RESEARCH NOTE

BELT AND ROAD INITIATIVE: IMPLICATIONS FOR NEW ZEALAND

MAY 2024

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THE NEW ZEALAND INITIATIVE

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Acknowledgement

The authors thank Benjamin Macintyre for his contributions to a previous version of this research note. The usual caveats apply.

Published April 2024 by
The New Zealand Initiative
PO Box 10147
Wellington 6143
New Zealand
www.nzinitiative.org.nz

Research Note
ISSN 2816-0347

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1. Introduction

New Zealand reportedly has an infrastructure deficit of at least $100 billion, a huge amount for a small country and a significant drag on productivity and economic growth[1]. Not all of this can be financed from within New Zealand, meaning a need for overseas investment. National's infrastructure policy for last year's election therefore expressed interest in sourcing finance from overseas.[2]

China's Belt and Road Initiative (BRI) has been touted as a potential source of overseas investment.[3] The BRI aims to increase trade volumes between participating countries by improving transportation infrastructure and lowering trade costs. Supporters of New Zealand becoming part of BRI include former National Party Prime Minister Sir John Key.[4]

The potential benefits of engaging with the BRI, such as infrastructure development and increased trade, are attractive for a country like New Zealand, which relies heavily on trade[5] and faces significant infrastructure challenges.[6] The BRI expressly aims to promote economic cooperation, infrastructure development, and cultural exchange among participating countries, ultimately seeking to create a vast network of trade routes and economic corridors spanning Asia, Europe, and Africa.

However, recent changes in the BRI's focus and the associated risks of participation, including China's increasingly assertive foreign policy, necessitate a cautious approach.

This research note analyses the BRI and its implications for New Zealand. It explores the initiative's origins, objectives and evolution, and the potential benefits and risks associated with New Zealand's participation. The note also examines the BRI's potential effect on New Zealand's ability to maintain an independent foreign policy. It will present case studies illustrating the experiences of other countries involved in the initiative.

The central argument of this research note Is that while the potential benefits of BRI participation should be acknowledged, they may not be as substantial as initially thought, and the associated risks, including the compromise of foreign policy independence, are too significant to ignore. As such, New Zealand must prioritise its long-term stability, economic resilience, and autonomy in decision-making. This leads us to conclude that New Zealand should not seek to deepen its involvement in the BRI.

Instead, the Government should focus on reducing or removing existing barriers to investment, such as reforming the restrictive overseas investment screening regime, streamlining resource management laws to reduce costs and delays, and improving funding and financing arrangements to encourage more private investment.

2. The Belt and Road Initiative: An Overview

Origins and Objectives

The Belt and Road Initiative, also known as the One Belt One Road (1B1R), was launched by the Chinese government in 2013.[7] It is a central component of Chinese leader Xi Jinping's "Major Country Diplomacy" strategy. It envisions China taking a leadership role in global affairs commensurate with its rising power and status. The BRI aims to boost economic growth, build infrastructure, and promote cultural exchange among participating countries, with the ultimate aim of establishing a global network of trade routes and economic connectivity.

Key Components and Scope

The BRI comprises two main components: the “Silk Road Economic Belt,” focusing on overland routes through Central Asia, and the “21st Century Maritime Silk Road,” encompassing sea routes through Southeast Asia, South Asia, the Middle East, and Africa.[8] It involves the construction of a vast network of highways, railways, maritime ports, pipelines, and optical cables to facilitate trade, improve access to foreign markets, and promote economic integration.

Since its inception, the BRI has expanded to include more than 150 countries, encompassing nearly 75% of the world’s population and over half of the world’s GDP.[9] Significant sub-projects under the BRI umbrella include the China-Pakistan Economic Corridor (CPEC), the New Eurasian Land Bridge, the China-Mongolia-Russia Economic Corridor (CMREC), the China-Central and West Asia Economic Corridor (CCWAEC), the China-Indochina Peninsula Economic Corridor (CICPEC), and the Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), among others.[10]

Potential Benefits and Criticisms

Proponents of the BRI highlight its potential to boost global GDP, particularly in developing countries, by improving infrastructure and reducing trade barriers. Studies estimate that the BRI could increase trade flows in participating countries by 4.1 percent and reduce global trade costs by 1.1 to 2.2 percent.[11] By 2040, the BRI is expected to increase world GDP by $7.1 trillion annually.[12]

However, the BRI has faced criticism over issues such as corruption, lack of transparency, human rights violations, environmental impacts, erosion of labour standards, and its contribution to dangerous debt levels in developing countries, leading to accusations of neocolonialism and economic imperialism. Critics argue that the initiative serves as a tool for China to expand its geopolitical influence and strategic interests, potentially at the expense of participating countries’ sovereignty and long-term economic stability. There are risks of countries along BRI corridors becoming overly indebted to, and dependent on, China.

Recent Developments and Refocusing

In recent years, the BRI has undergone a readjustment, with China scaling back the ambition of the initiative after some large infrastructure projects delivered disappointing economic returns and others failed altogether. China’s economic challenges have also made it less keen to splurge on big projects overseas. The focus now is on making the BRI more financially sustainable and less risky, with an emphasis on “small but beautiful” projects, such as those in clean energy and digital infrastructure.[13]

Additionally, there has been international pushback against the BRI, with some countries expressing concerns over the initiative’s transparency and the strategic implications of deeper involvement with China. China’s foreign policy has become much more assertive in recent years, illustrated by its ‘wolf warrior diplomacy’ and growing tension in the South China Sea, the intimidation of Taiwan and countries with relations with it, such as Lithuania, and anger over Australia’s criticism of its response to COVID-19.[14] In late 2023, Italy, a large and developed economy and the only G7 country to have joined the BRI, withdrew its membership.[15]

3. New Zealand and the Belt and Road Initiative

Engagement and Potential Benefits

New Zealand formalised its interest in the BRI by signing a Memorandum of Arrangement (MoA) with China in March 2017.[16] The MoA, signed during Chinese Premier Li Keqiang’s visit, was not a binding agreement but rather a framework to explore cooperative opportunities within the BRI’s network. The strategic report accompanying the MoA outlined potential areas of cooperation, including policy coordination, cultural exchanges, bilateral and multilateral collaboration, and economic partnerships. New Zealand aimed to leverage its strengths in biosecurity, agriculture, education, and trade facilitation within the BRI framework.

The potential benefits of New Zealand's full membership in the BRI were considered substantial. Economically, it could significantly expand trade flows, both by enhancing existing routes and creating new ones, for example with Latin America.[17] New Zealand's reputation in biosecurity processes and scientific research could lead to collaborative projects, thereby contributing to global biosecurity efforts. Furthermore, the multilateral nature of the BRI would allow for extensive cultural and educational exchanges, strengthening people-to-people ties and fostering mutual understanding among member nations.

However, the main potential benefits for New Zealand were seen in infrastructure development. With a well-documented infrastructure deficit,[18] it was thought that participation in the BRI would attract Chinese investment in critical sectors such as transport and energy, bolstering economic growth and fostering a more resilient infrastructure framework. In an ideal world, the BRI would help enable New Zealand to overcome its infrastructure challenges while promoting economic and social development.

Hesitancy and Concerns

Despite these potential benefits, New Zealand's approach to the BRI has been characterised by hesitancy. The MoA was automatically rolled over in 2022, but the formal work plan with the Chinese government remains undeveloped in 2024. While disruptions from the COVID-19 pandemic and China's economic slowdown likely contributed to this lack of progress, concerns over the BRI's transparency and the strategic implications of deeper involvement have also played a role.

Questions have also been raised about whether the BRI's recent refocusing away from large infrastructure projects towards "small but beautiful" projects has changed its value proposition for New Zealand. On one hand, New Zealand projects might be considered "small" by BRI standards and there might be opportunities to learn from Chinese infrastructure experts, but the high cost of construction in New Zealand means they would be expensive compared to projects in developing economies. With its strong institutions and low corruption, New Zealand might be considered a less risky investment destination compared to many developing economies. However, New Zealand's political discourse has not embraced overseas investment in recent years, and its screening regime is very restrictive.

The geopolitical implications of closer ties with China through the BRI are another significant concern for New Zealand. Deeper engagement with the initiative could affect New Zealand's relationships with other trading partners and its position in the global community. As a small nation heavily reliant on international trade and multilateralism, New Zealand must carefully navigate any participation in the BRI to avoid compromising its diplomatic relations and foreign policy autonomy. The BRI may undermine democratic institutions, norms and decision-making in participating countries.

Most BRI projects are financed by Chinese state banks and built by state-owned enterprises on terms set by Beijing. There is a lack of transparency around deal-making.[19] China's "no strings attached" approach to democracy and human rights means financing is not conditional on reforms to improve either. What strings that exist will be to take a China-friendly foreign policy. The BRI, therefore, risks strengthening authoritarian regimes and creating a new model of "market authoritarianism" across Eurasia.[20] Civil liberties, rule of law and individual rights could be eroded in favour of state authority and top-down control.

4. New Zealand's Independent Foreign Policy

Historical Evolution and National Identity

New Zealand's independent foreign policy is a cornerstone of its national identity and global engagement, emphasising autonomy, values-based decision-making, and a commitment to multilateralism.[21] This policy framework allows New Zealand to engage in international relations in a manner that champions its values while maintaining strategic flexibility.

Historically, New Zealand's independent foreign policy evolved from a post-World War II alignment with Western powers to a more autonomous stance.[22] New Zealand's anti-nuclear policy, implemented in 1984, was pivotal in this evolution. The policy, which strained ties with traditional allies like the United States,[23] was a clear manifestation of New Zealand choosing its principles over strategic convenience. This theme has continued to define its international relations ever since.

The development of New Zealand's independent foreign policy is deeply intertwined with its national identity.[24] As a small, geographically isolated nation in the Pacific, New Zealand has cultivated a sense of itself as a nation that punches above its weight. This identity is reflected in its foreign policy, emphasising peacekeeping, environmental sustainability, and support for small island developing states in the Pacific. New Zealand's stance on nuclear disarmament, its proactive role in addressing climate change, and its advocacy for indigenous rights on the international stage all express its values and view of itself as a responsible global citizen.

Relationship with China and Implications of BRI Participation

The relationship between New Zealand and China exemplifies the challenges of maintaining an independent foreign policy while engaging with a rising superpower.[25] As economic ties between the two nations have strengthened, particularly following the signing of a Free Trade Agreement in 2008,[26] New Zealand has navigated the complexities of engaging with China while attempting to adhere to its principles. The New Zealand-China relationship encompasses cooperation on trade, investment, and global issues. Still, New Zealand has also expressed concerns about human rights and the South China Sea.

The asymmetrical nature of New Zealand's relationship with China has strained its capability and commitment to its independent foreign policy. A risk of taking on BRI membership is that it may exacerbate this strain, potentially compromising New Zealand's foreign policy autonomy and its ability to make decisions based on its own values and interests.

Some argue that BRI membership could demonstrate New Zealand's independence from the West, given its recent alignment with Western positions on security and defence issues. In recent years, New Zealand has moved more openly into the "Western camp," not just on human rights but also on security and defence matters. New Zealand is a "Five Eyes" partner, supports Ukraine in defending itself from Russia's invasion, has been participating in NATO discussions, and has recently been helping with anti-Houthi efforts in the Red Sea. There is even speculation that New Zealand might join AUKUS (albeit the non-nuclear aspects). These developments have made China unhappy.[27] BRI participation could be seen as a counterbalance to this trend, especially with protectionism growing in the West.

New Zealand must carefully consider the long-term implications of deeper engagement with China, ensuring that it can maintain its ability to make decisions based on its national interests and values rather than being unduly influenced by China's economic and strategic priorities.

5. Debt-Trap Diplomacy: Risks and Case Studies

The concept of "debt-trap diplomacy" suggests that China is leveraging its massive loans through the BRI to exert influence over other countries.[28] Critics argue that the BRI serves as a tool for China to bind countries in difficult-to-escape financial obligations, potentially facilitating China's strategic ambitions and eroding the sovereignty of participating nations.

The case of Sri Lanka handing over the Hambantota Port on a 99-year lease to China after failing to meet its debt obligations is often cited as a prime example of this phenomenon.[29] This incident has raised alarms about China's potential to seize strategic assets or use debt as leverage in future negotiations, suggesting an ulterior motive behind the initiative that conflicts with the interests of recipient countries.

On the other hand, some commentators have argued that China's tough approach to debt incurred under the BRI may not be a deliberate geopolitical strategy but rather an effort to protect its lenders' commercial interests by minimising their losses, including going it alone in debt restructuring so its lenders are repaid ahead of other countries' lenders.[30]

That is a fair point, but it assumes that BRI investments have been undertaken on commercial terms comparable to those made by private investors. Private investors have a strong financial stake in ensuring projects succeed and meet their cost of capital, whereas states and state-backed investors often have additional non-financial motivations. Based on the following case studies, BRI investment decisions appear to have been made more on the basis of geopolitical considerations than financial.

Pakistan and the BRI

Pakistan's engagement with the China-Pakistan Economic Corridor (CPEC) has brought significant infrastructure and energy investments[31] but has also contributed to an escalating debt crisis.[32] While the CPEC has created jobs and improved infrastructure, the loans from China, typically offered at or near commercial rates, have heavily burdened Pakistan's economy. Pakistan's financial commitments have necessitated substantial dollar payments, exacerbating its current account crisis and compounding its debt issues.[33]

The contrast between China's infrastructural investments and Western contributions, which have focused more on soft infrastructure like education and governance, has left Pakistan with limited options. The choice to engage with the CPEC was driven by an urgent need for infrastructure development, presenting a stark dilemma between enduring power shortages or accepting challenging loan terms. As Pakistan continues to be a significant beneficiary of China's energy investments in Asia and a major recipient of BRI's transportation projects, the relationship between China's financial support and Pakistan's economic stability becomes increasingly complex.

Laos

Laos' engagement with the BRI has transformed its landscape and economy but has also embedded the country in substantial debt to China. With total debt to China calculated at approximately 65 percent of its GDP, Laos faces economic instability and sovereignty compromises.[34] These financial obligations have primarily been incurred through funding massive infrastructure projects, including the high-profile $5.9 billion Laos-China railway.[35]

The financial strain of repaying China has compelled Laos to make significant compromises, including on its sovereignty. Reports indicate the presence of Chinese security personnel in Laos[36] and the ceding of partial control of the Laotian electrical grid to China.[37] Such concessions underscore the extent of

Beijing's influence in Laos, raising alarms over the erosion of Laotian autonomy in favour of mitigating immediate financial crises.

The economic ramifications of the debt are profound. Laos faces average annual public debt servicing payments of $1.2 billion over the next five years, a hefty sum for a country with a GDP projected at just $14.09 billion in 2023.[38] The Asian Development Bank (ADB) has voiced concerns about the critical level of public debt, highlighting the substantial risks it poses to the nation's economic outlook.[39]

Laos is not alone in facing these kinds of challenges. Managing debt sustainability is a key challenge for many BRI countries, and eight BRI countries are now at high risk of debt distress due to BRI-related lending.[40]

Sri Lanka

Sri Lanka's default on its sovereign debt in 2022 brought scrutiny to its engagement with the BRI[41]. The Hambantota Port project, financed through the BRI, failed to generate the anticipated revenue, leading Sri Lanka to lease the port to China for 99 years in 2017.[42] This incident raised concerns about the BRI leaving participating countries vulnerable to Beijing's political and economic influence.

Sri Lanka's economic woes cannot be attributed to a single cause. Rather, a confluence of internal and external factors has worsened due to its involvement with the BRI. The allure of Chinese investment was evident: Beijing provided quick, substantial loans without the stringent conditions typically imposed by Western financial institutions or bodies like the IMF. However, the terms of these loans were often less favourable, with higher interest rates and shorter repayment periods, contributing to Sri Lanka's ballooning external debt.[43]

Moreover, the opacity surrounding Chinese loans and the lack of transparency in project evaluations have led to accusations of corruption and mismanagement. Projects like the Mattala Rajapaksa International Airport, dubbed the "world's emptiest airport," exemplify the misallocation of resources and the questionable utility of some BRI undertakings in Sri Lanka.[44]

The Sri Lankan crisis is a cautionary tale of the potential pitfalls of high-stakes engagement with the BRI. It highlights the necessity for transparent, equitable financial practices and the importance of ensuring that infrastructure projects are viable and serve the long-term interests of the host country.

6. Concluding Remarks

The BRI, launched by China in 2013, represents an ambitious global development strategy that seeks to position China as a dominant force in global affairs. New Zealand's engagement with the BRI, formalised through a Memorandum of Arrangement in 2017, reflects a cautious approach to exploring the opportunities presented by this initiative. Its relationship with the BRI is characterised by hesitancy and concerns over transparency and strategic implications.

The potential benefits of BRI participation for New Zealand, such as infrastructure development, enhanced trade routes, and economic growth, are noteworthy. However, these benefits may not be as transformative as initially thought, particularly given the BRI's recent refocusing toward smaller projects and the high cost of infrastructure development in New Zealand compared to developing economies.

The experiences of Pakistan, Laos, and Sri Lanka underscore some potential risks associated with BRI participation, including unsustainable debt, reduced sovereignty, and economic policies that favour Chinese interests. These case studies reveal a common theme: while the BRI offers the allure of infrastructural development and economic opportunities, it also poses significant risks, with countries grappling with mounting debt, compromised autonomy, and the overarching influence of China's geopolitical ambitions.

Any decision to further engage with the BRI would be complex for New Zealand. It would require carefully balancing potential economic gains against long-term implications for independence and economic resilience. The asymmetrical nature of New Zealand's relationship with China has already strained its capability and commitment to its independent foreign policy, and BRI membership would risk further entrenching these issues.

As such, despite the potential benefits, New Zealand must tread carefully, prioritising its long-term stability and autonomy. The government should focus on reducing or removing existing barriers to investment, such as reforming the restrictive overseas investment screening regime (while retaining national security considerations), streamlining resource management laws to reduce costs and delays, and improving funding and financing arrangements to encourage more private investment. By addressing these issues, New Zealand can foster a more conducive environment for infrastructure development while maintaining its economic sovereignty and independent foreign policy.

New Zealand might want to consider working with other liberal democracies to provide an alternative to the BRI, to promote best infrastructure practices for development and strengthen the rules-based international system. In its current form, the BRI is incompatible with the norms of a free and open society. As a small, open economy dependent on global stability, it is in New Zealand's interests to defend the liberal order.

Ultimately, the risks associated with BRI participation, including the potential compromise of foreign policy independence and the entanglement in debt-trap diplomacy, outweigh the potential benefits for New Zealand. A cautious and measured approach, prioritising long-term stability and autonomy, is the most prudent path forward.

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Research Note
ISSN 2816-0347