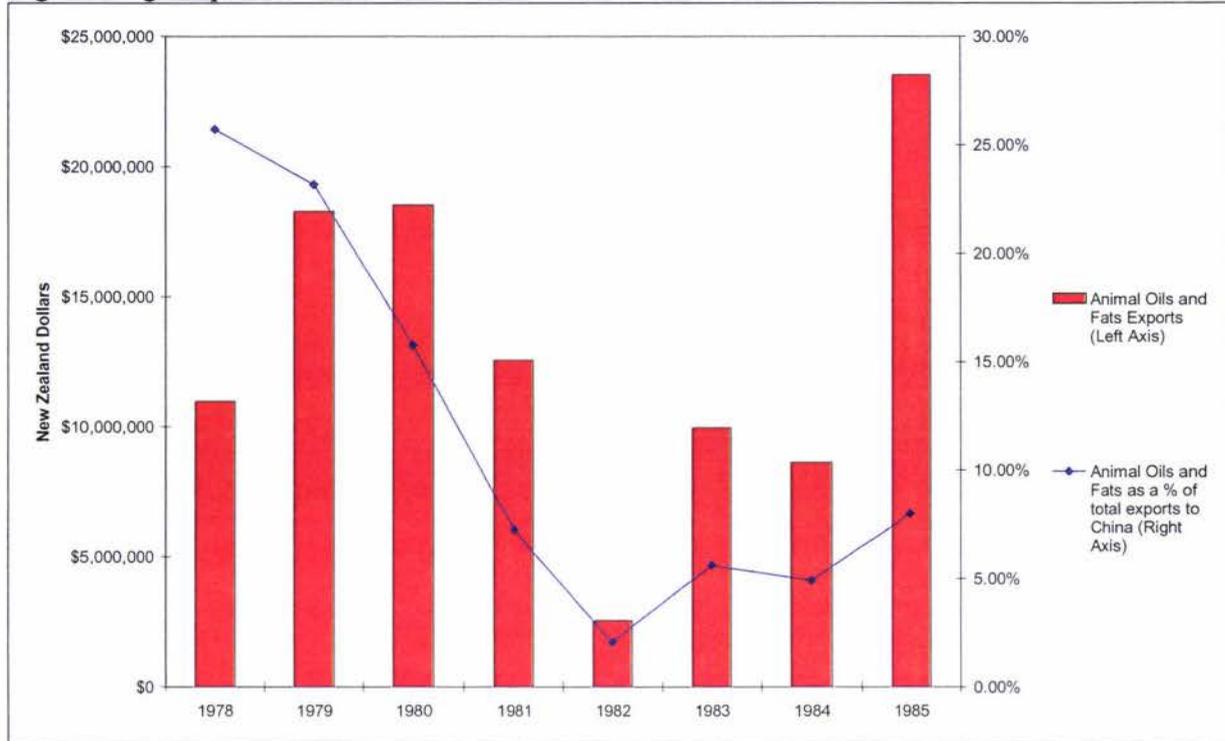
⁵²⁵ Calculated from New Zealand Statistics Department External Trade Statistics.

⁵²⁶ AATJ 7428 2/29/43

⁵²⁷ AATJ 7428 113/1 Part 14

The importance of tallow in New Zealand’s exports to China declined dramatically in the open-door period as Chinese authorities encouraged the use of cheaper domestically produced lard.⁵²⁸ By the time tallow sales recovered in the 1985 statistical year, New Zealand’s other exports had increased and diversified significantly.

Figure 9.3g: Exports of Animal Oils and Fats to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

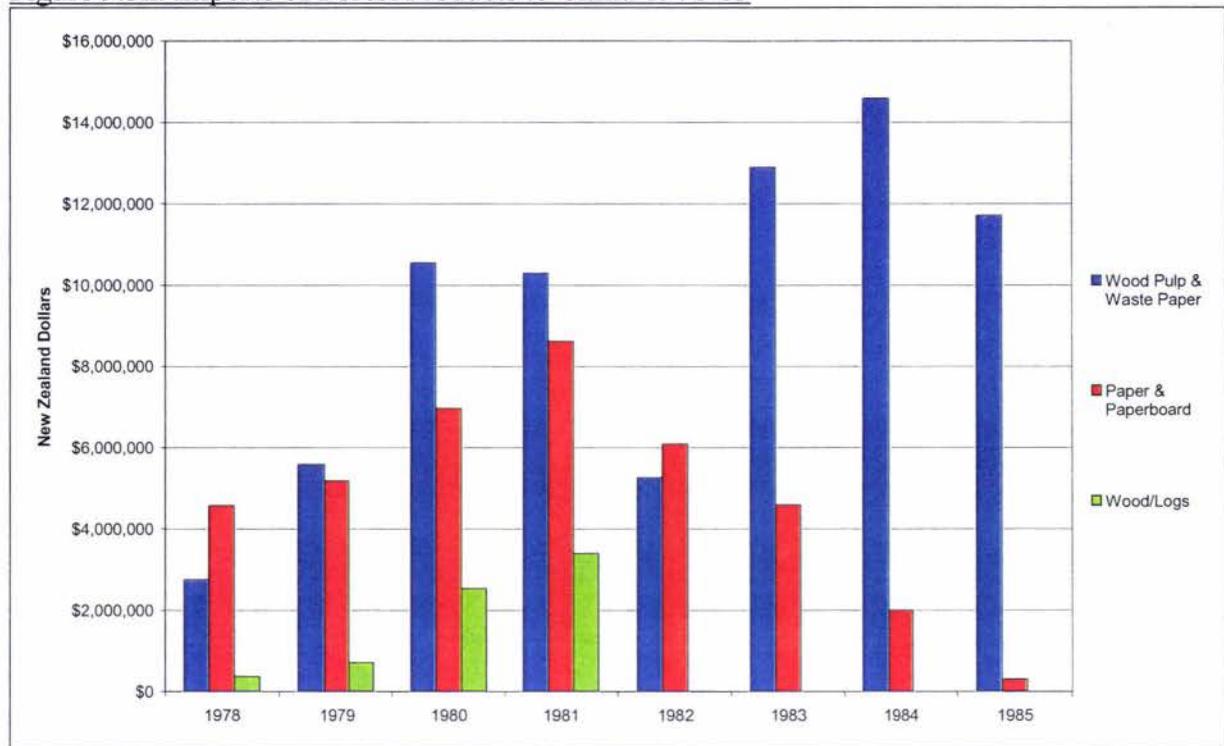
Forest Products

At the start of the front-door period, New Zealand Forest Products, Tasman Pulp and Paper (Bowaters), and Caxtons were exporting pulp, linerboard, and newsprint. The New Zealand Forest Service was exporting logs for use in Chinese packaging, plywood, and construction industries. A visit by the China National Native Produce Import and Export Corporation (NPC) in October 1979 was significant for the first sales of sawn timber. New Zealand exporters expended much time and money over a long period to interest the Chinese in sawn timber. The New Zealand Forest Service sold 8,000 cubic metres to be delivered between March 1980 and March 1981. Tasman Pulp and Paper Ltd and New Zealand Forest Products also achieved significant sales. Sales in 1982 dropped off amid problems of supply and in agreeing mutually acceptable prices. Exports of logs ceased as New Zealand did not have logs available for export while exports of pulp were hindered by mechanical problems at the Kinlieth mill. China had

⁵²⁸ AATJ 7428 113/1 Part 16

large stockpiles of paper and paperboard in 1982 causing exports to decline. Exports continued to decline as China became more self sufficient in these products.⁵²⁹

Figure 9.3h: Exports of Forest Products to China 1978-85



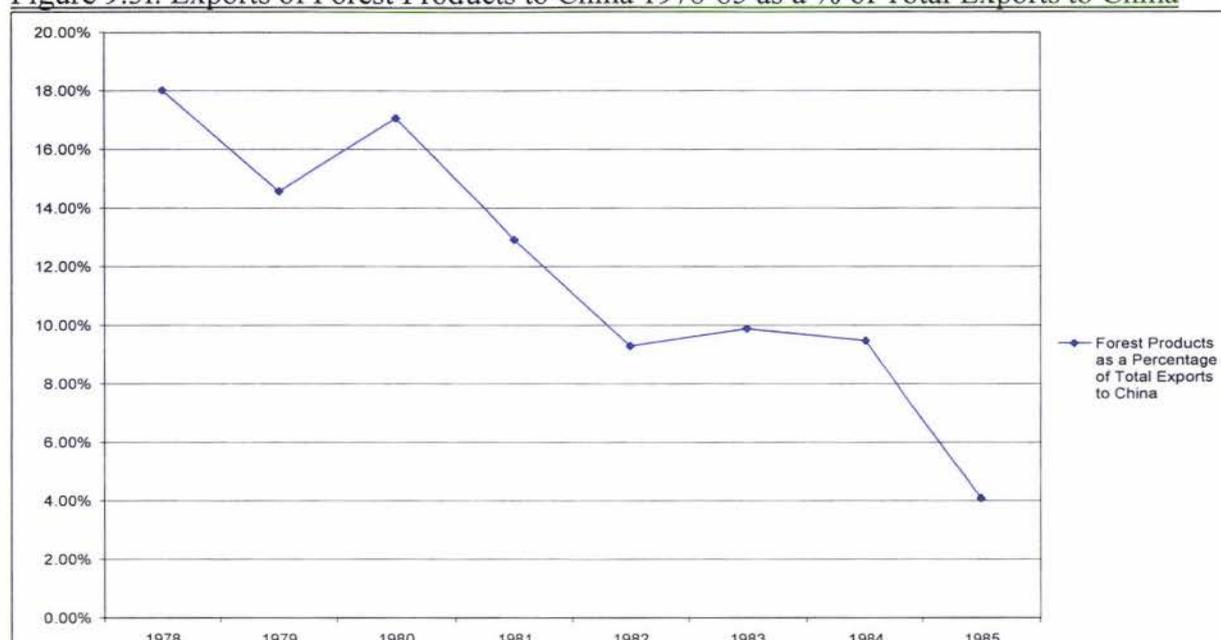
Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Forest product exports as a percentage of total exports to China declined from a high of 18% in 1978 to a mere 4% in 1985. Part of the reason for the drop off was China's massive reforestation programme. In 1949, China had 8.6% of its land area in timber, but by 1981 the figure had grown to 12.7% with planting estimated at 200,000 hectares of high-grade timber per annum. In this context, it is only natural that New Zealand's forestry exports would decline as China's self-sufficiency grew. Another problem was the higher freight costs in shipping to China as opposed to Japan. The FOB price of logs to Japan received by the New Zealand exporter was greater than to China, resulting in the trade being directed away from China. The only way to resolve the problem was to sell higher value grades but the Chinese generally preferred logs to sawn timber. There was also a perception that the Chinese did not understand the multipurpose nature of radiata pine. Delegations had been sent to China to explain the various uses but were prevented from meeting end users in accordance with China's trade negotiation strategy.⁵³⁰

⁵²⁹ AATJ 7428 113/1 Part 17

⁵³⁰ AATJ 7428 113/1 Part 17

Figure 9.3i: Exports of Forest Products to China 1978-85 as a % of Total Exports to China



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Dairy Products

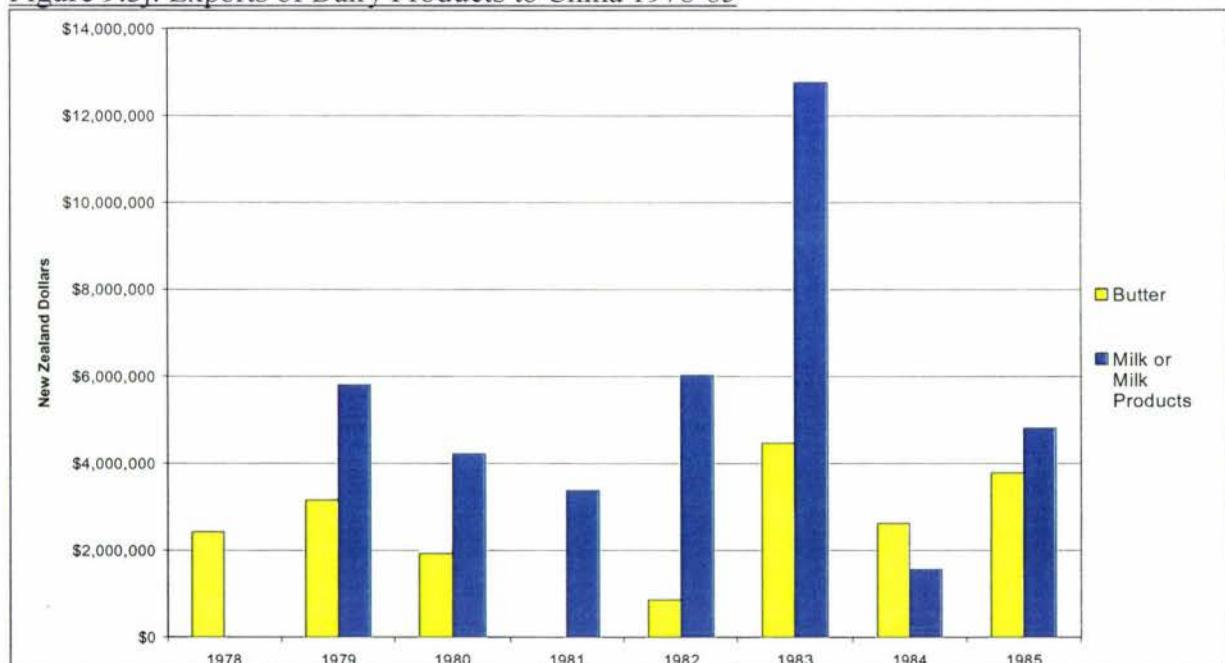
2000 tonnes of butter was exported to China in the year to June 1978, representing the first significant sale of dairy products. During Deputy Prime Minister Talboys' visit to China, his Chinese counterpart Li Qiang maintained that the Chinese did not like milk or cheese, preferring instead to use butter in cakes and confectionary. However, it was expected that China would need increasing amounts of dairy products as tourism expanded. 2500 tonnes of butter valued at \$3.14 million was sold again to China in 1979 along with approximately \$5.8 million worth of milk powders. Unfortunately, 726.7 tonnes of the former sale did not meet contract specifications, resulting in the Dairy Board shipping it back to New Zealand and replacing it. The sale of milk powders was also the subject of a claim for approximately \$10,000 due to the Chinese employing a different testing method that identified traces of a contaminant. The Dairy Board's prompt handling of these problems meant that New Zealand's reputation was not damaged. Moreover, the lack of refrigeration and distribution facilities for fresh milk made New Zealand milk powders an attractive way to distribute dairy products throughout China in line with increasing living standards.

Most of the milk powder and butter were used in the confectionery industry, although the New Zealand embassy were aware of New Zealand product being packaged into small parcels and sold at retail outlets, despite Chinese claims to the contrary. One can only postulate that the reason for the Chinese denial was to prevent New Zealand attempting to raise prices to retail level or sell packaged retail parcels. The Ministry of Foreign Affairs was also concerned that the

Chinese Ministry of Health was stipulating hygiene requirements too stringent for the Dairy Board to meet, and considerably more onerous than prevailing international regulations, in an effort to bar New Zealand from selling retail parcels of butter and infant milk powder.⁵³¹ Denmark was New Zealand's major competitor in terms of dairy products although the Danes were more focused on supplying machinery whereas New Zealand was more interested in supplying dairy products.⁵³² In this area, the Netherlands and Ireland were also active, although New Zealand remained the major source of supply at the end of 1979. In November/December 1979 the New Zealand Dairy Board held a symposium/technical exchange in both Shanghai and Beijing on New Zealand's dairy products, significantly increasing awareness of New Zealand's dairy products.

Attempts were made to get the Chinese to expand the range of their dairy product purchases to include baby food, stock feed, and table butter. In November 1979 it looked as though the Chinese would purchase table butter until China's Ministry of Health declared that the bacterial count for New Zealand patted butter was not up to Chinese standards. Trade was also hindered by the Chinese placing orders late in the dairy season (September to April) when most of New Zealand's production had already been committed to other markets. Attempts to resolve these issues through long-term contracts proved fruitless.

Figure 9.3j: Exports of Dairy Products to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

⁵³¹ AATJ 7428 113/1 Part 14

⁵³² AATJ 7428 113/1/7/1 part 1

Sales of dairy products, considered a non-essential item by the Chinese, fell off in 1981 as China began to experience balance of payments problems. As these eased, exports rebounded. By the end of the open-door period, dairy products looked to be the commodity with the greatest future export potential, providing China's living standards continued to increase and the Chinese people were educated on the uses and benefits of dairy products.

Meat

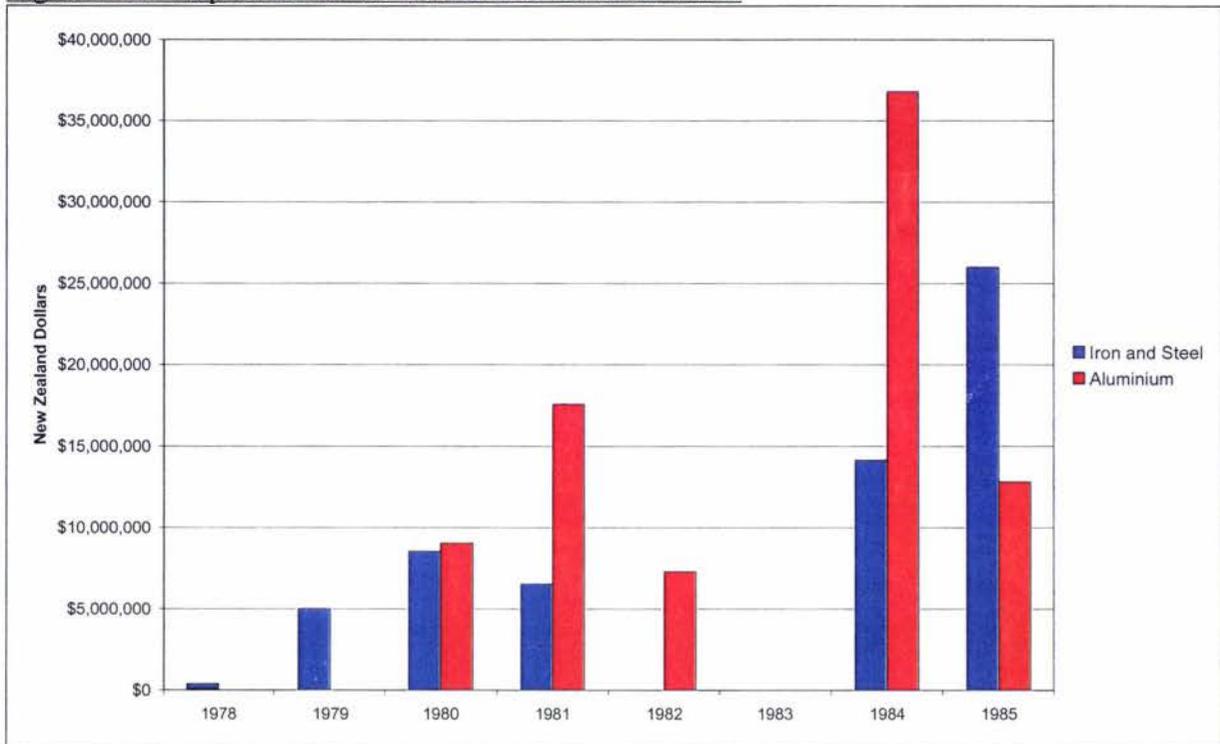
Given China's large stocks of meat-producing animals and different tastes in meat, hopes for New Zealand meat exports depended on the development of a substantial tourism industry that would demand high-quality New Zealand meat. Small sales of mutton were made in the years to June 1979 and 1980. The latter sale was plagued by shipping difficulties and the lack of cold storage facilities in China, culminating in a compensation payment of \$10,000 to the Cereals Oils and Foodstuffs Corporation. Sales increased over the open-door period, although meat remained small in the context of total New Zealand exports. The lack of adequate cold storage facilities meant that China was not seen as a large market.

Aluminium and Steel

Exports of aluminium and steel products were one of the real success stories for New Zealand in the open-door period. Exports of steel, contracted through the NZEIC in the case of Pacific Steel, declined after 1981 as China developed a large stockpile and shifted its priorities away from heavy industry towards light industry. The cost of freight a major factor in metal shipments – it cost twice as much to ship from New Zealand as Europe, so consequently China decreased her purchases.⁵³³

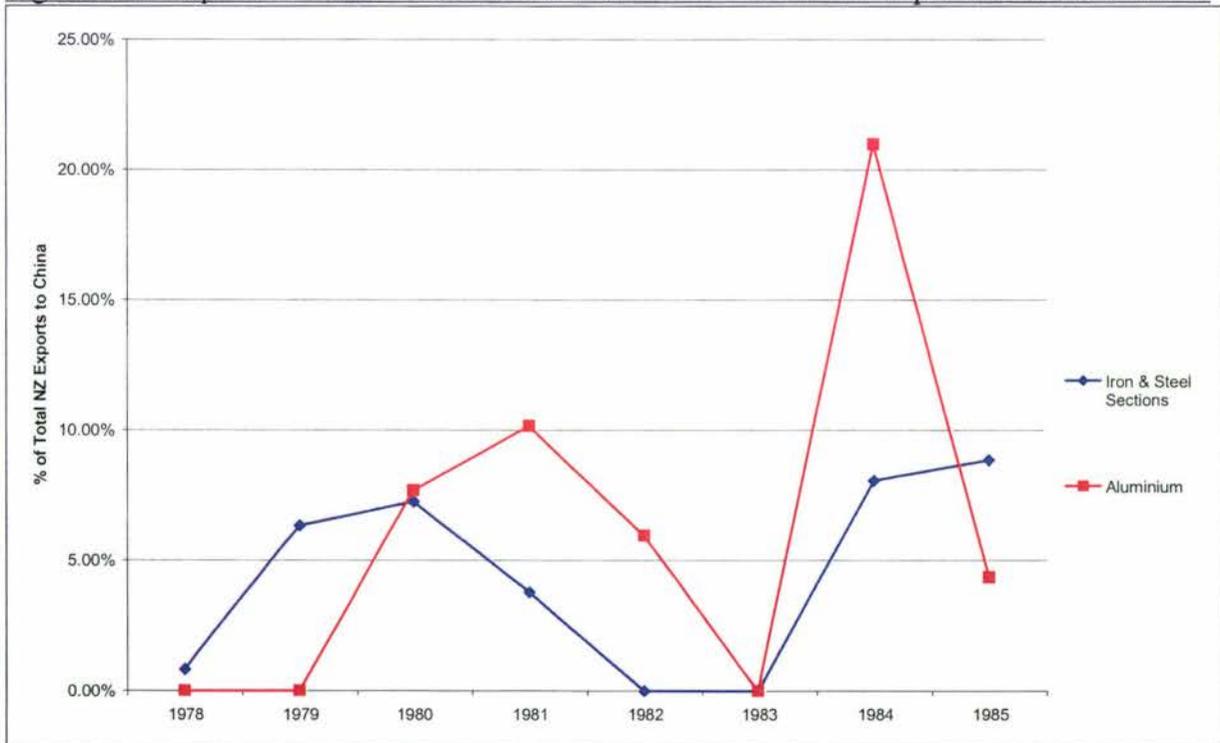
⁵³³ AATJ 7428 113/1 Part 17

Figure 9.3k: Exports of Metal Products to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Figure 9.3l: Exports of Metal Products as a % of total New Zealand exports to China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Aluminium exports in 1984 accounted for greater than 20% of total New Zealand exports to China before dropping off in 1985. However, the figures are somewhat misleading because of monopoly producer Comalco's decision to supply China from the New Zealand smelter rather

than Australia. A proposal in late 1978 for China to send alumina to New Zealand for smelting at Bluff and re-export to China did not proceed beyond preliminary discussions.⁵³⁴ Iron and steel exports also remained significant except for the 1982 and 1983 years. The increase in metal exports was a direct result of metal shortages arising from China's modernisation policies. A pioneering sale of steel billets in August 1984 augured well for future exports.⁵³⁵

Other Exports

After much effort, Chemby Industries of Auckland concluded a contract for the sale of a wool scouring line worth approximately \$600,000 in August 1979, although delivery was not effected until 1980. The sale occurred following a Wool Board delegation to China and against a background of strong competition from Japan, West Germany, Britain, and Australia, and represented one of the few sales of relatively sophisticated New Zealand machinery. Officials recognised that New Zealand's record in this area was poor given the significant efforts made. A further sale was concluded to a value of approximately \$800,000 in April 1980 with delivery to be effected in 1981.⁵³⁶ Small-scale sales of other agricultural machinery occurred sporadically thereafter.

9.3.6 NEW ZEALAND IMPORTS 1979-84

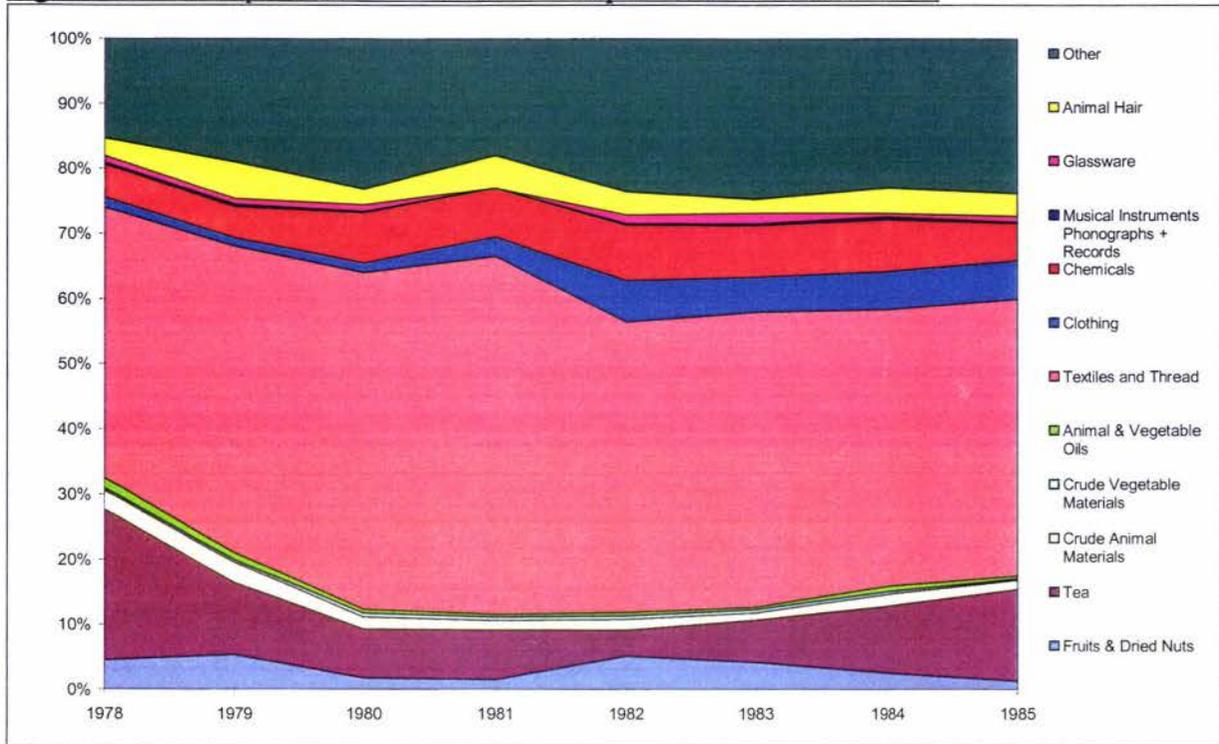
Textiles continued their domination of Chinese exports to New Zealand in the open-door period, although there were signs that a mild diversification was taking place into commodities such as clothing.

⁵³⁴ AATJ 7428 113/1 Part 16

⁵³⁵ AATJ 7428 113/1 Part 21

⁵³⁶ AATJ 7428 113/1 Part 14

Figure 9.3m: Composition of New Zealand Imports from China 1978-85



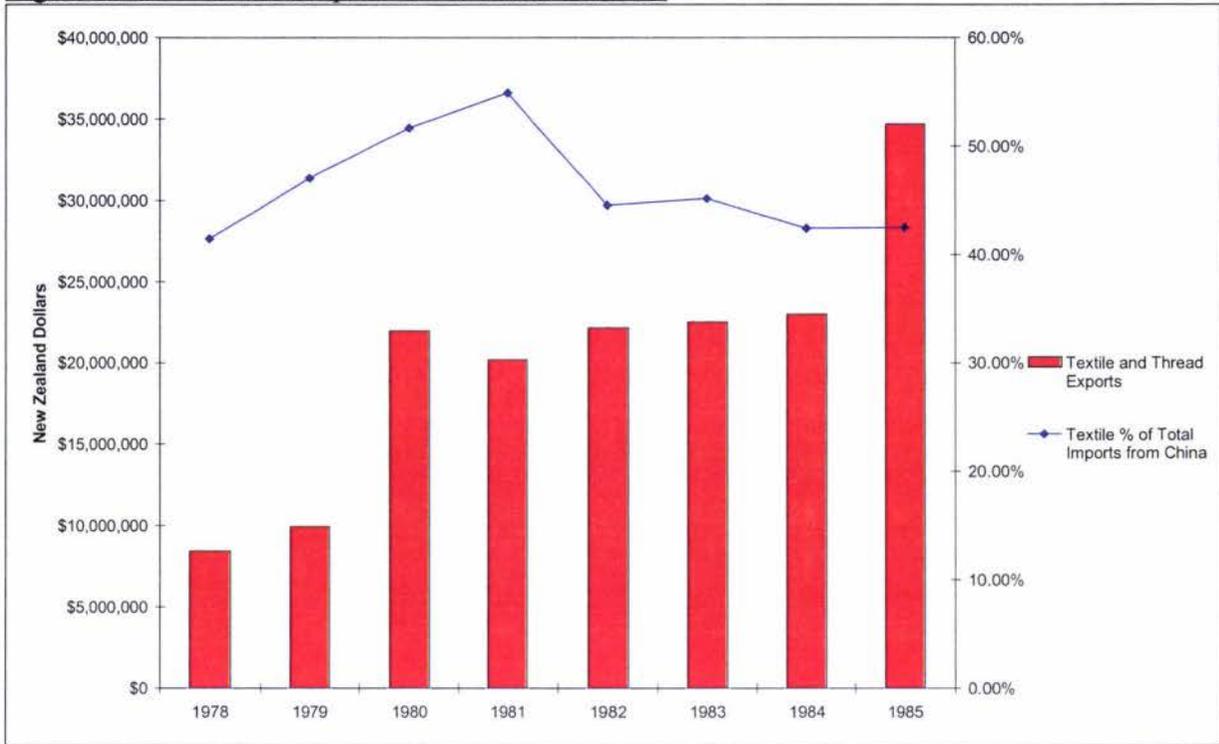
Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Textiles

New Zealand's imports of textiles from China reached record levels in 1973/74 before falling dramatically in 1975 and 1976. They had recovered by 1978 and jumped to new highs in the year to June 1980 following the extension of GSP preferences to China. Cotton fabrics made up approximately 54% of textile imports in 1980, although synthetic fibres showed the most dramatic growth. In the same year, approximately 83% of China's textile exports to New Zealand entered duty free with margins of preference of 5-15% over normal rates. Despite the favourable treatment, textile imports stagnated again between 1980 and 1984. In 1983, both the Chinatex and the Ministry for Textiles expressed concern that China's textile exports were being seriously hindered by the inability of its agents, McDonald Vadco Limited and McCaul Sheridan Limited, to gain any basic import licensing allocation. The Department of Trade and Industry responded by pointing out that New Zealand was in the process of reviewing protection under the auspices of the Textile Industry Development Plan, designed to prevent further erosion of New Zealand's textile industry, and that further relaxation was not possible because recent relaxations were still under review. The plan generally reduced import licensing and tariffs on the types of textiles imported from China, making the New Zealand textile industry particularly sensitive to any further relaxations. It was, however, possible for Chinatex to sell to importers

who held licences, although this would negate any benefits from dealing with its current agents.⁵³⁷

Figure 9.3n: Textile Imports from China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

China’s continuing export diversification saw textiles as a percentage of total imports to New Zealand reduce from over 51% in 1980 to 42.5% in 1985. However, China’s share of total textile imports to New Zealand increased over time, from 3.1% in 1972 to 6.8% in 1980.⁵³⁸

Clothing

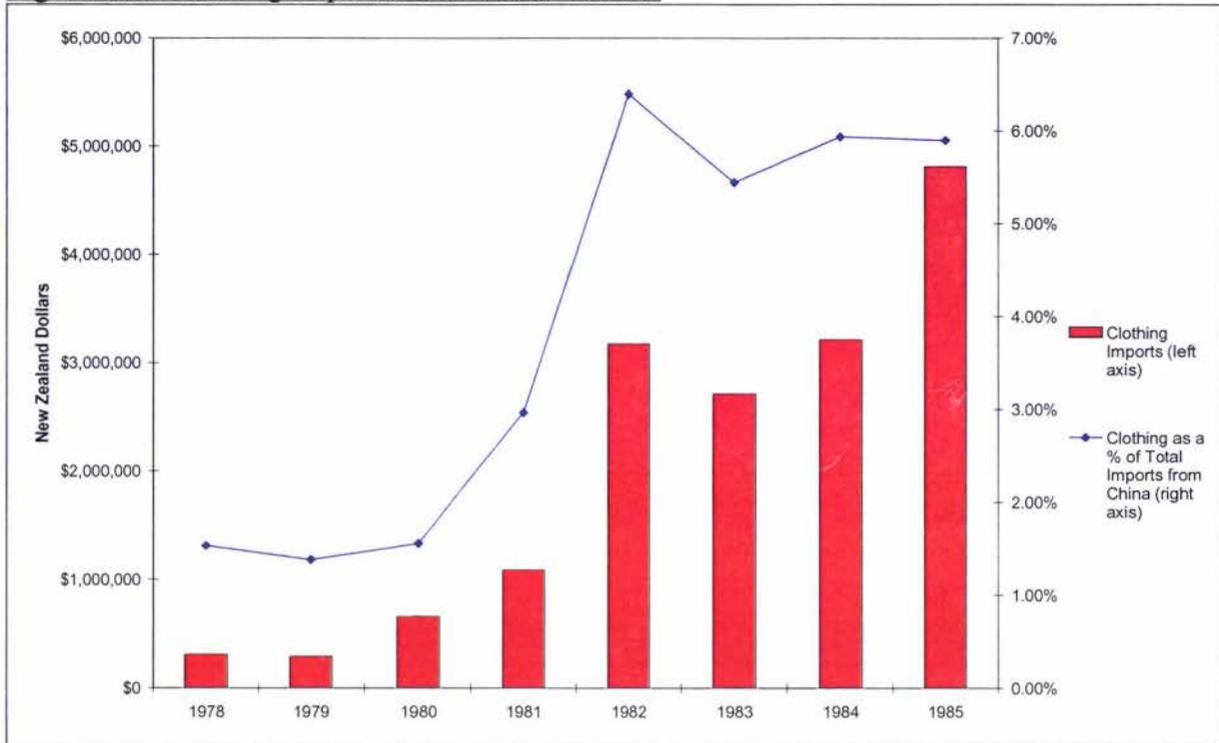
Import of clothing from China increased from 2.3% of total imports in 1972 to 3.9% in 1980.⁵³⁹ By 1984/85, clothing imports comprised approximately 6% of total Chinese exports to New Zealand.

⁵³⁷ AATJ 7428 113/1/6 Part 2

⁵³⁸ AATJ 7428 113/1 Part 15

⁵³⁹ AATJ 7428 113/1 Part 15

Figure 9.3o: Clothing Imports from China 1978-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Carpets

In an effort to increase exports of New Zealand wool for carpet manufacturing, in 1982 the New Zealand wool board sought to increase the importation of Chinese hand knotted carpets. The board wrote to the Department of Trade and Industry seeking the removal of import licensing from hand knotted carpets. After checking with the New Zealand Carpet Manufacturers Association, it was agreed that an increase in import licence of 50% (\$500,000) was sustainable.

Oil

China finally became a major exporter of oil and related products during the open-door period. \$1.4 million of refined petroleum products were exported to New Zealand in 1979-80 while in 1985 BP bought 20,000 tonnes of diesel in 1985 worth approximately \$9 million. Negotiations for the purchase of diesel in the previous year broke down because of the China National Offshore Oil Corporation's insistence on a letter of credit from BP, something that was not in keeping with international oil industry practice. Importation of Chinese waxy crude became possible from 1986 onwards after the upgrade of Marsden Point including the installation of a hydrocracker as part of the 'Think Big' programme.⁵⁴⁰

⁵⁴⁰ AATJ 7428 113/1/6 Part 2

9.4 CONCLUSIONS

Chinese economic reforms from 1978 dictated the pattern of trade in the open-door period. The establishment of Special Economic Zones, proliferation of foreign investment in China, and general expansion of foreign trade saw the initiative for the expansion of New Zealand-China trade shift back to the private sector to a significant degree. While ministerial visits remained an effective method of closing large trade deals, the ground work was invariably laid by private enterprise. The pursuit of joint-venture agreements with state trading corporations and Chinese regional authorities occupied a great deal of the time of traders and New Zealand officials. Yet in terms of total two-way trade, the joint ventures remained a sideshow – trade in traditional commodities and raw materials continued to dominate two-way trade and drove it to record levels as indicated in Table 9.4a.

Table 9.4a.
New Zealand-China Trade Growth

June Years Ended	Total Two-way Trade (NZ\$)	% Change
1978	\$63,077,616	49.1%
1979	\$100,025,697	58.6%
1980	\$158,993,198	59.0%
1981	\$207,797,358	30.7%
1982	\$170,363,598	-18.0%
1983	\$225,817,199	32.6%
1984	\$227,438,299	0.7%
1985	\$372,055,554	63.6%

Sources: NZ Department of Statistics, *External Trade Statistics*, various years. Data is for June years.

Average annual growth rates of New Zealand exports to China, Chinese exports to New Zealand, and total bilateral trade remained lower than in the front-door period - average annual growth in exports in the open-door period was just 37.5% compared to 102.3% in the front-door period.⁵⁴¹

Table 9.4fb Growth of New Zealand-China Trade 1979-85

	Average Annual % Change	Total Growth
Exports to China	37.5%	272%
NZ Total Exports	19.5%	178%
Imports from China	26.0%	273%

⁵⁴¹ See Table 10.4b.

NZ Total Imports	21.6%	219%
NZ Total Trade	20.4%	197%
China Total Exports	15.8%	90%
China Total Imports	19.5%	119%
China Total Trade	17.4%	105%
Bi Lateral Total Trade	32.4%	272%

Source: See Table 10.4b.

The slowdown in trade growth, particularly after the poor performance of 1984, prompted considerable soul-searching amongst New Zealand officials. A lack of coordination amongst departments in Wellington was identified as the major culprit culminating in the formation of an Inter-Departmental Committee on trade with China in 1985. There were also concerns that New Zealand was losing out to countries such as Australia because of its limited trade development resources and inability to offer China soft or favourable credit terms. But in reality, New Zealand fared little worse than Australia and most other OECD countries.

Exports (date of recognition)	Average annual change					
	Exports		Imports		Total Trade	
	%	Rank	%	Rank	%	Rank
New Zealand (1972)	15.7%	10	10.8%	12	13.8%	9
Australia (1972)	17.9%	8	17.3%	8	16.2%	8
Canada (1970)	16.6%	9	24.0%	3	16.9%	7
Germany (1972)	3.7%	16	17.2%	9	7.4%	14
Denmark (1950)	152.6%	1	24.2%	2	34.8%	1
France (1964)	12.5%	12	13.9%	10	12.0%	10
United Kingdom (1950)	35.0%	3	11.1%	11	19.1%	4
Japan (1972)	19.1%	7	21.3%	5	18.8%	5
Finland (1950)	25.2%	4	21.4%	4	19.9%	3
Netherlands (1954)	12.4%	13	9.0%	15	6.9%	15
Norway (1950)	39.9%	2	17.6%	7	21.2%	2
Sweden (1950)	13.0%	11	10.0%	13	8.9%	12
Austria (1971)	19.2%	6	6.7%	16	11.4%	11
Belgium-Luxembourg (1971)	8.4%	14	28.3%	1	7.6%	13
Switzerland (1950)	5.4%	15	9.8%	14	6.8%	16
Italy (1970)	21.1%	5	18.1%	6	17.6%	6

Source: OECD, *International Trade by Commodities Statistics*, SITC Rev 2 Historical Series 1961-1990. Only OECD countries with full data for 1965-84 are included.

The special and favourable treatment accorded to Australia and New Zealand by the Chinese in the 1970s naturally began to diminish as China's economy opened up to the outside world. In particular, the abandonment of the trade embargo and establishment of diplomatic relations with the United States saw phenomenal growth in trade between the two countries, predominantly as a

means of technology transfer. There was also the issue of scale – by 1979 New Zealand-China trade was of a sufficient level that individual commodity contracts were no longer able to cause a significant jump in trade. In essence, New Zealand-China trade had begun to mature.

In terms of the hindrances to trade, the lack of shipping was the main enemy in 1979 but by 1984 improvements in transshipping and Chinese port facilities meant that shipping between the two countries was operating smoothly. Instead, high Chinese tariffs on New Zealand exports, particularly on tallow and dairy products, became New Zealand's greatest enemy. From the Chinese perspective, the continuance of New Zealand's import licensing regime and high incidence on Chinese exports was the major area of concern. The difficulties and costs of doing business with China also continued to deter many New Zealand exporters from attempting to sell to China. Export incentives seem to have had little effect. On the import side, the failure of Chinese exports to New Zealand to keep pace with New Zealand exports to China was a major issue of the period and one that New Zealand went to considerable lengths to address. Major reasons for the sluggish performance were poor marketing on the part of the Chinese exporters and that they often overlooked the tiny New Zealand market in favour of larger countries. Looking forward, the lack of diversification amongst both countries' exports had the potential to significantly curtail trade should world economic conditions sour.

Despite the barriers and limitations to New Zealand-China trade, and although trade growth was never likely to reach the highs of the front-door period, the very warm political and business relations meant the expansion of the trade continued to exceed the growth rate to total Chinese export and imports by a considerable margin during the open-door period. Amongst the potential new markets New Zealand was exploring in the 1980s, including the Soviet Union, Eastern Europe and the Middle East, China proved a much more rewarding market. In the final analysis, China and New Zealand had greatly assisted each other in the pursuit of economic prosperity over the open-door period.

10. CONCLUSION

10.1 RESEARCH QUESTION

In 1954 exports to the People's Republic of China comprised just 0.01% of New Zealand's total exports while imports were 0.11% of the total. China was one of New Zealand's smallest trading partners due to the enormous political, cultural, and economic differences that existed between the two countries. By 2004 the corresponding figures for exports and imports were 5.7% and 9.7%, making China New Zealand's fourth largest trading partner. 2004 was also the year China selected New Zealand as the first country with which it will negotiate a Free Trade Agreement. The central question of this thesis has therefore been how did one of our smallest foreign markets with major relationship difficulties become one of our largest? The formative period of New Zealand-China trade between 1954 and 1984 is analysed to provide these answers. To assist research focus, two sub-questions were also introduced: what factors assisted New Zealand's trade with China, and what factors hampered it?

10.2 EXISTING LITERATURE

A logical first step in answering any question is to look at the answers posited by others. Existing literature can be divided into five major areas: (i) New Zealand general or economic histories; (ii) Chinese general or economic histories; (iii) histories of New Zealand's international relations; (iv) histories of China's international relations; (v) New Zealand-China bilateral relations. Despite the apparent abundance of literature, very little has been written about New Zealand's trade history with China. Instead, much of the literature concentrates on the New Zealand's political relations or future economic relations. While political factors were extremely influential in the trading relationship, they are not sufficient in themselves to explain the remarkable transformation in economic relations that occurred between 1954 and 1984. It is therefore necessary to turn to primary sources to fill the gaps. New Zealand is blessed with amazingly detailed and comprehensive historical official records held at Archives New Zealand. Substantial collections are held from the Ministry of External Affairs and Department of Industries and Commerce (and their respective successor agencies) along with the New Zealand Export Import Corporation. Much of this thesis has therefore been based on primary information from these organisations, augmented where possible with secondary literature.

No economic study would be complete without consideration of relevant economic theories. In this case, the theories and qualifications of Ricardian comparative advantage and Heckscher-Ohlin factor intensity have been introduced to provide a frame with which to analyse New Zealand-China trade.

10.3 POTENTIAL FOR NEW ZEALAND CHINA TRADE

Chapter 4 examined the nature and key characteristics New Zealand and Chinese economies to identify areas of potential complementary trade. In 1954, New Zealand was a well developed country producing a narrow range of mainly pastoral commodities with high labour costs and a high standard of living. In contrast, China was a poor developing country with low wages and standards of living looking to transform into a manufacturing giant. An obvious path for trade would be for New Zealand to export raw materials such as wool, crude animal products, and forest products, which were expensive to further process efficiently at home. China could process these raw materials using its low labour costs into a refined form that could be used within China or be re-exported to other countries. China could also supply many other consumer goods that could not be produced efficiently in New Zealand. Textiles were an obvious example. This analysis indicated that there were strong opportunities for mutually beneficial trade between China and New Zealand. Moreover, the opportunities were only likely to expand as China's economy developed and the standard of living of her citizens increased.

However, some areas of non-complementarity were also identified. In particular, both countries were exporters of agricultural goods which brought them into competition with each other in many Asian markets. There was also the problem that New Zealand's core processed animal products of butter, sheep meat, and beef were out of the reach of all but very well-off Chinese. This problem was exacerbated by the fact that, unlike some of New Zealand's other export markets, China could largely feed itself. On the import side, because China in 1954 was in the very early stages of industrialisation, it had few goods that were demanded by New Zealanders. And finally, both China and New Zealand were net importers of capital and capital goods.

Trade between any two countries is strongly influenced by their respective trading histories. In 1954, New Zealand and China were directing their trade in different directions. New Zealand's economic development to 1954 was closely tied to the export of pastoral products to Britain.

Shipping links were similarly orientated. On the opposite side of the Pacific Ocean, China's Communist government was still cementing its hold on power and looked to develop its socialist economy with assistance from the USSR. In addition to the opposing directions of trade, there was a substantial difference in the dependence on international trade between the two countries. China's huge population provided it with a significant internal market and accordingly its economy was nowhere near as dependent on international trade as New Zealand's. Total trade as a percentage of GDP was a mere 9.5% in China in 1952 as opposed to New Zealand's 67.6%.⁵⁴² Scale was also a problem in that, with only 2.1 million people in 1954 and a limited range of export commodities, New Zealand was also going to struggle to attract the attention of China on purely economic grounds. A further and potentially much more serious problem was that New Zealand and China were at opposing ends of the political spectrum in 1954. Historically virtually all nations have used trade as leverage to achieve their diplomatic and political objectives. With New Zealand as a close ally of the United States in the fight against communism, a substantial change in foreign policy by one or both countries would be required for trade to flourish on this basis. There was also the problem of substantial cultural differences and New Zealand's record of discrimination against Chinese peoples. Bringing together all these factors, it becomes clear that a great deal of effort would be required from both China and New Zealand if trade was to expand.

10.4 NEW ZEALAND CHINA TRADE 1954-84

With the situation in 1954 established, the thesis presented a high-level analysis of the 1954-84 to identify trends and important turning points. A series of graphs were introduced from which it was possible to discern three distinct periods in New Zealand-China trade over the subject period: (i) a period of back-door trading from 1954-72; (ii) a period of front-door trading from 1972-78; and (iii) a period of open-door trading from 1979-84. Importantly as a signpost for the overall theme of the thesis, the demarcation points between the periods were based on political changes in either China or New Zealand. In the case of the transition from the back-door to front-door periods, the catalyst was the decision of New Zealand's Third Labour Government to establish diplomatic relations with the PRC in late 1972. Between the front-door and open-door periods, the catalyst was Deng Xiaoping's rise to power within the Chinese Communist party and his economic reforms borrowing from Zhou Enlai's 'four modernisations'.

⁵⁴² See table 5.4a.

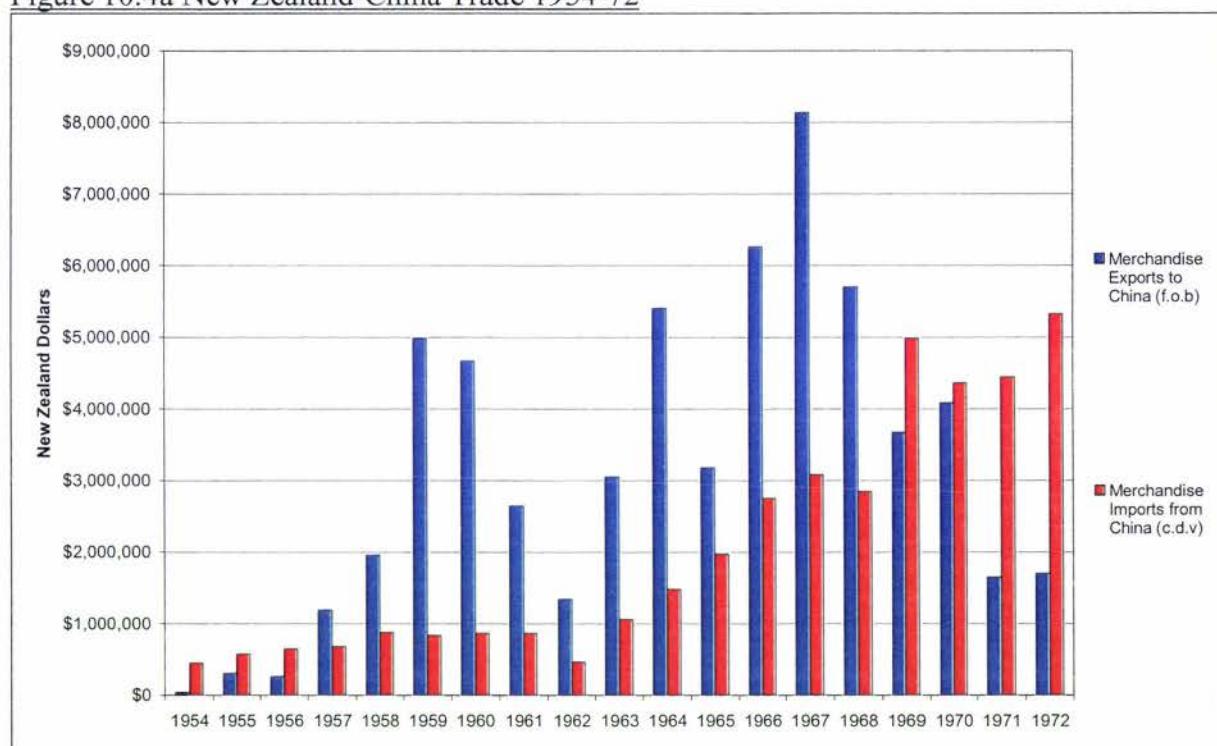
With a population of more than 600 million, China had long appealed as a market to New Zealand businessmen. The problem was that the two countries had very little in common: economically, culturally, or politically. Of these three areas, political differences were the greatest impediment to increased trade due to the inseparability of Chinese politics and economics. China's trade was directed overtly to its chief communist ally, the Soviet Union. As a staunch ally of the United States in the fight against communism, and a country that refused to recognise the PRC, there appeared little hope of the Chinese purchasing significant quantities of New Zealand produce. For its part, New Zealand was also not above directing its trade on political grounds – its top three trading partners were its chief Anglo allies: the United Kingdom, the United States, and Australia. Because China was a state trading country, the lack of diplomatic relations with the PRC was a huge handicap for New Zealand. Countries with government-to-government contact had a distinct advantage to those who did not. New Zealand trade with China could have grown substantially after the Sino-Soviet split, in a similar manner to that of many European countries, had early diplomatic relations been established. But New Zealand's adherence to Washington's policy of isolating and undermining the Communist regime effectively ensured New Zealand-China trade would remain on the margins of insignificance.

In this context, the New Zealand-China trade that did occur had to be conducted through the back-door of private business contacts. This was far from easy – developing business with China required a lot of time and effort on the part of the New Zealand businessman, with no guarantee of a return. China's centralised trading structure allowed political decisions to change the direction and volume of trade virtually overnight. This problem was particularly acute for a New Zealand because China was not dependent on it for any key commodities and there were numerous close competitors for its principal exports. New Zealand's predicament was not helped by the fact that Chinese state-run trading corporations were notoriously bad at written communications. A visit to China was therefore a necessity for any New Zealand businessman seeking to either buy from or sell to China. Before the advent of cheap long-haul air routes, such a requirement was a significant financial outlay. Once in China, a visit to the biannual Kwangchow trade fairs was usually the first port of call. The fairs served as the reception area for much of China's foreign trade and kept foreigners a safe distance from Beijing (Peking). China sought to gain maximum negotiating advantage by dealing with all traders together at the same time in what amounted to a competitive bidding war. Part of the strategy was to prevent exporters from making contact with end users to reliably assess demand. Chinese officials

forced traders to make appointments for brief conversations, then wait again while rivals were consulted, and finally to be given an answer at the officials convenience. In essence, business could only be conducted after the due respect had been paid.

Political upheavals in China had an enormous effect on New Zealand-China trade in the back-door period. Chairman Mao's Great Leap Forward (1958-62) and Cultural Revolution (most severe from 1967-70) resulted in a dramatic fall of in New Zealand-China Trade as Chinese imports were curtailed to conserve foreign exchange for essential food and capital goods. New Zealand's exports to China expanded at an average annual rate four times greater than imports from China.

Figure 10.4a New Zealand-China Trade 1954-72



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is December years to 1961, 1962 is a statistical half year, and June years thereafter.

In international politics, New Zealand's decision to upgrade the status of the Taiwanese mission to Wellington from Consulate-General to Embassy and New Zealand's 1961 proposal for a full discussion on the Chinese representation issue at the United Nations resulted in New Zealand businessmen and Trade Commissioners being declined entry to China in 1961 and 1962. In a similar vein, New Zealand's participation in the Korean and Vietnam conflicts did little to engender friendly economic relations with China. For these reasons, New Zealand traders often expressed the view that a private trader had a far better chance selling to China than a producer board or government entity because of New Zealand's political affiliations.

New Zealand businessmen often claimed that China insisted on bilateral balancing of trade in accordance with the Chinese principle of 'equality and mutual benefit', something that had the potential to create problems under New Zealand's restrictive import licensing regime. There is little doubt that pressure was placed on New Zealand businessmen to balance bilateral trade, but it was more a negotiating stance than cast-iron political doctrine. Nonetheless, the Department of Industries and Commerce was strongly supportive of traders on an unofficial level as a useful avenue for the long term diversification of New Zealand's markets, especially after Britain's application to join to the EEC. 'Pipe opener' exemptions to the pervasive import licensing scheme for China traders were one of the few available options open to the Department. However, the Department scaled these back over the back-door period as it became suspicious that some businessmen were using the China trade as an indirect means of securing licences. Increasingly the Department adopted the line that if imports from China were genuinely attractive, importers would purchase them from within existing licence allocations.

Trade barriers on the Chinese side were a significant hindrance to trade with import tariffs varying from 5% to 400%, although the actual tariff was usually unknown to the New Zealand exporter because it was implicitly taken into account by the relevant trading corporation. The lack of shipping was also a great hindrance to China-New Zealand trade in the back-door period. China's monopoly on trade extended to shipping links through official insistence that Chinese imports be purchased free on board for collection by the state-owned China National Chartering Corporation (CNCC). The CNCC operated an infrequent and poorly notified service using cheap chartered vessels. These factors and the general intransigence of the CNCC made life difficult for exporters and importers on both sides of the Pacific.

The common thread in these events is politics – Chinese leaders routinely stated that politics were inseparable from economics, and as the above examples have demonstrated, China was not averse to using trade as a weapon to achieve her political goals. Inevitably China's ability to use trade as a weapon was constrained by her dependence on the target country. China's attempts to switch her grain purchases from Australia to Canada foundered on fact that Canada could not supply all the grain required. The problem for New Zealand was that China was not dependent on New Zealand for any particular commodities, although she did prefer certain grades of New Zealand wool and tallow. These political factors kept New Zealand-China trade both miniscule and highly volatile. New Zealand exports to China were particularly volatile, averaging just

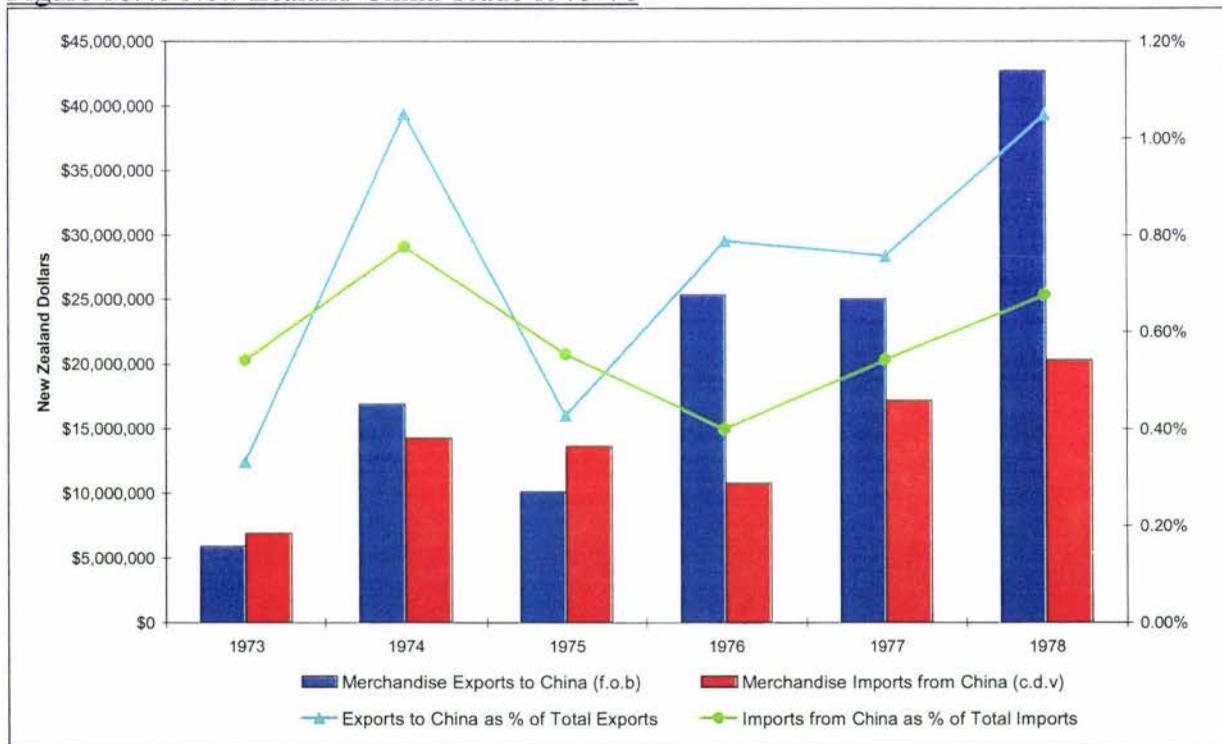
0.45% of total New Zealand exports. Imports from China were more stable but averaged just 0.28% of total New Zealand imports. The trade that did occur was limited to the exchange of raw materials - mainly wool and tallow in New Zealand's case and mainly pigs bristles, fruit and nuts, and vegetable oils for China. Diversification of both countries exports was limited over the back-door period. However, the potential complementarity between the two economies meant that the overriding feeling amongst traders and officials alike was that New Zealand-China trade could expand greatly given the right political conditions.

The warming of Sino-US relations in early 1970s provided one of the necessary catalysts. As a close ally of the US, the thaw in US-Sino relations gave New Zealand both the impetus and legroom necessary to improve its relations with China. In 1971, National Prime Minister Sir Keith Holyoake stated the 'the Government would be prepared to send a trade mission to China if the Chinese authorities were willing to accept it' and negotiated for a 'table tennis' team from the People's Republic to visit New Zealand in July 1972 to begin the process of normalising relations. National's cautious approach was brought to an abrupt end by Labour's election victory on 8 December 1972. Labour moved quickly to recognise the PRC on 22 December 1972, marking the start of the front-door trading with China. The establishment of government-to-government contacts paved the way for New Zealand to make significant inroads into the Chinese market. Politics had now turned to the advantage of New Zealand traders.

Although the stated reason for the establishment of relations was to ensure New Zealand had contact with all four major powers, the focus of the relationship quickly shifted to the economic sphere. China placed great emphasis on high-level government exchanges and granted trade concessions at this level that were simply not achievable in the normal course of business. Minister of Trade Joe Walding visited China in March/April 1973, mainly to initiate government-to-government contact and to determine the goods and services China demanded. Chinese Minister of Foreign Trade, Pai Hisang-Kuo conducted a reciprocal visit in July 1973 during which he commented that 'bilateral trade could not be brought into full play before the establishment of relations between the two countries'. A treaty exchanging Most Favoured Nation (MFN) status was signed in October 1973. This treaty went further than most MFN treaties by providing for the establishment of an annual Joint Trade Committee (JTC) session to discuss ways of increasing trade.

Even after recognition, China was not a market that was likely to come to fruition easily. Aside from political differences and the lack of knowledge about Chinese requirements, the lack of shipping links stands out as the major hindrance to New Zealand-China trade. Problems with the quality of vessels sent by the CNCC to collect logs had the potential to kneecap the promising trade in forestry products before it got out of the starting blocks. Only the dedicated efforts of New Zealand businessmen and trade officials prevented the premature death of the trade at the hands of an intransigent Chinese shipping bureaucracy. The annual JTC sessions which commenced in 1975 played a pivotal role in reducing barriers to trade, in addition to developing trade initiatives. The combination of these sessions and a flurry of ministerial exchanges proved a potent tonic for trade development. Ministerial visits were a key tool for extracting concessions from the Chinese and one that New Zealand made the most of as the initiative shifted from the private businesses to the government. Unlike the back-door period where China's centralised economic system had hindered New Zealand's exports, it significantly aided the development of trade in the front-door period.

Figure 10.4b New Zealand-China Trade 1973-78



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is June years.

New Zealand-China trade expanded dramatically after the establishment of diplomatic relations – New Zealand exports in the years to June 1973 and 1974 expanded by 250% and 185% respectively. Average annual growth of New Zealand exports over the front-door period was

102.3%. Aside from forestry products, other notable areas of New Zealand export diversification were hides and skins, dairy products, aluminium, and steel. Imports from China were far more subdued, showing an annual average growth rate of 31.4%. Tea was the only commodity that experienced a significant increase in its relative importance. The slow growth of China's exports was a point of contention throughout the front-door period - China believed that New Zealand's import licensing scheme and the granting of lower Generalised System of Preferences (GSP) tariffs to many of China's competitors to be the major culprits. To ease Chinese concern and show good faith, New Zealand extended GSP status to China in September 1978, the first Western country to do so. By the end of the front-door period, New Zealand's relations with China were the envy of many other nations and bi-lateral trade had moved from the realm of insignificance to one of considerable importance to both countries, but particularly New Zealand.

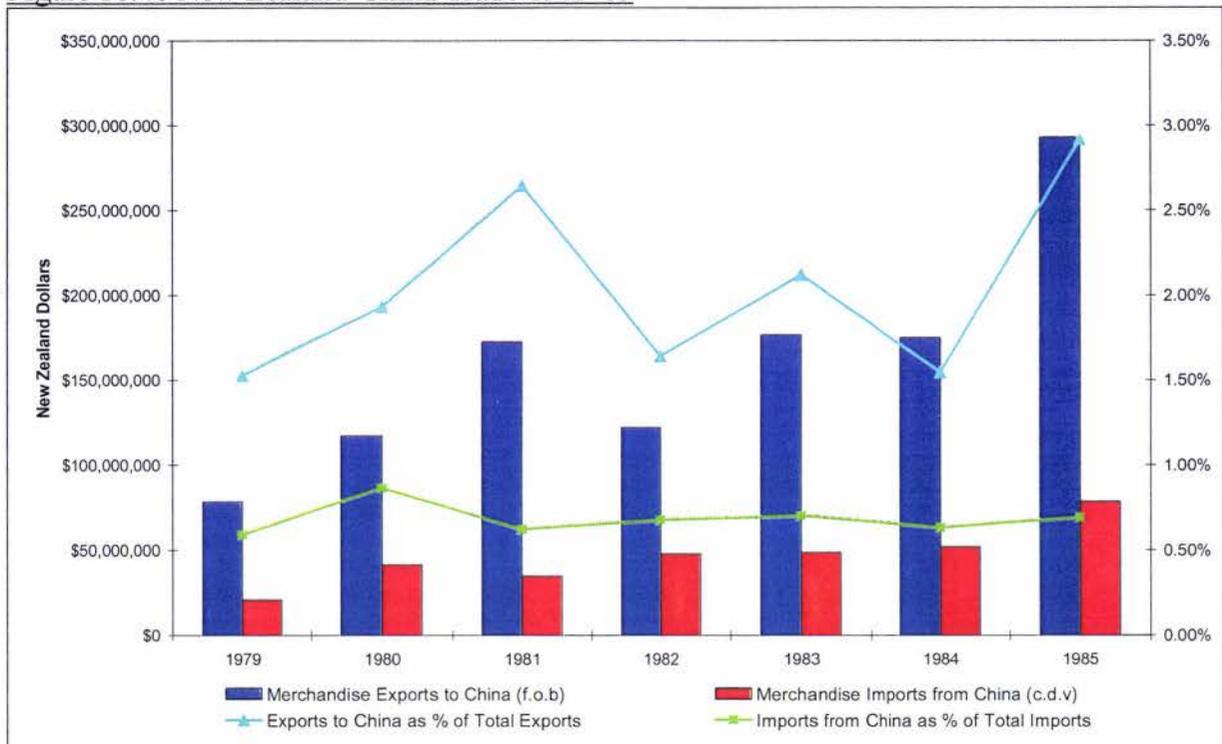
The next major change in New Zealand-China trade had its origins in Chinese politics. Deng Xiaoping's political ascendancy marked the start of a bold programme of economic reforms. China had recognised that the Maoist version of a centrally planned economy had led to China falling behind the West and Asia's new industrial powers. The mistakes of the Cultural Revolution were to be corrected and the usual Communist Party line calling for a protracted class struggle was replaced with the 'four modernisations' in the areas of industry, agriculture, defence, science and technology. This was to be achieved through the introduction of market mechanisms in selected regions and the opening up of China to foreign investment and trade as a means of facilitating technology transfer. Four special economic zones were established in southern China in 1979 allowing joint ventures between state-owned trading corporations and foreign corporations. Over time the reforms were extended to other parts of the country and were responsible for substantial increases in China's foreign trade. This new period of open-door trading had a profound effect on New Zealand-China trade. Political considerations began to play a secondary role to economics for the first time in the study period.

China's huge expansion in international trade more than carried over to New Zealand-China trade. Between 1979 and 1985, bi-lateral trade increased 272%, far outstripping the growth of total China trade of 105% and total New Zealand trade of 197%. By 1985 New Zealand exports to China accounted for almost 3% of total New Zealand exports. But as in the front-door period, the slow growth of Chinese exports remained of major concern to the Chinese Ministry of Foreign Economic Relations and Trade. The ratio of exports to imports was 3.7:1 in New

Zealand's favour at the end of the period. The major reason for the imbalance, as in the front-door period, was that China continued to demand raw materials from New Zealand for its manufacturing industries but China's exports to New Zealand tended to be commodities upon which New Zealand's import licensing regime was most restrictive. There was also the problem that as a small market, the size of orders from New Zealand meant that it was more economic for Chinese producers to give priority for larger markets in Europe, North America and Japan first. A lack of marketing and problems with packaging and product quality were also partially responsible for the poor performance as was New Zealand's highly volatile economic performance. Chinese officials appreciated that New Zealand did all it could to aid Chinese exports through the granting of Special Trade Licences and the Developing Country Handicraft Scheme.

The story for New Zealand exports was not completely rosy in the open-door period. In particular, the pursuit of joint ventures with Chinese trading corporations proved a major distraction. While there were successes, on balance the pursuit of joint ventures was risky and largely unproductive. Growth in traditional exports far exceeded the returns from joint ventures in the open-door period, despite dairy products being the subject of high Chinese tariffs. A period of stagnation between 1981 and 1984 prompted a considerable degree of soul-searching amongst New Zealand officials who postulated that the reason was that New Zealand was not devoting enough resources to developing trade with China, particularly in relation to Australia and Canada. Additional staff were appointed or accredited to try and resolve the perceived resource deficiency, but as a small country, New Zealand would never be able to match the presence of her competitors. The Beijing embassy also suggested that a lack of coordination between the Ministry of Foreign Affairs and the Department of Trade and Industry in Wellington was harming New Zealand's prospects in China. An Inter-Departmental Committee on China was Wellington's interim response until the trade functions of the two Departments were finally merged in December 1988.

Figure 10.4c New Zealand-China Trade 1979-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years. Data is June years.

While these changes certainly assisted New Zealand's efforts, in reality the stagnation had more to do with increased competition as other country's political relations with China improved such that New Zealand's favoured status was gradually eroded. Moreover, China's trade was being directed towards countries that could provide the greatest assistance to her economic development rather than those with whom she had the most positive political relations. Despite these changes, New Zealand fared little worse than Australia in Canada and Australia in the open-door period. Even shipping, which had been so problematical in the back-door and open-door periods, had ceased to become a major hindrance by the end of the open-door period. The growing maturity in political and economic relations during the open-door period saw the initiative for trade expansion shift back to private business.

Performance across the three periods can be compared in terms of the two countries exports and imports:

Table 10.4a: Average Annual Growth Rates of New Zealand-China Trade

	1954-85	<u>Back-door</u> 1954-72	<u>Front-door</u> 1973-78	<u>Open-door</u> 1979-85
Exports to China	74.2%	79.1%	102.3%	37.5%
Imports from China	23.1%	19.4%	31.4%	26.0%
NZ Total Exports	12.4%	8.1%	17.6%	19.5%
NZ Total Imports	14.6%	10.9%	18.4%	21.6%
NZ Total Trade	13.0%	9.0%	16.8%	20.4%
China Total Exports	11.8%	7.5%	21.1%	15.8%
China Total Imports	13.0%	5.6%	29.2%	19.5%
China Total Trade	12.2%	6.3%	24.8%	17.4%
Bi Lateral Total Trade	33.0%	26.8%	53.3%	32.4%

Source: Calculated from NZ Department of Statistics, *External Trade Statistics*, and *Almanac of China's Foreign Economic Relations and Trade 1987*.

Growth in New Zealand's exports to China exceeded growth in New Zealand's total exports and growth in Chinese total imports by a huge margin. Similarly growth in imports from China exceeded growth in total New Zealand imports and total Chinese exports by a not insignificant margin. Clearly China represented a rapidly developing market, even with the huge political differences present in the back-door period.⁵⁴³ The rate of growth expanded enormously in the front-door period before slowing again in the open-door period. In terms of relative performance, an overview of New Zealand's trade with China over the three periods can be achieved by benchmarking against other OECD countries:

Table 10.4b: OECD Trade With China Average Annual % Changes 1965-84

Exports (date of recognition)	Average annual change								
	Exports			Imports			Total Trade		
	1965-72	1973-78	1979-84	1965-72	1973-78	1979-84	1965-72	1973-78	1979-84
New Zealand (1972)	20.4%	88.4%	15.7%	14.9%	34.9%	10.8%	4.6%	58.1%	13.8%
Australia (1972)	7.2%	66.9%	17.9%	11.8%	20.8%	17.3%	5.1%	45.2%	16.2%
Canada (1970)	19.2%	17.2%	16.6%	29.7%	11.7%	24.0%	18.2%	13.5%	16.9%
Germany (1972)	39.6%	40.9%	3.7%	10.7%	23.4%	17.2%	21.0%	34.2%	7.4%
Denmark (1950)	70.8%	39.4%	153%	1.3%	23.4%	24.2%	8.9%	16.2%	34.8%
France (1964)	11.6%	49.1%	12.5%	18.4%	14.9%	13.9%	10.9%	25.0%	12.0%
United Kingdom (1950)	11.8%	27.1%	35.0%	3.3%	18.1%	11.1%	6.1%	19.6%	19.1%
Japan (1972)	20.8%	37.2%	19.1%	17.8%	30.5%	21.3%	18.6%	33.7%	18.8%
Finland (1950)	21.6%	25.7%	25.2%	9.2%	13.9%	21.4%	11.3%	13.6%	19.9%
Netherlands (1954)	32.2%	72.6%	12.4%	11.9%	20.8%	9.0%	14.0%	34.7%	6.9%

⁵⁴³ It should, however, be noted that export growth in the back-door period was distorted by the fact that there were no exports to China in 1953. If the period 1956-72 is considered the annual growth rate drops to 37.6% and 20.0% for 1958-72.

Norway (1950)	43.3%	87.6%	39.9%	7.7%	17.6%	17.6%	27.6%	64.4%	21.2%
Sweden (1950)	27.3%	19.5%	13.0%	7.5%	18.9%	10.0%	15.4%	16.2%	8.9%
Austria (1971)	78.6%	71.7%	19.2%	17.4%	28.3%	6.7%	32.0%	31.9%	11.4%
Belgium-Lux. (1971)	20.4%	88.3%	8.4%	9.3%	14.6%	28.3%	9.6%	50.6%	7.6%
Switzerland (1950)	11.9%	36.2%	5.4%	8.6%	8.6%	9.8%	9.4%	27.6%	6.8%
Italy (1970)	30.4%	27.4%	21.1%	19.9%	16.9%	18.1%	23.3%	18.1%	17.6%

Source: OECD, *International Trade by Commodities Statistics*, SITC Rev 2 Historical Series 1961-1990. Only countries with full data for 1965-84 are included. The United States is also excluded because of the distortional effect of that country's trade embargo on China.

Ranking OECD countries based on these percentages yields the following table:

Exports (date of recognition)	Ranking								
	Exports			Imports			Total Trade		
	1965-72	1973-78	1979-84	1965-72	1973-78	1979-84	1965-72	1973-78	1979-84
New Zealand (1972)	10	1	10	6	1	12	16	2	9
Australia (1972)	16	6	8	8	7	8	15	4	8
Canada (1970)	12	16	9	1	15	3	6	16	7
Germany (1972)	4	8	16	9	4	9	4	6	14
Denmark (1950)	2	9	1	16	5	2	13	14	1
France (1964)	15	7	12	3	12	10	10	10	10
United Kingdom (1950)	14	13	3	15	9	11	14	11	4
Japan (1972)	9	10	7	4	2	5	5	7	5
Finland (1950)	8	14	4	11	14	4	9	15	3
Netherlands (1954)	5	4	13	7	6	15	8	5	15
Norway (1950)	3	3	2	13	10	7	2	1	2
Sweden (1950)	7	15	11	14	8	13	7	13	12
Austria (1971)	1	5	6	5	3	16	1	8	11
Belgium-Lux. (1971)	11	2	14	10	13	1	11	3	13
Switzerland (1950)	13	11	15	12	16	14	12	9	16
Italy (1970)	6	12	5	2	11	6	3	12	6

Source: OECD, *International Trade by Commodities Statistics*, SITC Rev 2 Historical Series 1961-1990. Only countries with full data for 1965-84 are included. The United States is also excluded because of the distortional effect of that country's trade embargo on China.

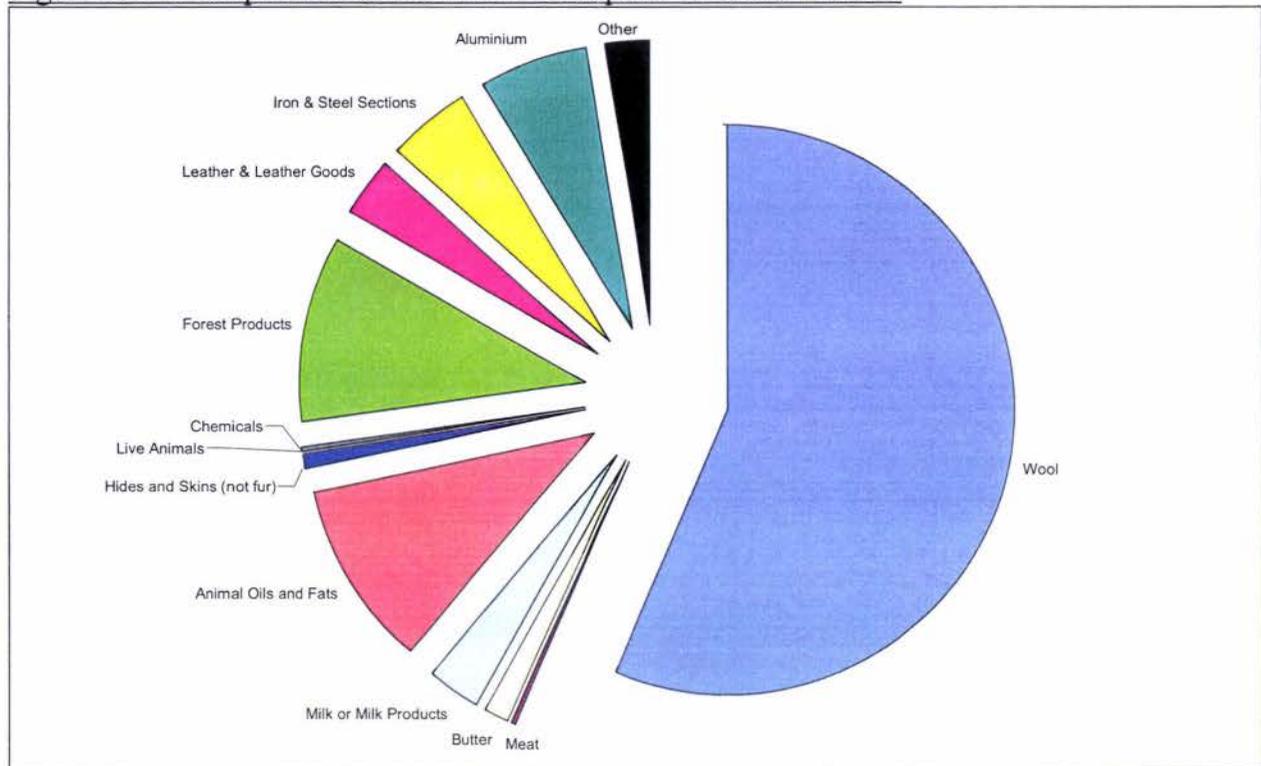
In terms of total trade, New Zealand ranked dead last from 1965-72, number two from 1973-78, before dropping back to number nine in the open-door period. A natural conclusion from these statistics and Chapters 7 to 9 is that New Zealand-China trade was significantly hindered by political differences in the back-door period. It is tempting to conclude that diplomatic recognition was the panacea, but the fact that the United Kingdom did only marginally better

than New Zealand suggests caution is required.⁵⁴⁴ Germany and Japan's experiences also suggested that diplomatic recognition was not essential for significant trade to occur. The difference between these countries and New Zealand was that China was not dependent on New Zealand for any particular commodities or technologies – New Zealand had many natural competitors, particularly Australia, Canada, and Scandinavia. Accordingly politics did play a major part in New Zealand's trade with China. The accordance of diplomatic recognition saw New Zealand jump to the head of the class, especially in terms of exports, as it was admitted to the inner circle of Chinese political favour. The radical improvement in political relations together with the hard work of economic and political agents in both countries saw New Zealand-China trade expand immensely in the front-door period. Unfortunately New Zealand fell off the pace from 1979 as other countries' political relations caught up, and China opened its doors to those countries from which its economic development could gain the most.

There were also some striking constants over the three distinct periods. Foremost amongst these was that New Zealand's export base remained a narrow one. New Zealand exported those commodities in which it had comparative advantage – pastoral products, forestry, and some metals. For the most part, these commodities are also the ones which use land and capital as the abundant factors of production most intensively in line with Heckscher-Ohlin. While some diversification occurred, the dominance and high volatility of tallow, forest products and particularly wool exports went a considerable way to explaining the balance and level of trade from year to year. It is somewhat surprising that forest products did not play more of a part in New Zealand-China trade given New Zealand's expanding growing stock and the obvious shortages in China. Dairy products became significant in the open-door period once China's standard of living had reached a level where these were affordable.

⁵⁴⁴ Another potential explanation is that New Zealand's trade shifted away from the British Commonwealth towards the Asia-Pacific between 1954 and 1984 while the United Kingdom's trade became more concentrated on Europe.

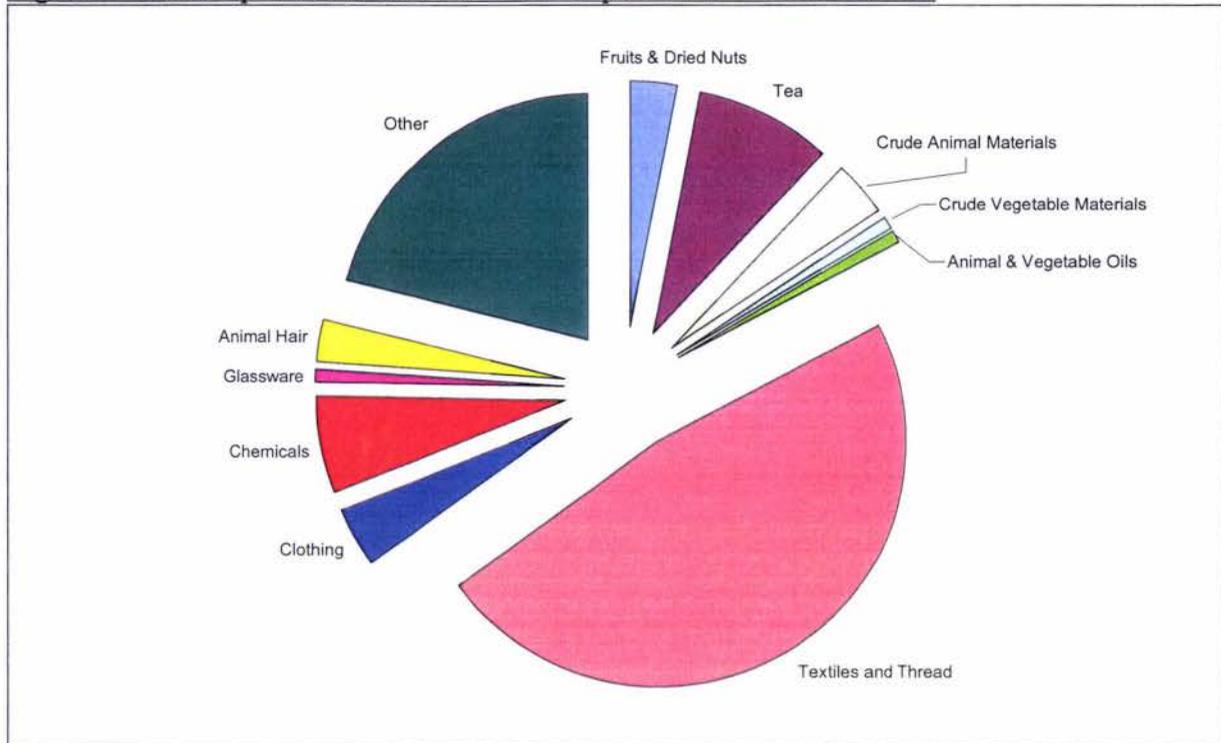
Figure 10.4d Composition of New Zealand Exports to China 1954-85



Source: NZ Department of Statistics, *External Trade Statistics*, various years.

China's exports to New Zealand were always more diversified than her imports from New Zealand, and this characteristic intensified over the subject period. China also exported those goods in which she had comparative advantage – mostly textiles and other manufactured products. Unsurprisingly, these goods are also the ones which used China's abundant factor of production, labour, most intensively in line with Heckscher-Ohlin. While export and import composition between 1954 and 1984 followed the economic theories of comparative advantage and Heckscher-Ohlin reasonably closely, it remains something of a paradox for a developed country such as New Zealand to supply raw materials to a developing country like China in exchange for manufactured goods.

Figure 10.4e Composition of New Zealand Imports from China 1954-85

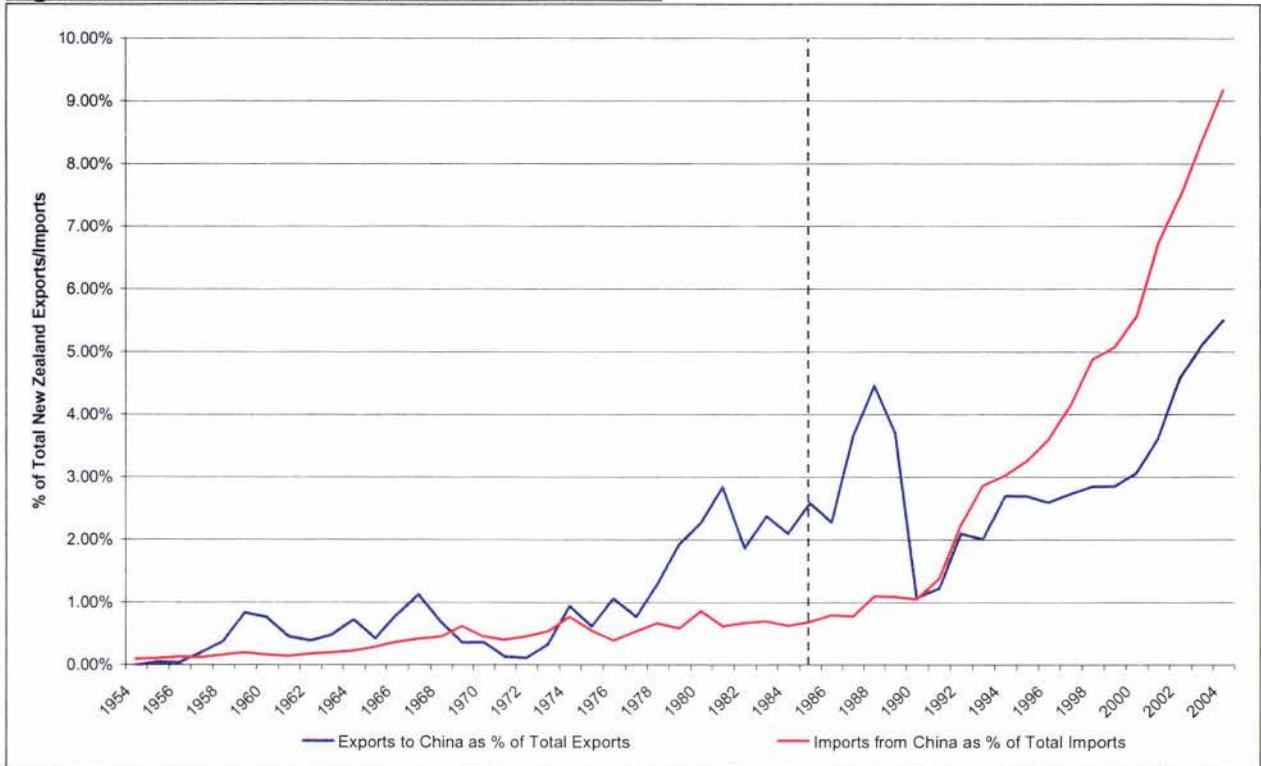


Source: NZ Department of Statistics, *External Trade Statistics*, various years.

Another constant was the invaluable role played by New Zealand's Trade Commissioners - initially in Singapore, Hong Kong from 1961, and finally in Beijing from early 1974. For businessmen new to trading with China, Trade Commissioners provided an invaluable helping hand without which many would have simply forgone difficult China trade in favour of easier markets. They served as a huge reservoir of advice, expertise, and encouragement for businessmen dealing with the often difficult Chinese trading corporations. New Zealand Trade Commissioners tended to be prepared to get more involved with individual deals than other countries' Trade Commissioners. Businesspeople widely praised the efforts of these dedicated civil servants.

With the major trends in New Zealand-China trade between 1954 and 1984 now explained, it is useful to briefly consider what happened after 1984:

Figure 10.4f New Zealand-China Trade 1954-2004



Source: NZ Department of Statistics, *External Trade Statistics*, various years.

One of the propositions of this thesis is that the rapid rise in New Zealand-China after 1984 was due to the solid relationship base developed between 1972 and 1984. The possible fruits of this labour are evidenced in figure 10.4f. While it is left to further research to confirm or refute this proposition, 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. But perhaps more importantly, China represents one of New Zealand's greatest successes at trade diversification post World War II. The land of the red dragon proved to be New Zealand's golden goose.

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**APPENDIX 1: NEW ZEALAND-CHINA TRADE
STATISTICS**

NEW ZEALAND EXPORTS TO CHINA

	Jan 1954	Jan 1955	Jan 1956	Jan 1957	Jan 1958	Jan 1959	Jan 1960	Jan 1961	Jan 1962	June 1963	June 1964	June 1965	June 1966	June 1967
	£	£	£	£	£	£	£	£	£	£	£	£	£	\$
China Merchandise Exports	F.O.B													
Total Merchandise Exports	£17,225	£152,185	£131,060	£595,356	£977,984	£2,489,906	£2,335,330	£1,322,997	£670,842	£1,525,133	£2,703,226	£1,590,604	£3,132,030	\$8,136,032
%	£244,466,206	£259,288,724	£277,812,896	£276,569,008	£250,172,805	£293,658,654	£302,602,532	£283,995,521	£166,353,000	£308,726,444	£367,991,183	£366,829,757	£383,640,653	\$717,622,738
% Change	0.01%	0.06%	0.05%	0.22%	0.39%	0.85%	0.77%	0.47%	0.40%	0.49%	0.73%	0.43%	0.82%	1.13%
		784%	-14%	354%	64%	155%	-6%	-43%	-49%	127%	77%	-41%	97%	160%
Major Exports to China														
Wool	£17,225	£152,185	£131,060	£470,696	£929,741	£2,246,921	£1,724,692	£598,961	£228,316	£821,930	£1,869,249	£1,229,838	£2,213,506	\$7,326,806
Meat														
Butter														
Milk or Milk Products							£23,544							
Animal Oils and Fats					£13,242	£213,303	£607,576	£345,045	£312,967	£564,268	£827,738	£314,741	£787,290	\$576,660
Hides and Skins (not fur)									£8,609	£17,993	£6,071	£44,525	£122,475	\$218,434
Live Animals													£5,040	\$14,032
Chemicals														
Wood Pulp & Waste Paper				£124,134	£32,913			£200,363	£116,833	£116,833				
Paper & Paperboard														
Wood														
Leather & Leather Goods														
Iron & Steel Sections														
Aluminium														
Other	£0	£0	£0	£526	£2,088	£6,138	£3,062	£178,628	£4,117	£4,109	£168	£1,500	£3,719	\$100
Total Merchandise Exports	£17,225	£152,185	£131,060	£595,356	£977,984	£2,489,906	£2,335,330	£1,322,997	£670,842	£1,525,133	£2,703,226	£1,590,604	£3,132,030	\$8,136,032
Specie Exported	£7,573	£13,255	£2,463	£15,026	£161,547	£38,823	£36,374	£25,564	£34,059					
Gold Specie Exported										£230,259	£106,435	£95,353	£60,776	\$71,012
Coin Specie Exported										£6,963	£8,093	£11,865	£9,575	\$6,038
Check	Yes													
Other %	0.0%	0.0%	0.0%	0.1%	0.2%	0.2%	0.1%	13.5%	0.6%	0.3%	0.0%	0.1%	0.1%	0.0%
June Years	£241,829,000	£239,747,000	£270,663,000	£277,663,000	£272,023,000	£260,734,000	£314,768,000	£280,702,000	£290,462,871	£308,726,444	£367,991,183	£366,829,757	£383,640,653	\$717,622,738

Sources:

NZ Dept of Statistics: External Trade Statistics 1954-62
 NZ Dept of Statistics: External Trade of New Zealand: Country Analyses 1963-80
 NZ Dept of Statistics: Exports 1981-85
 NZ Dept of Statistics: Imports 1981-85

NEW ZEALAND EXPORTS TO CHINA

	June 1968	June 1969	June 1970	June 1971	June 1972	June 1973	June 1974	June 1975	June 1976	June 1977	June 1978	June 1979	June 1980
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B
China Merchandise Exports	\$5,705,091	\$3,676,230	\$4,085,852	\$1,653,525	\$1,701,747	\$5,952,665	\$16,952,289	\$10,167,189	\$25,399,388	\$25,074,656	\$42,737,852	\$78,892,263	\$117,462,
Total Merchandise Exports	\$820,474,920	\$989,096,741	\$1,087,025,527	\$1,131,102,706	\$1,376,592,245	\$1,788,008,816	\$1,788,654,651	\$1,612,606,708	\$2,371,604,678	\$3,216,313,754	\$3,309,113,243	\$4,068,610,804	\$5,151,988,
%	0.70%	0.37%	0.38%	0.15%	0.12%	0.33%	0.95%	0.63%	1.07%	0.78%	1.29%	1.94%	2.2
% Change	-30%	-36%	11%	-60%	3%	250%	185%	-40%	150%	-1%	70%	85%	4
<u>Major Exports to China</u>													
Wool	\$4,178,577	\$2,392,937	\$2,422,844	\$768,254	\$1,276,495	\$4,539,316	\$15,302,842		\$12,355,010	\$7,349,245	\$16,210,232	\$25,057,814	\$43,751,
Meat		\$2,650				\$87,317	\$4,701			\$39,341		\$371,219	\$346,
Butter									\$10,912		\$2,425,500	\$3,147,768	\$1,922,
Milk or Milk Products												\$5,802,210	\$4,209,
Animal Oils and Fats	\$968,810	\$475,363	\$138,904	\$457,991	\$400,871	\$945,406	\$1,306,347	\$5,003,363	\$5,849,848	\$11,231,196	\$10,993,215	\$18,289,820	\$18,543,
Hides and Skins (not fur)	\$420,061	\$73,003			\$24,367	\$378,390	\$68,791		\$651,381	\$573,332	\$2,514,044	\$1,805,436	\$1,926,
Live Animals	\$135,444								\$34,987			\$287,689	\$617,
Chemicals		\$90,718											\$309,
Wood Pulp & Waste Paper								\$1,873,710	\$3,099,761	\$2,459,865	\$2,754,634	\$5,591,237	\$10,541,
Paper & Paperboard		\$640,552	\$1,524,066	\$427,252				\$3,073,547	\$1,993,673	\$1,938,666	\$4,576,614	\$5,184,202	\$6,965,
Wood									\$695,434	\$1,020,322	\$368,323	\$714,059	\$2,538,
Leather & Leather Goods									\$365,744	\$179,698	\$2,245,524	\$4,594,901	\$6,979,
Iron & Steel Sections											\$355,181	\$5,007,629	\$8,528,
Aluminium													\$9,034,
Other	\$2,199	\$1,007	\$38	\$28	\$14	\$2,236	\$269,608	\$216,569	\$342,638	\$282,991	\$294,585	\$3,038,279	\$1,249,
Total Merchandise Exports	\$5,705,091	\$3,676,230	\$4,085,852	\$1,653,525	\$1,701,747	\$5,952,665	\$16,952,289	\$10,167,189	\$25,399,388	\$25,074,656	\$42,737,852	\$78,892,263	\$117,462,
Specie Exported													
Gold Specie Exported													
Coin Specie Exported													
Check	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Other %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	2.1%	1.3%	1.1%	0.7%	3.9%	1
<u>June Years</u>	\$820,474,920	\$989,096,741	\$1,087,025,527	\$1,131,102,706	\$1,376,592,245	\$1,788,008,816	\$1,788,654,651	\$1,612,606,708	\$2,371,604,678	\$3,216,313,754	\$3,309,113,243	\$4,068,610,804	\$5,151,988,

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 NZ Dept of Statistics: External Trade of New Zealand: Country Analyses 1963-80
 NZ Dept of Statistics: Exports 1981-85
 NZ Dept of Statistics: Imports 1981-85

NEW ZEALAND EXPORTS TO CHINA

	June 1981 \$	June 1982 \$	June 1983 \$	June 1984 \$	June 1985 \$
	F.O.B	F.O.B	F.O.B	F.O.B	F.O.B
China Merchandise Exports	\$172,803,797	\$122,361,474	\$176,953,790	\$175,303,925	\$293,138,320
Total Merchandise Exports	\$6,065,277,000	\$6,527,798,600	\$7,427,707,778	\$8,336,455,030	\$11,315,802,199
%	2.85%	1.87%	2.38%	2.10%	2.59%
% Change	47%	-29%	45%	-1%	67%
<u>Major Exports to China</u>					
Wool	\$96,833,902	\$84,570,872	\$116,462,607	\$85,458,757	\$195,059,715
Meat	\$91,262	\$34,666	\$534,449	\$480,262	\$907,383
Butter		\$861,030	\$4,463,064	\$2,620,300	\$3,776,320
Milk or Milk Products	\$3,370,936	\$6,027,628	\$12,766,991	\$1,564,092	\$4,808,065
Animal Oils and Fats	\$12,570,496	\$2,551,370	\$9,964,302	\$8,641,339	\$23,532,097
Hides and Skins (not fur)	\$1,346,840	\$506,942	\$747,905	\$138,962	\$91,322
Live Animals	\$67,284	\$23,170			
Chemicals	\$799,007	\$771,112	\$792,110	\$294,337	\$826,434
Wood Pulp & Waste Paper	\$10,294,141	\$5,268,408	\$12,897,984	\$14,589,893	\$11,709,510
Paper & Paperboard	\$8,611,889	\$6,091,121	\$4,593,216	\$2,000,905	\$301,348
Wood	\$3,400,786	\$5,790			\$1,463
Leather & Leather Goods	\$8,700,365	\$4,102,657	\$6,991,747	\$2,594,506	\$7,040,206
Iron & Steel Sections	\$6,543,080	\$448	\$31	\$14,152,298	\$25,984,604
Aluminium	\$17,565,489	\$7,295,455		\$36,790,827	\$12,814,453
Other	\$2,608,320	\$4,250,805	\$6,739,384	\$5,977,447	\$6,285,400
Total Merchandise Exports	\$172,803,797	\$122,361,474	\$176,953,790	\$175,303,925	\$293,138,320
Specie Exported					
Gold Specie Exported					
Coin Specie Exported					
Check	Yes	Yes	Yes	Yes	Yes
Other %	1.5%	3.5%	3.8%	3.4%	2.1%
<u>June Years</u>	\$6,065,277,000	\$6,527,798,600	\$7,427,707,778	\$8,336,455,030	\$11,315,802,199

Sources:

NZ Dept of Statistics: External Trade Statistics 1954-62
 NZ Dept of Statistics: External Trade of New Zealand: Country Analyses 1963-80
 NZ Dept of Statistics: Exports 1981-85
 NZ Dept of Statistics: Imports 1981-85

NEW ZEALAND IMPORTS FROM CHINA

	Jan 1954	Jan 1955	Jan 1956	Jan 1957	Jan 1958	Jan 1959	Jan 1960	Jan 1961	Jan 1962	June 1963	June 1964	June 1965	June 1966
	£	£	£	£	£	£	£	£	£	£	£	£	£
	c.d.v												
China Merchandise Imports	£224,864	£288,865	£324,759	£340,764	£437,697	£418,586	£434,274	£434,221	£233,865	£532,128	£740,610	£982,598	£1,374,288
Total Merchandise Imports	£213,155,037	£250,660,996	£234,778,732	£261,738,147	£252,800,425	£205,076,108	£253,157,439	£288,291,417	£127,055,587	£261,870,432	£313,662,496	£327,911,170	£364,713,061
%	0.11%	0.12%	0.14%	0.13%	0.17%	0.20%	0.17%	0.15%	0.18%	0.20%	0.24%	0.30%	0.38%
% Change		18%	-6%	11%	-3%	-19%	23%	14%	-56%	106%	20%	5%	11%
Principal Imports from China													
Fruits & Dried Nuts	£34	£33,238	£47,703	£86,458	£60,337	£10,325	£55,889	£41,350	£953	£27,650	£52,920	£45,872	£64,506
Tea	£3,080								£1,486	£3,787	£74,473	£12,198	£30,560
Crude Animal Materials	112181	£114,482	£145,853	£129,021	£155,677	£171,651	£163,775	£176,945	£140,947	£283,745	£246,074	£245,084	£246,632
Crude Vegetable Materials	£41,702	£48,949	£47,748	£39,652	£82,693	£42,561	£39,717	£53,438	£2,206	£3,806	£5,914	£5,831	£9,466
Animal & Vegetable Oils									£27,539	£54,718	£51,756	£43,770	£41,676
Cotton Fabrics			£327	£263	£12,434	£23,955	£23,734	£19,029	£10,746	£22,815	£113,072	£281,046	£474,373
Textiles (not Cotton) and Yarns									£8,646	£24,116	£33,185	£74,349	£132,858
Madeup Textiles (not Clothing or Shoes)									£17,739	£47,404	£95,158	£148,700	£181,085
Clothing	£15,147	£16,944	£16,544	£19,394	£24,790	£23,449	£20,610	£18,680		£1,315	£4,843	£3,049	£6,074
Chemicals									£6,178	£15,382	£34,198	£15,711	£32,892
Glassware													
Animal Hair													
Other	£52,720	£75,252	£66,584	£65,976	£101,766	£146,645	£130,549	£124,779	£17,425	£47,390	£29,017	£106,988	£154,166
Total Merchandise Imports	£224,864	£288,865	£324,759	£340,764	£437,697	£418,586	£434,274	£434,221	£233,865	£532,128	£740,610	£982,598	£1,374,288
Specie Imported (c.d.v)	£21,360	£43,726	£12,027	£48,931	£97,577	£54,864	£102,149	£263,854	£294,500				
Gold Specie Imported (c.d.v)										£104,063	£117,394	£117,508	£132,321
Coin Specie Imported (c.d.v)										£79,065	£100,342	£254,911	£186,594
Check	Yes												
Other %	23.4%	26.1%	20.5%	19.4%	23.3%	35.0%	30.1%	28.7%	7.5%	8.9%	3.9%	10.9%	11.2%
Total Merchandise Imports c.i.f	£245,820,093	£287,134,228	£268,415,083	£297,098,015	£285,076,582	£231,416,872	£282,333,191	£324,905,016	£139,808,437	£287,639,182	£341,595,376	£358,010,672	£396,385,317
Total Merchandise Imports June Years c.d.v	£182,080,000	£241,639,000	£241,782,000	£243,229,000	£268,280,000	£217,262,000	£227,206,000	£291,326,000	£282,229,844	£261,870,432	£313,662,496	£327,911,170	£364,713,061
Total Merchandise Imports June Years c.i.f	£210,130,000	£277,211,000	£276,848,000	£276,681,000	£305,203,000	£244,640,000	£254,585,000	£324,809,000	£286,146,000	£287,639,182	£341,595,376	£358,010,672	£396,385,317

Sources:

NZ Dept of Statistics: External Trade Statistics 1954-62
 NZ Dept of Statistics: External Trade of New Zealand: Country Analyses 1963-80
 NZ Dept of Statistics: Exports 1981-85
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NEW ZEALAND IMPORTS FROM CHINA

	June 1979 \$	June 1980 \$	June 1981 \$	June 1982 \$	June 1983 \$	June 1984 \$	June 1985 \$
China Merchandise Imports	\$21,133,434	\$41,531,176	\$34,993,561	\$48,002,124	\$48,863,409	\$52,134,374	\$78,917,234
Total Merchandise Imports	\$3,560,953,493	\$4,770,595,922	\$5,587,323,000	\$7,044,774,160	\$6,928,240,268	\$8,197,887,758	\$11,344,237,386
%	0.59%	0.87%	0.63%	0.68%	0.71%	0.64%	0.70%
% Change	19%	34%	17%	26%	-2%	18%	38%
<u>Principal Imports from China</u>							
Fruits & Dried Nuts	\$1,130,906	\$744,083	\$563,690	\$2,563,870	\$2,079,566	\$1,368,817	\$1,111,507
Tea	\$2,345,880	\$3,235,505	\$2,802,795	\$1,993,223	\$3,250,730	\$5,598,290	\$11,510,087
Crude Animal Materials	\$640,218	\$775,455	\$546,550	\$805,660	\$542,477	\$961,040	\$1,135,294
Crude Vegetable Materials	\$97,939	\$227,656	\$186,985	\$273,993	\$230,563	\$247,198	\$179,384
Animal & Vegetable Oils	\$223,313	\$254,192	\$164,772	\$281,912	\$237,311	\$448,047	\$324,879
Cotton Fabrics	\$5,920,203	\$12,624,837	\$8,825,721	\$9,587,495	\$7,726,206	\$9,714,335	\$15,685,611
Textiles (not Cotton) and Yarns	\$2,692,054	\$6,703,629	\$6,152,968	\$7,215,157	\$8,624,326	\$8,597,036	\$12,794,570
Madeup Textiles (not Clothing or Shoes)	\$1,328,545	\$2,649,789	\$5,221,807	\$5,357,879	\$6,182,963	\$4,697,301	\$6,233,495
Clothing	\$292,745	\$662,954	\$1,090,405	\$3,178,199	\$2,714,524	\$3,216,429	\$4,814,626
Chemicals	\$986,524	\$3,252,142	\$2,745,595	\$4,190,859	\$3,927,164	\$4,273,067	\$4,641,606
Glassware	\$175,129	\$434,145	\$38,975	\$680,123	\$823,997	\$304,180	\$810,117
Animal Hair	\$1,179,187	\$1,002,925	\$1,793,627	\$1,731,039	\$1,009,904	\$2,099,598	\$2,768,017
Other	\$4,120,791	\$9,966,789	\$6,653,298	\$11,873,754	\$12,523,582	\$12,708,634	\$19,676,058
Total Merchandise Imports	\$21,133,434	\$42,534,101	\$36,787,188	\$49,733,163	\$49,873,313	\$54,233,972	\$81,685,251
Specie Imported (c.d.v)							
Gold Specie Imported (c.d.v)							
Coin Specie Imported (c.d.v)							
Check	Yes	No	No	No	No	No	No
Other %	19.5%	23.4%	18.1%	23.9%	25.1%	23.4%	24.1%
<u>Total Merchandise Imports c.i.f</u>	\$3,826,898,179	\$5,133,223,469	\$6,023,628,000	\$7,600,402,256	\$7,595,827,726	\$9,020,069,114	\$12,472,592,068
<u>Total Merchandise Imports June Years c.d.v</u>	\$4,068,610,804	\$5,151,988,936	\$6,065,277,000	\$6,527,798,600	\$7,427,707,778	\$8,336,455,030	\$11,344,237,386
<u>Total Merchandise Imports June Years c.i.f</u>	\$3,826,898,179	\$5,133,223,469	\$6,023,628,000	\$7,600,402,256	\$7,595,827,726	\$9,020,069,114	\$12,472,592,068

Sources:

- ∇Z Dept of Statistics: External Trade Statistics 1954-62
- ∇Z Dept of Statistics: External Trade of New Zealand: Country Analyses 1963-80
- ∇Z Dept of Statistics: Exports 1981-85
- ∇Z Dept of Statistics: Imports 1981-85