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A brighter future for Pacific Island countries

by Chris Lipscombe

There's no denying it. New Zealand has done very well out of its Free Trade Agreement with China. For our Pacific Island neighbours, the benefits from trade-led growth could also be sigificant. Key to realising these benefits, though, will be investment in local economic development. From what I've seen, China is ready to help.

Let's go back in time to 2008. In April the People's Republic of China signed a free trade agreement with New Zealand, its first free trade agreement with any developed country. It hadn't been an easy process — fifteen separate sessions (or rounds) over three years had resulted in an agreement that allowed for 37 per cent of Chinese exports to New Zealand and 35 per cent of New Zealand exports to China to be tariff free by October 2008. All tariffs for Chinese exports to New Zealand were to be eliminated by 2016, and 96 per cent of New Zealand exports to China would be tariff free by 2019.

At the time, New Zealand's exports to China were $3 billion and the real benefits of the free trade agreement with China seemed some way off — in some cases, over ten years away. Over the next year, New Zealand exports to China increased by 16.7%, while Australia, which didn't have a free trade agreement with China, increased its export trade by a similar percentage — 15.6%. Maybe the free trade agreement wasn't going to have that much of an impact after all?

Fast forward a decade to 2018, and the picture looks quite different. New Zealand's exports to China have increased by almost 500% to $14.8 billion, while Australia's have increased 414% over the same period. Looks like a free trade deal might have had some value after all.

So how does the situation look now? For the year ended December 2022, New Zealand has exported goods and services worth $21.39 billion to China, over seven times the value of exports in 2008 — the year the free trade agreement was signed. Imports over the same period were worth $18.93 billion, making a total trade value of $40.31 billion. China is now

New Zealand's number one destination for exports, the number one source of imports, and number one for total trade value.

We're not unique in having China as our number one trading partner. More than 120 countries share that position with us. New Zealand's total trade is miniscule in the context of China's overall trade, hovering around 0.3% per annum in value. The good news for New Zealand is that it's one of only a handful of countries that has a positive trade balance with China, coming in at $2.46 billion for 2022. At a time of global disruption to trade caused by the covid pandemic… yes, we owe China a great deal.

Not all commentators in New Zealand agree. They point to the fact that over 30% of our total exports of global goods per annum are going to China. They suggest that, instead of diversifying our markets, we are putting all of our eggs into one basket and running an unacceptable risk by doing so.

Again, we're not unique in concentrating on China as our key market. Australia sends over 40% of its goods exports to China per annum. To be frank, decisions on what to export, how much, and where, are ones that business owners and managers — not commentators — are best equipped to take. The total percentage figure also masks strengths in some sectors and relative weaknesses in others. Some sectors — for example, tourism — are only now starting to recover from the impacts of the pandemic. As Chinese tourists return to New Zealand, we can expect to see a significant increase in foreign exchange earnings from this component of the services sector.

Discussion on exports also masks the benefits that a strong import sector can bring. Rather than focussing solely on a positive or negative trade balance, a focus on imports allows us to calculate the benefits that accrue to New Zealanders as providers of associated goods and services, salary and wage earners, government entities, and shareholders. On imports worth $18.93 billion, the domestic economic value to New Zealand might be as great as $40 billion per annum.

These very positive New Zealand-China trade statistics are not soulless abstractions. They represent the hard work, trust and commitment of Chinese and New Zealand businesses —

and the people that work in those businesses — to meeting the needs of consumers in both our countries.

Now, as we move into the 10th anniversary of China's Belt and Road Initiative (BRI), we can see further opportunities — not just for New Zealanders but for our Pacific Island neighbours as we collectively look to the value that a southern connection to the BRI might bring.

The BRI was announced by President Xi Jinping ten years ago, in 2013, to promote closer ties between countries through development-led trade growth. In March 2017, New Zealand and China signed a Memorandum of Arrangement (MoA) to work together on BRI projects.

Soon after the signing of the MoA, the idea was floated that New Zealand might be a natural link between China and South America. The 'Southern Link' proposed the routing of passengers and multi-modal freight between China and South America via New Zealand, providing the shortest air route between the continents and facilitating a more seamless and convenient flow of goods and people compared to alternative hubs in the Northern Hemisphere.

Despite disruptions to international trade and tourism caused by the covid pandemic, the idea of the Southern Link has been gathering momentum. Air routes between Asia and South America along the Southern Link can be quicker, less congested and price competitive relative to existing alternate routes via London, Paris, Madrid, or Dubai. Further, New Zealand has five well-developed deep-water ports (Lyttleton, Port Chalmers, Wellington, Auckland, and Tauranga), making bimodal options for freight readily available.

Land-sea interconnectedness and its relevance for Pacific Island countries (PICs) is still at an exploratory stage. The Patron and Chair of the Pacific China Friendship Association (PCFA), Her Royal Highness Princess Pilolevu Tuita of Tonga has proposed a Maritime Pearl Road, linking PICs to existing trans-shipment centres like Singapore. Along with the possibility of a New Zealand hub (or hubs) serving the South Pacific, hubbing facilities in Kiribati have also been proposed as a service solution for the North Pacific. For the PICs, consolidation across marketing, sales and distribution will be essential in order to be able to respond to and satisfy business and consumer demand, making regional hubbing centres a critical infrastructure requirement.

The potential for trade-led growth to deliver common prosperity is there. Underpinning the strategy's success in the Pacific, particularly for the smaller PICs, is economic development.

On the outskirts of Fuzhou, the Fujian Agriculture and Forestry University (FAFU) has since 1983 been working on a project to use grass instead of wood chips to grow edible and medicinal mushrooms. Their research into juncao ('mushroom grass') has resulted in the development of an entire industry, supporting not only mushroom growth and fertliser production but biomaterial for construction materials, biomass for energy conversion, animal fodder, and a range of ecological management uses such as sand and desertification control, soil erosion minimisation, nitrogen-fixing, and desalinisation.

This technology has been offered free of charge by China to 106 developing economies around the world. Collaborations have been established with 71 institutions in 41 countries.

In Papua New Guinea, juncao technology has been extended to 16 regions in eight provinces, with training offered to more than 8,600 households and benefitting over 30,000 people. In the Eastern Highlands province, juncao technology has now been acknowledged as a pillar industry for economic development and achieving sustainable development goals.

In Fiji, 1,700 people have been trained, including women and disabled farmers. 39 training workshops have been held throughout the country, leading to the cultivation of over one million bags of mushrooms and export earnings of over 5 million Fijian dollars. Juncao technology has also alleviated the shortage of green fodder in the dry season and supported animal husbandry.

In a further commitment to the Pacific region, China established in March last year a Juncao Technology Demonstration Center for Pacific Island Countries in Suva, Fiji. Training courses will be held this year in Vanuatu, Micronesia, and Tonga, with a regional capacity building workshop next year in Fiji. Support also includes the offer of scholarships for Pacific Island students at FAFU in China.

The many hundreds of thousands of traders, entrepreneurs, manufacturers, farmers, and workers in China and New Zealand who have jointly created the prosperity of the past two decades and more view the tensions and negative geopolitical trends swirling around the region with suspicion and alarm. These feelings are mirrored in the Pacific Island countries. Far from seeing China as a threat, the Pacific leaders I have met see China as prepared to engage with them to create the conditions for successful and sustainable socio-economic development and trade.

Humanity has too many problems and time is too short to indulge in regressive mind-sets. They are already casting a dark shadow over our region and inserting false dichotomies into our political conversations. For some who do not have the time or interest to look beyond the propaganda and mainstream media to seek a deeper and more balanced context, they are, sadly, resurrecting old prejudices and stereotypes.

Along with my Pacific friends, I'm looking towards a brighter future.

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Chris Lipscombe is National President of the New Zealand China Friendship Society. In May 2023 he travelled with fellow Pacific China Friendship Association members to Fuzhou, Ningde and Pingtan Island in Fujian, China to take part in a Friendship Forum organised by the Chinese People's Association for Friendship with Foreign Countries.