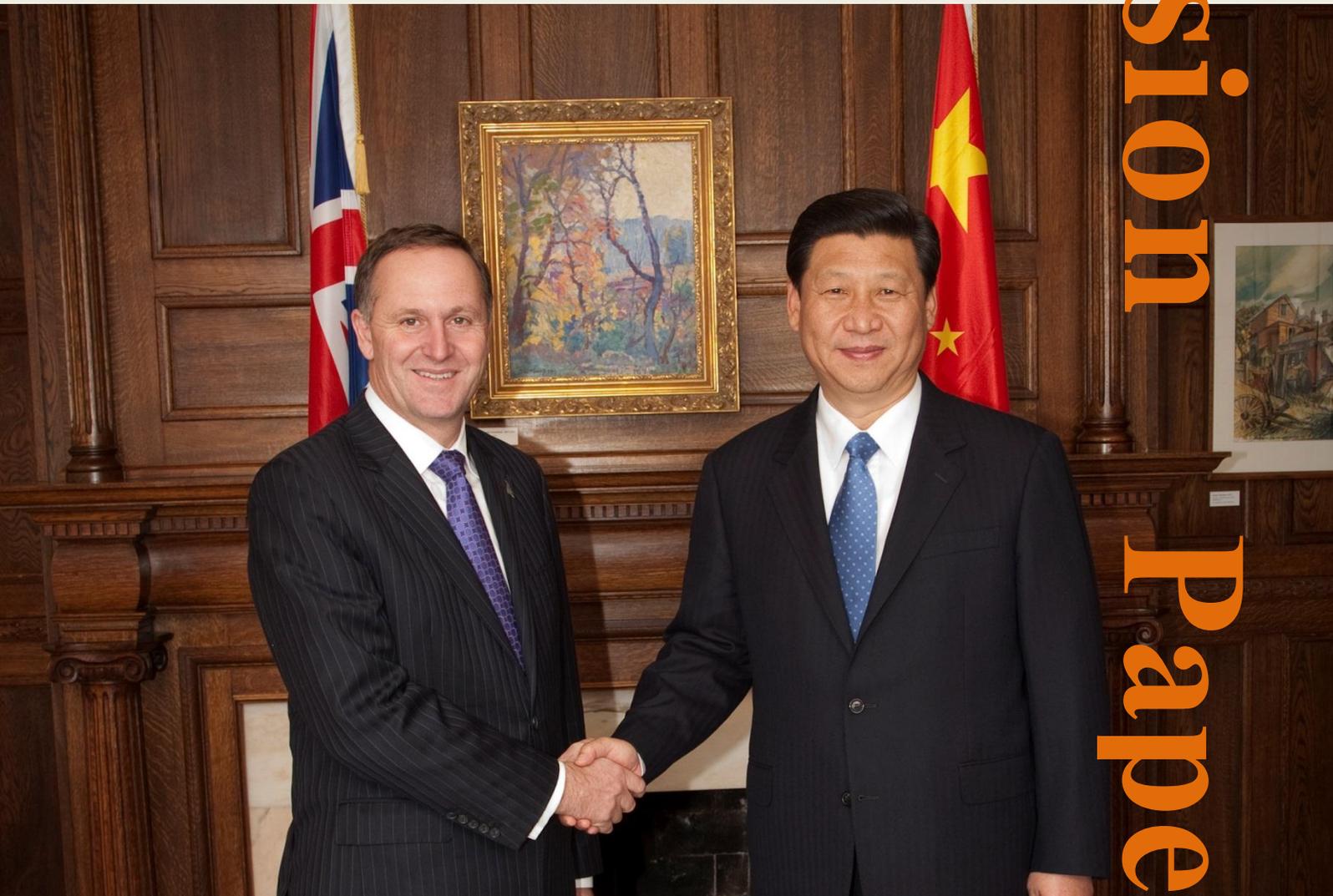


CHINA'S RISE AND NEW ZEALAND'S INTERESTS: A policy primer for 2030

Chris Elder and Robert Ayson



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Paper

Centre for Strategic Studies: New Zealand
Victoria University of Wellington

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Executive summary

The emergence of China as an international power in the early decades of the 21st century is widely accepted as the consequence of economic, political and military trends which are already apparent today. The familiar patterns of power centred on western predominance and American leadership will no longer offer the reassurance they once did.

Dealing with a prosperous and powerful China, which is by no means a novelty in world history, is commonly accepted as the main foreign policy adjustment that needs to be made by all countries in the Asia-Pacific region. The effects of China's rise on the global and Asia-Pacific regional order are likely to be the main preoccupations for New Zealand foreign policy-makers in the next twenty years and more.

In this study, we seek to do three things. First, we examine what we believe China's economic, political and military trajectory will resemble between now and the early 2030s. Second, we contemplate the effects that this trajectory for China will have on international institutions and Asia-Pacific regional affairs. Third, we propose a series of issues that New Zealand's policy-makers will need to bear in mind.

In terms of the trajectory of China's power, there is general consensus that China's economy will continue to grow strongly, even if there are some significant challenges for its leaders to negotiate. The size of China's population means its aggregate growth will surpass that of the USA long before GDP per capita equalises with that of the USA or other western economies. As both its wealth and external interests expand, China will also develop stronger military capabilities to defend those interests and to match its sense of prestige. China will be able to project power further from its boundaries, and friction with neighbours and regional powers may intensify.

The manner of China's assertion of its power will result in part from its style of government. Pressures on the Chinese Communist Party's rule may grow from an expanding middle class and from any significant diminution of economic growth. But there seems currently no reason to expect China to move significantly closer to Western liberal democracy, even if more representative aspects are progressively introduced to governance.

China's increasing wealth and military power are likely to be accompanied by an extension of its influence with other countries and within international organisations. Having had no role in the establishment of post-War institutions, China is likely to assert greater influence in the development of existing institutions and the creation of any new groupings. Its combination of authoritarian government, strong national development and economic power may help developing countries negate the pressures they feel from leading western governments to follow a particular liberal capitalist model. International alignments may change: as countries within Asia become increasingly entwined with China's economy, the balance of political influence may

also incline towards China, even if countries in northeast and southeast Asia maintain close security links with the United States. Like many of these countries New Zealand's closest neighbour Australia will find itself pulled at the same time by economic factors to China and by security instincts to the US.

We conclude that the main considerations and challenges for New Zealand policy-makers are likely to be questions of political judgement rather than economic consequence or strategic concern. First, rather than being comforted by the notion that New Zealand has a 'special' relationship with China, we need a broader domestic understanding of what dealing with a much stronger China will be like in the next twenty years. We need to consider what New Zealand's changing demography, as a more Asian country in population terms including through Chinese immigration, means for our external engagement. We need to adjust to the reality of China's growing South Pacific influence, seeking opportunities to encourage positive policy by Beijing rather than following any illusion of strategic denial. We need to apply an informed appreciation of our interests when we face numerous small but potentially significant tests of loyalty and alignment as the competition between a growing China and a still very powerful United States develops, tests which our partners in the region including in Southeast Asia will also face. We need to be aware that charting the best position for New Zealand in this evolving region will not necessarily be synonymous with taking an identical approach to Australia's despite the importance of that bilateral relationship to us. And we need to continue to reach out beyond the Asia-Pacific region, including to Europe, to help manage our relationships, and protect our interests and values, as China's influence over the standards of international behaviour develops.

Above all, we need to put a premium on diplomatic nimbleness and our own capacity to assess what is best for New Zealand in a world which is going to be increasingly changed by China's growing strength. This is not necessarily a world fraught with danger. New Zealand will be better off for China's rise. In fact we already are. But it will be a demanding world and New Zealand will need to ensure it pays more attention to the qualities we need to prosper within it.

About the authors

Chris Elder

Chris Elder trained as a Chinese linguist before serving in the New Zealand Embassy in Beijing when it first opened in the early 1970s. He returned to Beijing as Ambassador from 1993-97. Other ambassadorial appointments have been to Indonesia and to Russia. In Wellington Chris has served as Director of MFAT's North Asia Division, and as the Deputy Secretary with responsibility for Asian affairs and security policy in the Asia-Pacific region. He has published a range of papers and articles relating to New Zealand's interaction with China and with Asia, and edited two anthologies on aspects of China - *Old Peking* and *China's Treaty Ports*. He retired from the Foreign Ministry in 2012.

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In preparing this Discussion Paper we are grateful for the very helpful comments and suggestions which have come from our discussions with a number of academics, officials and commentators who are interested in China's trajectory and its implications for New Zealand's interests. We are also grateful for the splendid work of Jocelyn Woodley and Synonne Rajanayagam at the Centre for Strategic Studies in helping to coordinate our study and to edit and publish this Discussion Paper which had its origin in a suggestion by our friend and colleague Michael Green. He participated fully in its development until just a few days before his untimely death in April 2012. The debt owed to Mike's knowledge, insights and acute critical intelligence is acknowledged with gratitude and the deepest respect.

China's rise and New Zealand's interests: a policy primer for 2030

Chris Elder and Robert Ayson

Introduction

The race is not always to the swift, the adage reminds us, but that's the way to place your bets. On a similar principle, it is by no means certain that the decades ahead will confirm China as a preeminent international power, but on current trends that is very likely to be the case. While New Zealand can do little to influence the course of China's economic and strategic development, it will be profoundly affected by the outcomes. It will be important to have a clear-sighted view of China's likely place in the world in the medium to long term, and what this may mean for the way New Zealand conducts its own international business. That is not confined to the nature of our own bilateral relationship with China – it extends to a consideration of how China's rise may affect the nature of international institutions, the economic and political models that now represent the norm, and the shape of the Asia-Pacific political and security environment.

The discussion that follows sets out to consider how China and the world may look two decades into the future, and what this implies for New Zealand's own strategic settings in the years ahead. We begin with the economic basis of China's rise and the domestic political context in which this is occurring. We then turn to the growing regional and global effects of a stronger China before offering a series of judgements about what these changes mean for New Zealand's policymaking.

China's growth

Western perceptions of China were for many years coloured by images of a country in conflict, politically weak and economically backward. It is helpful to recall that China has existed as a state on the basis of the same core boundaries for more than 3000 years, and that for most of that time it has been the wealthiest country in the world. Its aggregate wealth has been a function of its very large population, but even in per capita terms its people were better off than those of any country in Europe until at least the 15th century. In the long sweep of the country's history, it is not a prosperous and confident China that is atypical, but rather the impoverished and divided state that existed towards the end of the Qing dynasty and in the turbulent years that followed the dynasty's downfall in the early years of the twentieth century.

The economy

Even during the unsettled period between the declaration of the People's Republic of China in 1949 and the Cultural Revolution, China's economy grew. Gross Domestic Product (GDP) trebled between 1952 and 1978. Per capita income grew 180 per cent, and industry's share of GDP rose from 8 per cent to 52 per cent, bringing the shape of China's economy into line with the industrialised economies of the West.

It was with the reforms instituted by Deng Xiaoping in 1980, however, that China's economy took off. Between 1980 and 2010, real GDP grew at an average annual rate of 10 per cent, carrying

per capita GDP from US\$205 in 1980 to about US\$4,400 now. In the process, some 500 million people have been lifted above the poverty line – an achievement unparalleled in history.

That breakneck pace of development will slow, but there is no reason to believe that the general trend will be reversed. The May 2011 Bloomberg Index for Developing Asia put China at the head of 22 emerging Asia economies as the country most likely to maintain steady and rapid growth over the following five years. China's high score (76.2 per cent, as compared with runner-up India's 64.1 per cent) reflects a positive assessment of key factors contributing to market growth, including competitiveness, labour force quality, gross national savings as a percentage of GNP, and the growth of high technology exports. The IMF supports this analysis, predicting that China will become the world's largest economy on a purchasing power parity basis in 2016.

There is no shortage of economic commentators projecting a continuation of that positive growth trend well into the future. Prominent among them is Arvind Subramanian, of Washington's Peterson Institute for International Economics, who argues that by 2030 China will generate 23.5 per cent of world GDP, and the United States only 12 per cent. China will then stand alone as the wealthiest country in the world, even though the United States will still surpass it in per capita terms. While Subramanian's predictions obviously build on a number of assumptions that may or may not hold true, it is noteworthy that as far as China in particular is concerned his starting point is remarkably moderate – an assumed growth rate of 5.5 per cent on a per capita basis, 3.3 per cent slower than has actually been achieved over the past 20 years.

China's economic growth will undoubtedly hit some speed bumps over the next two decades. It will need to negotiate the 'middle income trap' that has seen many developing countries unable to make a transition from middle income to high income nation status because escalating costs undermine their competitiveness. The 'demographic dividend' that saw an abundant supply of young and productive workers through the early years of China's rapid growth has plateaued, and will soon drop off sharply. The problem of increasingly severe environmental degradation will need to be addressed by remedying current abuses, and building in higher levels of environmental protection. Water will be a critical issue for China, with rivers and aquifers plundered and seriously polluted.

What is noteworthy is that these have already been identified as serious constraints, and are being addressed, albeit often in a gradual and partial way. While the possibility of unforeseen developments radically changing the economic landscape can never be excluded, it is not apparent at this point that any of the problems identified pose a fundamental threat to China's continued economic growth.

The political system

One suggested consequence of China's economic growth is pressure for change in the authoritarian political system that has preceded and accompanied it. With much reduced levels of absolute poverty in China, providing for basic human needs is no longer the imperative that once it was. Recent years have seen the emergence of a sizeable middle class, the members of which might be expected to place greater value on freedom of expression, and the right to exercise more choice in selecting those who are to represent them.

The Chinese Government faces the need to manage such expectations, and to avert possible social unrest stemming from an increasingly stark gap between the very rich and those still living in relative poverty. It is already finding its task more difficult because of unprecedented ease of communication within China with the advent of new technologies and social networking applications.

So far, those who have looked to China's evolving social and economic situation to provide a platform for a shift towards Western-style liberal democracy have not seen their hopes realised. China is not evolving towards enlightenment values and liberal democracy, and there is as yet no real indication that it will. The Chinese Communist Party is still firmly in control of what remains effectively a one-party state. The state apparatus has little tolerance for dissent, and a short way with dissenters.

China's long history is one in which the voice of the people has consistently been subordinate to authority imposed from above. Typically periods when that authority was in abeyance were marked by struggle and disorder. There is no tradition of participatory democracy on the Western model, and there is a strong aversion to any possible breakdown of the authority that underpins orderly development.

It is nonetheless observable that the same pragmatic outlook that set in train China's economic resurgence informs a willingness to move gradually towards more transparent political processes, and allow greater popular participation through what has been termed 'grassroots democracy', to the extent this is compatible with maintaining overall control by the central authorities. There are some tentative signs of a willingness to accord civil society the same legitimacy that economic enterprises now have. Such evolution is more likely than a democratic revolution. The strong self-identification of party and state restricts the system's ability to respond to change.

The Chinese government is sometimes described as having a 'Faustian compact' with the people of China, whereby the people accept limitations on their political freedom in return for the government's delivering increasingly high levels of material prosperity. To the extent that this is true, it reinforces the importance for China's political stability of continuing strong economic growth. Conversely, as long as the economy does hold up, it may be expected that some version of the pact will remain operative. Assuming annual growth in the 5-9 per cent band predicted by many commentators, this may enable authorities to continue to maintain effective political control. Especially will this be so if economic growth is accompanied by a gradual trend towards a greater accord with civil society.

One cautionary note that should be added to this analysis is that it is premised on a continuation of the style of Chinese leadership that has prevailed since Deng Xiaoping stepped down. China has been governed by a self-perpetuating meritocracy, technocratic, highly professional, but assiduously and, it appears, deliberately, lacking in personality. This has engendered a particular style of leadership – cautious, conservative and collective. That could all quickly change if there were to emerge another charismatic leader in the style of Mao or Deng. There is a strong possibility that any such leader would take China down a path that was nationalistic rather than liberal, as the triggers for achieving popular support would be likely to lie in that direction. China's future course, and the strategic environment which will affect us all, might then look very different.

Military capabilities

China's growing economic strength has been accompanied by an increase in its military capabilities, and this trend is set to continue. At least in the medium-term future, a primary objective for the People's Liberation Army (PLA) will be to ensure a capability for what are described as 'anti-access and area denial' operations (to deter opposing forces from deploying or operating in areas close to China). Within 20 years the single aircraft carrier now being brought into service, largely for training purposes, will have been joined by 4-5 others, more suited to operational needs. China's growing fleet of ballistic missile submarines will provide a credible

sea-based nuclear capability, and the two nuclear-powered attack submarines currently in operation will have been augmented by 4-5 more.

Land-based ballistic and cruise missile systems are and will continue to be integral to China's defence planning. Most notably it is developing an anti-ship ballistic missile with a range of some 1500 km, the DF-21D, which will give the PLA the capability to attack large ships, including aircraft carriers, in the Taiwan Strait or the Western Pacific. In the air, it will be in a position to deploy the J-20 stealth fighter currently in development, although its capability is unlikely to match that of the United States equivalent. Overall, China is on track to achieve its goal of building a modern, regionally-focussed defence force by 2020. It is less obvious that, even by 2030, it will have developed the ability or even the ambition to move beyond that to a capability for global reach or power projection. And the human and organisational software needed to animate the hardware is likely to be much slower to develop.

Beyond conventional weaponry, China will be among the countries most adept in exploiting the possibilities of cyber warfare. The advent of cyberspace adds one more dimension to the global commons – sea, air and space. It is a dimension in which no state is at an absolute advantage by virtue of its size or resource base. It largely bypasses conventional strategic geography, since distance is no defence against cyber-attack. China is gradually eroding the advantage originally held by the West – not least because Chinese state-owned companies are designing and manufacturing more and more of the world's digital infrastructure. The capability to attack computer networks offers the possibility of accessing or degrading information, and of targeting network-based logistics and communications systems. China has committed resources to harness advanced computer skills in order to place itself at the cutting edge of this new means of gaining an advantage in international conflict. China is also taking a different approach to the international governance of cyberspace. Exploiting the cyber domain is already part of China's growing ability to raise the costs for United States military access to the air and sea perimeter of the Asian mainland.

With expanded military capabilities, China will have the capacity to project power regionally, though probably not globally. In areas such as the South China Sea, it will have the sea and air power to back up its territorial claims. It will have the capability to mount a credible attack on Taiwan, turning the island's defence into a very costly exercise. While it will not be equipped to assert a threat across the wider Asia-Pacific, it will be able to protect its own maritime approaches by denying access to others.

China in the world

Capacity for influence

All the elements that go to make up the profile projected for China in 20 years' time imply a considerably enhanced capacity for that country to influence attitudes and events beyond its borders. Economic strength has historically translated into political influence, because it brings with it the ability to affect economic outcomes in other countries, for better or for worse. Especially is this so when the country concerned has a strong involvement in international commerce. China's voice will be influential by virtue of its position as a country commanding more than 20 per cent of the world economy, and something close to the same percentage of world trade. China's greater military strength will also increase its international clout. Even if it does not adopt a bellicose attitude towards its neighbours and towards potential competitors for influence, that it has the capability of projecting military force will inevitably be a significant element in determining how it is perceived internationally.

Besides the hard power conveyed by economic and military strength, China will also be able to exercise at least some measure of soft power. For the first time, the world will be confronted with a dominant power whose population's wealth, level of development and aspirations are more in accord with those of the Third world than the First. Few countries around the world will wish to replicate China's political arrangements which remain dominated by the Communist Party. But some countries and peoples, especially in the developing world (and in other parts of the world feeling overlooked by the west), will find China's rise politically helpful because it establishes an alternative model of strength. They will therefore be likely to share Beijing's argument that a multipolar world of plural political systems is preferable to a one-size-fits all global model of liberal capitalism led by the United States and its western partners.

China's influence-building process will be assisted by a targeted programme of cultural diplomacy, and by an increasingly influential diaspora of recent emigrants. Advances in communication will create a situation in which, more than ever before, it is possible for emigrants from China to contribute to an adopted society while still remaining closely linked to their country of origin. While historically those who left China were in large part labourers who did so out of economic necessity, the present wave of emigration comprises predominantly young people seeking educational opportunities, and members of the educated middle class. Pride in the new China, coupled with reluctance to lose the right to a Chinese passport by taking citizenship of another country, will create 'sojourners' of a new sort – educated advocates of the values of their country of origin, embedded in other societies and cultures. Against that there are many Chinese working for a time abroad (in Africa and the Middle East) who will not effectively be advertising Chinese soft power; and the reach of that power may be limited by its alien character outside East and Southeast Asia.

China in the international system

China's greater international influence will be evident in the role it plays in multilateral diplomacy. The declaration of the People's Republic of China was followed by a period during which China was relatively isolated from the mainstream of international society. It had no hand in shaping the form of the major international institutions which were established in the middle of the twentieth century, or in guiding their evolution. Through the period of its reintegration and rise to centrality in international affairs it has had to deal with institutions that reflect the values and promote the interests of the liberal democracies. As China's international clout continues to grow, it is unlikely to be content to continue to work within this framework.

In setting out to secure an institutional environment more conducive to its interests, China's choices are broadly either to work within the present system, seeking where necessary to recast existing institutions in a way more in accord with its objectives, or to create new institutions that reflect China's world view and aspirations. In practice, it is likely that the next 20 years will see elements of both options brought into play.

The emergence of China as an effective champion of the interests of the developing world, and the coalitions it has been able to form around those interests, have in many cases changed the dynamic of the negotiating process. An example is the World Trade Organisation (WTO), where the longstanding ability of the developed Western nations to drive through agreement broadly in accord with their interests has met with a check. It has proved impossible to bring the Doha Round to a conclusion because China has made common cause with other developing countries to refuse a disadvantageous outcome. Similarly, in the field of climate change China has not allowed its status as one of the highest greenhouse gas emitters to deter it from campaigning vigorously for measures that protect the position of its BRIC – Brazil, Russia, India, China – partners and others in the developing world.

Over time, international institutions will be subject to change. That would have been the case even had China not emerged as an important international player. The United Nations and the major financial institutions, set up following World War II, have far outgrown their original memberships and operating environments. UN reform has long been on the international agenda (although the reform process appears effectively stymied). Other international organisations have similarly changed their profiles in a way that implies a need to revisit underlying structures and modes of operation. China's arrival as an influential and economically powerful multilateral player will serve to accelerate a process that was in any case inevitable.

After joining the WTO, for example, China initially focussed on implementing the commitments it had made at the time of accession, and building expertise in the workings of the organisation. With greater familiarity with the culture of the WTO China has developed an informed and sophisticated approach to pursuing its interests in areas such as dispute settlement. China has begun to engage actively in this arena as a means of testing the existing rules, and subjecting them to reinterpretation (perhaps as a precursor to seeking rule changes). Since 2009, more than half the cases initiated under disputes settlement procedures have involved China either as a complainant or a respondent.

Gridlock in the WTO is encouraging the pursuit of trade goals through other means, notably bilateral and plurilateral negotiations leading to agreements limited to particular countries or groups of countries. The conclusion of an FTA between China and New Zealand in 2008 is one indication of China's willingness to go down this route. If the WTO's inability to re-invent itself does mean that trade policy action moves definitively to other approaches and other fora, China can be expected to assert a right to be involved from the outset.

Reinforcing this is the fact that, in the years ahead, the nature of the trade policy agenda will change, as international trade itself takes on a different aspect. Physical borders will be less relevant to commercial enterprise: the changing face of technology will lead to a new generation of issues that reach into the domestic markets governing service areas like banking, education, and telecommunications. The rules establishing the basis for competition between domestic providers and foreign entities have largely yet to be written, and when they are China will, for the first time, be present at the formative stages.

Like the WTO, the international financial institutions have traditionally been dominated by the interests of the liberal democracies, and, again like the WTO, they face increasing challenge from China and countries associated with it. That China will not forever be content to take a back seat in global financial management has been manifested through a number of acts and events. In 2009 Central Bank Governor Zhou Xiaochuan mused publicly about the possibility of establishing a 'super sovereign' currency based on a basket of currencies to replace the US dollar as the global medium of exchange. Later the same year, at the G20 summit, President Hu Jintao also called for a review of the global financial system. In the face of widespread opposition, China has not pursued the idea, but it has put the concept into play, and quietly pushes it forward from time to time within the IMF.

The other component of the international economic system within which China is making its presence felt is the G20. The G20 has superseded the G8 as the world's primary economic forum, in no small part precisely because it is more representative of current and emerging economic realities in its membership. China has the opportunity to steer its deliberations in directions that align with China's world view, and it does so in the company of the BRICs, and with the potential support of an Asian bloc of five countries (six if Australia is included).

In the G20 China does not labour under the handicap of having achieved membership only after the rules and customs were well established – it has been a member since the group's inception in 1999. Other organisations and groupings are beginning to emerge in the formation of which China has played a large part, and which may in the future prove effective vehicles for promoting China's vision and values. One of them is the BRICs - countries united by their size, their economic potential, and by the fact that they are in many respects marginalised in current economic structures. Another is the Shanghai Cooperation Organisation, which has a geographical focus, bringing China and Russia together with four of the countries of Central Asia in a grouping that has important strategic and potentially economic implications. Of most current significance is the East Asia Summit (EAS), which includes both China and the United States, together with a cross-section of other countries, including New Zealand, whose interests and loyalties will not in the future necessarily align completely with one or the other.

On the basis of the trends that have become increasingly evident through the period of China's growing international ascendancy, it is reasonable to assert that after another two decades have passed the main international and regional institutions may have a different cast than at present. Some may have become less relevant, or even disappeared altogether. Others will have changed their power structure and underlying assumptions to accommodate views that lie outside the mainstream thinking of the hitherto dominant powers, and closer to the illiberal market economy model represented by China. And there may exist new organisations that have their genesis in the beliefs and ambitions of an emerging generation of newly influential international actors, with China at their core.

China and the United States

Within the same time frame, great power relationships will take on a different aspect. The post-war world has been dominated by one or two major powers – first, the Soviet Union and the United States, and then, following the fall of the Soviet Union, by the United States alone. With the rise of China, the United States' unipolar moment is coming to an end. The prospect is that over the next twenty years economic ascendancy will pass to China, and with it a large measure of the power to affect the course of events.

China's ascendancy will not be as absolute as that of the United States has been for the past two decades. In particular, China is unlikely to challenge the United States' military dominance, although it will narrow the gap, particularly if America's willingness and ability to appropriate money for defence continues to wane. Even if United States defence spending does decline, however, affordability will place limits on China's scope to compete. America's current level of defence spending is five times that of China and approximately the same as the next 14 biggest spenders in the world. China could not seek to emulate such spending levels without placing on hold the plans for national development on which its government's continuing legitimacy depends.

It is precisely in this area – the creation of wealth as a nation – that China's influence will grow, and it will, within a 20-year time frame, supplant the United States. Economic modellers differ on the pace of the transition, but few deny the trend. Subramanian projects that by 2030 China's share of world GDP, on a purchasing power parity basis, will be 23.5 per cent, and the United States' 11.8 per cent. A similar shift is predicted in shares of world trade, with China accounting for 15 per cent and the United States 7.3 per cent. Allied to these shifts is the possibility of a fully convertible renminbi succeeding the US dollar as the premier reserve currency. Already China is liberalising its current account and allowing the RMB to be used in border trade close to home. How soon the RMB becomes an international currency will depend in large part on the pace of domestic financial market liberalisation.

While at times it is a lagged transition, economic dominance does generally translate into more broadly based political power. When China is in a position to influence other countries' patterns of growth and trade, and even their economic viability, it would be surprising if it did not use those levers to promote international outcomes in keeping with its interests. (Indeed, this is a process that is already under way).

China's rise to economic supremacy will accordingly have profound implications for the way other countries relate to it, and to each other. The most far-reaching change, and the most important from New Zealand's point of view, is that at some stage the Asia-Pacific will no longer be an area of American strategic dominance. To the extent that China's rise is accompanied by a more intense and sustained era of strategic competition with the United States, the countries of the Asia-Pacific region, including New Zealand, will face some challenging choices about where their loyalties and their national interests lie.

From the time of the Second World War, the United States has, through its military presence and its active diplomatic engagement, been a force against potentially destabilising influences in the Asia-Pacific region. While there have been instances of contention or threatened contention – on the Korean peninsula, in Vietnam, in the Taiwan Strait – by and large countries have been able to develop in a peaceful and stable environment. For most, this has required a willingness to get along with the United States, and at least pay lip service to the systems and ideals promoted by that country.

It is unlikely that the same comfortable situation will obtain in 20 years' time, despite the renewed United States commitment signalled by its 'pivot' (or 'rebalancing') to the Asia-Pacific since the second half of 2011. As China's economic strength and capacity to bring political pressure to bear comes to parallel or surpass that of the United States, it will not be content to allow American influence to predominate in what China regards as its neighbourhood. In a continuation of a process that has already begun, China will compete actively for the attention and the support of the countries of the Asia-Pacific.

The stage is accordingly set for competition for influence between China and the United States in the decades ahead. As some commentators have argued, it is neither desirable nor inevitable that this competition should be informed by the less desirable aspects of international contention – military rivalry and a zero-sum approach to economic interaction. It is possible to envisage a relatively amicable sharing of power and responsibility between the state that has played a predominant role over the past seven decades, and the state that is set to exercise increasing influence in the years ahead.

What makes that scenario less likely is that it requires a backward step on the part of the United States. America would need to cede influence to China, acknowledging that in a part of the world where its writ has run large it will in the future be co-responsible with China. This runs counter to a deeply-felt perception within the United States that America is the pre-eminent and indispensable actor in international affairs. In terms of domestic politics, it would be hard to sell.

There is no likelihood of this happening in the foreseeable future. Recent actions and statements by leading figures of the current administration affirm United States leadership while at the same time acknowledging the importance and novelty of the United States being able to craft a mutually satisfactory relationship with the rising power, China. In March 2012 Secretary of State Hillary Clinton said: 'The US is attempting to work with a rising power to foster its rise as an active contributor to global security, stability and prosperity while also sustaining and securing

American leadership in a changing world....This is uncharted territory. And we have to get it right, because so much depends on it'.

The point has already been reached, therefore, where two major powers are contending for regional influence. That contention is likely to be a constant in international relations over the coming decades. In broad terms it will be an asymmetrical struggle, in which one side has the military ascendancy, and the other the economic, although it is possible to conceive of pockets of military advantage accruing to China, and the United States will not soon relinquish some areas of economic advantage, and may recover ground in others. It is a struggle that will require great nimbleness on the part of smaller players such as New Zealand, both in managing their relationships with the dominant players, and in interacting with other powers which will face the same dilemma in structuring their affairs.

Shifting international relationships

In the days of the domino theory (in the 1950s and 1960s), a fear shared by the United States and many Southeast Asian states was that variations of Chinese communism would, through ideological infiltration and force of arms, become established in the countries of Southeast Asia. It was, for a time, a legitimate fear, but its validity waned as China's appetite for exporting revolution gave way to a more pragmatic concern to pursue national development in a stable regional environment. Concern about possible military incursions is now particular rather than general, and felt mainly by countries such as Vietnam, which shares a common border with China, and has recent experience of Chinese belligerence.

The fear now, if it can be so described, is rather of economic domination, as China invests heavily in the region, moves to sequester its natural resources, and incorporates Southeast Asian manufactures in its own supply chains. Following the conclusion of the ASEAN/China Free Trade Agreement in 2010, China's annual share of ASEAN exports has risen to US\$113.5 billion and Chinese investment in the region is now estimated at US\$12.5 billion with half of that coming in 2010-11.

Economic integration at this level is a two-edged sword. On the one hand it lessens Southeast Asian countries' command of important economic levers, and threatens to confer upon China the political power that is engendered by economic dominance. On the other, it offers to Southeast Asian countries the same path to growth that China itself has pursued. Chinese investment will create economic opportunities, the Chinese market an outlet for intermediate goods and fully-manufactured exports. Despite fears of 'Finlandisation', it is hard to see the governments of Southeast Asia turning their backs on the opportunities economic interaction with China will afford in the years ahead.

None of this is to say that China will have totally supplanted the United States in the region within 20 years. The United States has made plain its intention to maintain and build upon its engagement, and the ASEAN countries will, with differing degrees of enthusiasm, welcome its continued presence as a counterweight to China's influence. America will remain an important market for goods from the region, both directly and via further processing in China. Its naval presence will carry on making a significant contribution to regional security. But China's economic strength will be supplemented by three important considerations: its geographical proximity to Southeast Asia, the interlinking relationships that have historically seen many Southeast Asian countries acknowledging China's suzerainty, and the significant commercial presence of overseas Chinese in most Southeast Asian economies.

Feeding in to the mix of altered relationships likely to obtain in Asia is the question of what stance other important Asian countries – South Korea, Japan, India – may adopt. The first two are committed to formal defence arrangements with the United States. These have underpinned their security since the 1950s, and have provided them with a nuclear shield that has arguably been instrumental in preventing either country itself going nuclear. Both host United States military bases that have long been regarded as a tripwire against Chinese aggression. It is unlikely that either South Korea or Japan will soon give up the reassurance afforded by their military alliance with the United States.

On the economic front, however, it is a different story. Both countries have moved from overwhelming trade and economic dependence on the United States to strong links with their much closer neighbour, China. For both Japan and the South Korea, total trade with China has surpassed their total trade with the United States.

The factors underlying that reversal – geographical proximity, China's emergence as a major manufacturing base, the extensive market afforded by its increasingly affluent consumers – will grow rather than diminish in importance over the next 20 years. They will be buttressed by a more clear cut framework if negotiations now under way towards a free trade agreement between China, Japan and South Korea conclude successfully. The stage is set for an increasingly complex set of political and economic interrelationships in Northeast Asia, affecting not just the way Japan and South Korea relate to China and the United States, but also how they relate to one another, to the ASEAN countries, and to Australia and New Zealand.

At the heart of these shifting relationships is the question of whether United States' national interest in East Asia is sufficient to keep it as closely engaged in security terms in the region in twenty years' time as it is in 2012. On current trends, the United States interest in doing so will be matched in the region, precisely because of a wish among many Asian countries to balance or hedge against the impact of China's economic and political power. The Korean reunification or an 'administrative' solution of Taiwan might change that dynamic, although it is hard to foresee any circumstances in which Japan would surrender its close security links with the United States.

India has tended to find itself in China's shadow. Over the next 20 years, however, its own economic growth will assure it of increasing prominence in regional and global affairs, while at the same time it also faces some real challenges. The Bloomberg index ranks India's medium-term growth prospects second only to China among emerging Asian economies. And in one important social indicator, it will exceed China. The United Nations Population Commission estimates that in 2025 India's population will have reached 1.459 billion, compared to China's 1.395 billion. For the first time in history, China will not be the world's biggest nation, measured by population.

This shift will not necessarily be to India's advantage, as it struggles to provide for the extra numbers, but in psychological terms its world view, and the dynamics of its bilateral relationship with China, will undergo what may well be a profound change. Newly affluent, the world's most populous country, and a nuclear power, India can be expected to be increasingly assertive in its international dealings. It will be the most credible competitor to China's claim to regional supremacy.

India should not be viewed solely through the prism of its future relationship and possible competition with China. As in China's case, the scale of its development is such that it will be integral to the strategic planning and future prosperity of countries even as geographically removed as Australia and New Zealand. But how India relates to China in future will affect

profoundly the strategic outlook for the region and for the world. India, like China, will be determined to retain its strategic independence. It sees itself as a candidate for great power status, and as China's peer. It will not adopt a subsidiary role, but will engage China on the basis of its own capabilities, and in its own time frame.

Australia and the island countries of the South Pacific have already been considerably affected by China's changing role in the region. That process is set to continue. Australia faces strong and conflicting pressures as it contemplates how best to position itself in future. On the one hand, it has chosen to commit itself even more strongly to a military alliance with the United States that provides the underpinning for its approach to most matters relating to defence and security. On the other, it is increasingly dependent on China as a market, particularly for its mineral exports and some commentators have expressed concern that its economy is to a considerable extent hostage to that trading relationship.

Australia has since the Second World War been one of the United States' most resolute allies in the Asia-Pacific region. On the basis of the ANZUS alliance, it has built a strong and multi-faceted network of defence and intelligence links. Its strategic vision differs from that of New Zealand by virtue both of its size and its geographical position. Australia conceives of itself as a medium power, and its resource base has up to the present allowed it to maintain a defence profile in keeping with that vision. Geographically adjacent to potential sources of instability in Asia, it has experienced direct military threat in a way New Zealand has not. Australia's value to the United States is enhanced by its exposure to the Indian Ocean, increasingly a focus for defence cooperation. Having assessed that its security interests are best met by a strong military alliance with the United States, Australia has been steadfast in pursuing that role, to the point of at times being perceived by Asian neighbours as a surrogate for United States power in the region.

In November 2011 the alliance was further strengthened by Australia's decision to allow major increases in United States military activities in Australia, including the gradual deployment of a 2,500-strong marine taskforce in the Northern Territory, advanced training, and more visits by United States warships and strike aircraft. A report prepared by former defence secretaries Allan Hawke and Ric Smith in advance of the next Australian defence white paper – now brought forward a year to 2013 – advocates building on this by encouraging the United States to operate more nuclear-powered submarines and aircraft carriers out of Australian naval bases.

The most recent upgrading of Australia/United States defence cooperation is not necessarily directed towards the containment of China, although some in Australia have voiced concern that China may perceive it in that light. It does, however, send a strong signal as to how Australia plans to position itself strategically in the years to come. While it is in one sense simply an operational decision, in another it is a clear commitment to a strong United States military presence in the Asia-Pacific over the long term. Viewed in that light, its implications for Australia's future role in the Asia-Pacific extend beyond the purely military, and perhaps even beyond what was intended at the time the decision was taken.

The other side of the coin for Australia is its now very extensive economic interaction with China. That reaches into all parts of the economy, including the labour market, and the sale of services, notably education, but it is seen at its most stark in Australia's dependence on China as a market for exports of minerals. The receipts from exports of these commodities are of central importance to Australia's economic growth – in 2010 resource exports made up 57 per cent of Australia's total export receipts. In that year, almost 70 per cent of iron ore exports went to China, and 18 per cent of coal exports. In 2010, 37 per cent of Australia's total resource exports went to China.

To some extent the dependence runs both ways. China needs the raw materials it imports from Australia as inputs to its own exports, and its massive programme of domestic construction. It is not, however, a balanced equation. Australia's vulnerability to shifts in bilateral trade flows is much greater than is that of the huge Chinese economy. Australia's dependence on China as an economic partner, already pervasive, continues to grow. It is hard to see that trend being reversed in the decades ahead, and if it is not China's economic interests with Australia will increasingly be a factor in the broader bilateral relationship, and in how Australia relates to other countries in the region.

In the South Pacific, China's presence is now pervasive, and is likely to continue to grow. While China has diplomatic relations with (and embassies in) just eight of the island countries belonging to the Pacific Islands Forum (the other six recognise Taiwan) it already has more diplomats posted in the South Pacific than New Zealand and Australia combined. It is now the third biggest aid donor to the region. Its total aid expenditure is difficult to quantify because of a lack of transparency within the Chinese system. It also provides grants and – controversially – soft loans to various Pacific Island countries. China is also a major trading partner - in 2010 two-way trade with Pacific Island countries reached a new high of US\$3.66 billion.

There is no reason to believe that China's motives in seeking closer engagement with the Pacific island states are significantly different from the reasons it is building links in other parts of the world. Beyond denying Taiwan, it wants to build the network of linkages with states great and small that befits a global power. It seeks to create the conditions that will allow it to make common cause with developing countries in international fora. And it wants to secure long-term access to natural resources such as fish and timber.

China has supported its diplomatic advances with soft diplomacy and with aid. Its position of principle that all states are equal has led to Pacific leaders being feted in Beijing with a degree of pomp beyond their experience elsewhere. China's willingness to disburse aid on prestige projects that would not necessarily recommend themselves to Western donors, and to do so swiftly and without conditionality, has similarly raised its standing.

China's seemingly inexorable rise has been the subject of renewed attention on the part of the EU and of individual European countries. That attention will continue and grow over the next two decades, especially if China moves to address some of the human rights concerns that have at times blocked more thoroughgoing engagement. Nonetheless, Europe will not lack issues to address closer to home – the integration of a more and more disparate group of countries, avoiding the emergence of a two-tier Europe, managing monetary union, and dealing with the long-term effects of the Eurozone crisis. Faced with all these challenges, Europe's primary focus will continue to be Europe.

While Europe's engagement with China and its Asian neighbours may be selective and not always fully committed, Europe will provide an important benchmark because it is the repository of many of the norms and values that have come to be embodied in the international institutions. In some cases it has strengthened its capacity to promote those norms by laying claim to particular roles, such as the convention that Europe should always furnish the President of the IMF. Even if Asia's interaction with Europe is in some respects limited, Asia will come up against European norms, values, and attitudes at one remove through participation in these institutions.

The China model

China's rise to a position of international prominence will confer upon it 'structural power', defined by Lisa Toohey as 'the power to set agendas, to shape the normative frameworks

within which states relate to one another, and to change the range of choices open to others without putting pressure directly on them'. It will invest China also with what might be termed 'demonstrative power' – the power to bring other states within its orbit by establishing itself as a role model through the demonstrated success of its political structures and economic policies.

Through most of the twentieth century, it was the established wisdom that the model afforded by the developed Western democracies was that to which the less developed countries of the world would aspire. The fall of the Soviet Union made that conviction absolute in the minds of many. China's remarkable success, and its disinclination to embrace neo-liberal norms, is not in accord with this thesis. Alternative theories have arisen to accommodate the development path of China as an authoritarian capitalist state. Political scientist Azar Gat suggests that there is no reason why China should not continue to prosper as a non-democratic great power. In Gat's analysis, while capitalism is a necessary part of development, democracy is not. He suggests that it was a simple contingency, the emergence of the United States as 'the world's largest concentration of economic and military might', rather than any inherent advantage in the democratic system, that gave the liberal democracies the edge through the twentieth century.

If one accepts that there is no inevitability in the march towards Western-style democracy, and that the direction of China's political development is likely to owe less to Western practice than to its own assessment of how best to promote political legitimacy in combination with the effective exercise of power, the world in 2030 will once more be faced with competing approaches to governance. For many developing countries, the lessons afforded by China may appear the more pertinent.

As China's wealth and prestige continue to grow, it will tend to be perceived as a demonstration of what can be achieved without close adherence to the principles of the Western democratic tradition. Its success will act as a magnet to countries still at the developmental stage. Some elites will find comfort in China's example as they seek a continued hold on power. And for some of the countries close to China, who share aspects of China's civilisation and values, the opportunity to draw upon a system based on 'Asian values' such as non-interference by states in others' political systems, and primacy of the community over the individual, will have its own attraction.

China is not driven by any sense that it has a mission to promulgate its ideology beyond its borders. (In this respect it differs from the Soviet Union, and, arguably, the United States.) China's dealings with other countries are directed rather towards underpinning its physical and economic security. Nonetheless, it can see clearly enough that its way in the world will be eased if it is able to create a coterie of states which subscribe to broadly similar principles of governance and approaches to development. It discreetly encourages others to move towards closer alignment through trade, through soft diplomacy, and through the provision of various sorts of assistance.

Even though China is not setting out to change the behaviour of the developing countries with which it engages, it is in fact creating an environment in which they can plot a new path, one that takes them away from the templates prescribed for them by the United States and Europe. Many of the developing nations have chafed under what they perceive to be the patronising and self-serving advice of developed countries, in some cases their former colonial masters. This resentment has been fuelled further by attempts to use trade and investment as a lever to secure sensitive political changes. The appearance of a new partner that imposes no conditions save that of commercial viability (and a nod towards the One China policy), lessens the pressure to bring policies into line with the values of the developed West, and engenders a disposition to look instead at aspects of the accommodating, and apparently successful, alternative.

Through all their dealings with China, its business partners in the developing world are exposed not just to a different approach to government and economic management, but also to the constant values and assumptions upon which China's practice is built. Many have more to do with what it is to be Chinese than with competing systems of governance. They emphasise the collective over the individual, economic and social rights over civil and political rights, a preference for mediation rather than resort to legal process, and a willingness to see events play out over a very long time frame.

It would be too much to predict that within another 20 years the world will find itself once again divided into blocs reflecting competing political and economic systems. But it is already clear that one suggested scenario, gradual convergence towards the model of Western liberal democracy, is very unlikely. China's emergence will present an alternative vision. Even if other states do not choose to follow China's path, they will not feel constrained to aspire to the Western model. Setting the rules of the international community will be a more complex business as a result.

The challenges for New Zealand

This is the multifaceted, confused, and confusing situation that New Zealand is going to have to negotiate in the years ahead. It faces the need to find its own means of accommodating the rise of China as a major power in the region, and the changed strategic balance that is emerging as a result. Over the past half century New Zealand has benefited from the Pax Americana that has ruled in the Asia-Pacific region. This has been so even though its relationship with the United States has been at times difficult, notably in the defence area, where the United States suspended bilateral military cooperation under the ANZUS treaty following New Zealand's anti-nuclear decisions of 1984.

As that security relationship has warmed in recent years, bilateral security and defence relations are now largely unimpeded by the 1980s dispute. This improvement has built on shared opposition to terrorism after 9/11 and New Zealand's commitment in Afghanistan. A new level of New Zealand/United States engagement has its most formal statement in the Wellington Declaration of November 2010, which committed the two countries to 'a new focus on practical cooperation in the Pacific region; and enhanced political and subject matter dialogue'. This has recently been supplemented with the signature of the Washington Declaration on closer defence relations. The United States has also paid greater attention to regional architecture, including positioning itself to be a member of the EAS, increased engagement with the Pacific Island countries, and active commitment to the Trans-Pacific Partnership. It is reasonable to assume that the United States' comprehensive re-engagement owes as much to a wish to counter China's influence as it does to a desire to place its relations with New Zealand (and other countries in the Asia-Pacific) on a more reasonable footing.

At the same time as there has been a return to a significant level of defence cooperation with the United States, New Zealand has initiated military contacts with China. There is cooperation on training programmes, and annual staff college exchanges are undertaken. There is scope for New Zealand to build on these initial contacts to achieve a greater understanding of China's military objectives and what challenge they may pose to countries in the Western Pacific.

China's economic influence extends to New Zealand, although so far the level of dependence is not so acute as Australia's. China takes around 13 per cent of New Zealand's commodity exports, less than half the Australian percentage. New Zealand's exports are not grounded in the minerals sector in the same way, and there are potential alternative markets, offering New Zealand the possibility of a strategic decision to diversify. Nonetheless, China has become central to the New

Zealand economy. In calendar year 2011 China moved past Australia to become New Zealand's largest source of imports (NZ\$7.05 billion). It was second only to Australia as an export market (NZ\$5.9 billion). The rise has been rapid, and one of the countries that has made way for China on the export table is the United States.

The rise in goods trade has been paralleled by increases in the sale of services like education and tourism. Investment levels in both directions are rising, and may be expected to continue to do so quite rapidly as a logical concomitant of the intense trading relationship. Some of the negative publicity about aspects of that investment, including over dairy farm ownership, are out of proportion to its still limited level. But if New Zealand is not actually coming into economic thrall to China, it is certainly already in a situation where any major disruption to its economic links with China would create a need for major and painful adjustments.

On present settings New Zealand will, in 20 years' time, need to frame its policies in the light of a complex and pervasive set of economic interrelationships with China, including the impact of growing Chinese migration to New Zealand. Sitting behind that economic reality will be another reality: that of a China capable of projecting power beyond its immediate neighbourhood, and disinclined to cede influence in its own part of the world. Both of these realities will derive from China's ability to manage successfully its own internal political processes and policies affecting economic development. And to the extent that China is able to carry that off, it will provide a model that may well promote a third reality New Zealand will need to take into account – the reality of a developing world beyond China that takes China's success as a vindication of plurality in governance and economic management.

China's rise will bring about a fundamental and a broad-based reshaping of the international environment. Existing alignments will come into question, together with the assumptions upon which they are based. New and different power structures and centres of economic activity will come to the fore. For a small country like New Zealand, the struggle to make headway in a world stripped of many of the certainties that have ordered international dealings will present a complex and difficult challenge.

In this shifting environment, the challenge for some countries will be to manage events and direct outcomes into the channels that best suit their interests. Except in particular and very limited circumstances, New Zealand will not be one of them. It has neither the political and military heft, nor the economic power, to affect the course of global events in any fundamental way. It will have to plot its course as best it can in response to circumstances over which it has little control.

The first challenge for New Zealand, accordingly, is simply to recognise the fact that while it will always be in an international environment that will largely be shaped by the actions of others, the main shapers of that environment will be a different mix to the more comfortable patterns that have pertained in recent generations. This requires those framing New Zealand's external policy, and the community more generally, to accept that the patterns of association, and the value systems, that have underpinned our foreign policy decision-making throughout the post-war period are no longer to be relied upon to the same extent. The process will from now on become a great deal more complex, the trade-offs less easily arrived at.

An associated task will be to build the best possible understanding of the international environment, its underlying drivers and the levers of change. The more New Zealand understands about how the world in which it must operate is being shaped, the better placed it will be to frame its policies in a way that delivers maximum national benefit, or in a less optimistic scenario minimises potential damage.

In addition, there are a number of practical ways in which New Zealand can position itself to best advantage in response to China's rise.

Develop an excellent understanding of China, and a truly strategic approach to the relationship

The current situation is without precedent in New Zealand's external dealings. Until the emergence of China (and with the limited exception of Japan) all New Zealand's leading strategic and economic relationships have been with countries operating within the parameters of the Western democratic tradition. They are countries - the United Kingdom, the United States, Australia - with which New Zealand shares a common heritage, a common language and common, although not always identical, values. It has been possible to work together on the basis of clear understandings and easy communication.

That is not the case with China. Its rise to a position of central importance for New Zealand has been very rapid, and the development of a base of mutual familiarity has not kept pace. Unless New Zealand works to set that base in place, the relationship will not deliver all that potentially it might, in either economic or political terms.

New Zealand is apt to flatter itself that it enjoys a 'special relationship' with China. It is not alone in this: it is a tribute to China's diplomacy that so many countries lay claim to a relationship that is in some way 'special'. It is true that New Zealand has been able to exploit some of the advantages of being small - rapid decision-making, a relative lack of special interest groups, and a capacity to take decisions without reflecting overmuch on their wider consequences - to be the first developed country to achieve agreement with China in a number of areas (the 'four firsts'). But these examples of successful small power diplomacy are not in themselves enough to place the relationship on a stable, long-term footing.

It is particularly important that New Zealand's relations with China not be seen as based simply on trade and business, with few other dimensions. To describe New Zealand's relations with China as 'purely commercial' is unhelpful, and an unreliable pointer to the course along which the relationship must develop if it is to achieve depth and resilience. For China, worthwhile bilateral relationships require to have substance beyond the purely commercial. For New Zealand to sustain that wider relationship the next generation of political leaders, journalists, academics and opinion leaders need to know China well. We also need to foster dealings with China across the broad spectrum of national life extending to culture and sport and beyond.

At a governmental level, New Zealand has for more than 30 years maintained a by and large successful strategic approach to its dealings with China, underpinned by frequent ministerial visits, regular meetings of China-based New Zealand representatives, a gradual expansion of representation in-country, the pursuit of mutually beneficial agreements such as the free trade agreement, and a good level of interagency cooperation which is codified in the recent NZ Inc China Strategy. It will be particularly important, over the time when China assumes a decisive role on the world stage, to lock in the gains made when competition for China's attention was not so intense, for example by preserving access for talks between foreign ministries on a regular basis.

To the extent that New Zealand does have any special standing in the eyes of Chinese decision-makers, it owes it in large part to the professionalism with which it has approached the practicalities of diplomatic representation. It from the first numbered itself among the small group of countries committed to a Chinese language programme in order to ensure its posts were staffed with competent Chinese speakers. (Four of the last five New Zealand ambassadors to Beijing, and all five consuls-general in Shanghai, have been Chinese speakers with one or more

previous postings in China.) This commitment is not without cost, but it should be maintained, along with the pursuit of China-focussed career structures.

There are and will continue to be issues on which the commonly-held values of New Zealand society and the Chinese Government's view of what is expedient and appropriate to China's circumstances are sharply at odds. At governmental level, New Zealand has been able to convey its concerns to China and to have them acknowledged, in part because it is able to call on the ballast of a broadly constructive bilateral relationship. The New Zealand Government should not shrink from making its views known, and it should ensure that it is equipped with a base of knowledge and understanding that will allow it to engage on such points of difference in a frank, direct and constructive manner.

A legacy of misunderstanding and prejudice has at times entered public discussion of issues relating to China. Time and personal experience will play as great a role in redressing this as anything the government can do. Nonetheless, there is clearly a continuing role for organisations such as the Asia New Zealand Foundation in promoting greater knowledge and understanding, and even more importantly a need for an assertive and vigorous expansion of the teaching of Chinese history, language and culture in the school system, building in part on the growing numbers of immigrant children. The object should not be to create a nation of Sinophiles, but to achieve an understanding and a rapport that enriches New Zealand's multiracial society, and allows bilateral dealings with China to go forward untrammelled by ignorance or prejudice.

The New Zealand Government owes it to itself to promote another sort of knowledge also. There is a need to collect and codify more systematically than at present information about China's presence and assets in New Zealand. In this way it will be better placed to appreciate possible vulnerabilities and opportunities. What are the likely long-term consequences of Chinese migration? Is there an obvious strategy behind China's economic interventions in New Zealand, and if so, how does that affect our interests?

It would be quite unrealistic to set about trying to engender a similarly deep level of understanding in reverse, by promoting knowledge of New Zealand in China. China has many suitors, all with their own claims on its attention. It will nevertheless be important to continue to seek to ensure that those in China who make decisions relating to New Zealand interests do so against a background of all relevant information (or at least all relevant information supportive of the New Zealand case). It will add substance to the relationship to draw attention to aspects of New Zealand experience relevant to China's own concerns (for instance safeguarding the rights of ethnic minorities). And at a political or diplomatic level, China's growing global influence will make it the more important that New Zealand convey its views quite candidly on a range of issues important to the international community.

Shape domestic policies to accommodate the reality of an increasingly close relationship with China

The speed with which the relationship with a hitherto unfamiliar partner has grown has implications for policy settings within New Zealand, as well as for those governing the country's international dealings. Inward investment from China is one issue that has the potential to trigger discord if it is not handled in an appropriate way. A perception that Chinese investors are regarded differently from investors from other countries could sour the attitude both of potential investors and of the Chinese authorities. In the face of recent instances that, rightly or wrongly, have tended to promote that perception, New Zealand would do well to expend real effort to establish clear rules around foreign investment, and to apply them consistently.

In the years ahead there is going to be a great deal of Chinese capital looking for investment opportunities abroad. New Zealand will be an attractive destination because it is perceived as safe, and because it offers the possibility of achieving stable access to the food supplies and other resources that China will be hard put to secure in sufficient quantities within its own borders. At the same time, the New Zealand economy will face a real need for capital to finance development, and it will have no choice but to look offshore for that investment.

By ensuring that it has in place a transparent investment regime that is non-discriminatory and free from the possibility of political interference, New Zealand will establish the essential condition for encouraging a flow of Chinese investment to this country. That the regime may include safeguards for strategic assets or particular classes of enterprise is not a primary concern – China itself imposes similar safeguards. What is important is that potential investors from China should be able to proceed on a basis of reasonable certainty, and in confidence that they are competing on an equal footing with other applicants.

Immigration is another case in point. Over the next 20 years, the Chinese diaspora will continue to grow. Statistics New Zealand figures suggest New Zealand's total Asian-born population could grow to reach around 15 per cent of the total population by 2030. If current trends continue, the largest proportion of that number will be Chinese. Suitably qualified people will choose to emigrate here, they will raise their children here, and in many cases their families will be augmented by older family members entering under reunification provisions. That is not in itself remarkable: it is the way New Zealand's population has been built up since the earliest days of European settlement. What is noteworthy about the development now foreseen is that it will within a short time frame create a large group within New Zealand society that is differentiated from the majority population in terms of first language, cultural background, and experience. It will be without recent precedent in terms of its scale, rapidity, and the degree of difference that requires to be negotiated.

Handled correctly, this will enrich New Zealand society, bringing new perspectives, enterprise, and energy, as well as providing a valuable bridge back to China. Handled with insufficient care, it has the potential to polarise groups within the community, to nurture resentment on the one hand, and estrangement on the other, and to create within New Zealand a new generation who are constantly weighing their sense of commitment to their new home against their attachment to their country of origin. New Zealand society would not be well served by such an outcome, and nor would intergovernmental relations between the two countries.

It is not apparent that sufficient thought has been given to the possible consequences of such a shift in the make-up of New Zealand's population, or to what steps might be taken to incorporate and channel productively the valuable resource represented by a sizeable Chinese diaspora in New Zealand. This is more than a question of immigration. It has implications for a wide range of public policy concerns, including, but not limited to, education, health, social welfare, policing, housing, Maori affairs, civil aviation and tourism. These factors need to be addressed in an integrated and co-ordinated way, in order to maximise national benefit and to avoid the possibility of unintended consequences.

Adjust constructively to the changing nature of China's presence in the South Pacific

China's activities in New Zealand's immediate neighbourhood, the South Pacific, present Wellington with a dilemma. On the one hand, the constructive engagement of the Asia-Pacific region's major emerging power could contribute to the betterment of the island nations, and might even allow New Zealand to recalibrate some of its own approaches to assistance. On the other hand, China's involvement may cut across New Zealand's objectives in the region. A return

to democracy in Fiji, for instance, is not a primary concern for China, whose policy of non-interference leads it to deal with whatever regime is in power. The efforts of New Zealand and Australia to bring pressure to bear on Fiji's current power elite are rendered less effective by China's political engagement and economic support for the regime.

There is a concern among development experts, also, at China's disinclination to coordinate its efforts with those of others, and its absence from the Cairns Compact that has donor coordination as its goal. The perception is that some of China's aid in the Pacific may be inappropriate or poorly targeted, and that in availing themselves of the soft loans China is willing to make available now, island countries may be setting themselves up for a funding crisis when the loans fall due.

New Zealand does well to maintain a close overview of China's initiatives and activities in the South Pacific island states (not least because for the purposes of internal reference China generally expands the group to include New Zealand). It can usefully engage with China on the two countries' policies towards the South Pacific, arguably the only part of the world where New Zealand's perspectives may carry more insight than China's. It can and should make representations seeking to modify China's behaviour when China's actions threaten to negate New Zealand's own policy objectives, as is the case in relation to Fiji. It should work constructively with China in order to maximise the effectiveness of development assistance in the South Pacific, including by continuing to encourage China to associate itself with the Cairns Compact.

What New Zealand should avoid is to impose upon the island nations its preconceptions of how their relationships with China might best be managed. Apart from the fact that such action is likely to be counterproductive, these are judgements best left to the countries concerned. If New Zealand is able to help inform those judgements by providing information or advice upon request, that may be a helpful intervention, but the choices are otherwise for the island governments to make in the light of their own perception of their circumstances.

Seek to anticipate the roles that China and the United States will play long-term in the Asia-Pacific region, and set policy courses that take into account that shifting relationship

If New Zealand were to be faced tomorrow with a stark choice between throwing its lot in with the United States or with China, there is little doubt that it would choose the United States. History, language, culture, values, all point in that direction, as does New Zealand's close association with Australia, a staunch United States ally. The United States remains the main security guarantor of the Asia-Pacific region, the US dollar the global medium of exchange. New Zealand's decision would be made the easier by the charm offensive accompanying the United States' current 'pivot' towards the Asia-Pacific. New Zealand politicians, and New Zealanders generally, feel flattered to be invited to re-enter the American fold, albeit as a 'strategic partner' rather than, as formerly, a formal ally.

Longer term, however, the situation becomes less clear. The United States has many preoccupations, and its re-balancing may alter. For China, on the other hand, such a re-balancing is not an option: it is an integral part of the region. China will be of central economic importance to New Zealand, and to the world. Its military capabilities will have grown. A combination of economic logic and traditional patterns of association will have caused many of its Southeast Asian neighbours to give China's view greater weight. New Zealand itself will have acquired a greater Asian dimension, through immigration, investment and trade, and other forms of interchange. At that point, the political downside of giving priority to the political and economic

relationship with China would be greatly reduced, and the practical imperatives in favour could be telling.

It is unlikely that New Zealand will in fact face a need to choose definitively in favour of one protagonist or the other. The chances are much greater that it will face a series of smaller judgement calls, as the established power and the pretender jostle for power and influence. It will be important to make those judgements in the light of an informed evaluation of where New Zealand's real interests lie, rather than as an instinctive vote of support for a traditional friend, or a speculative investment in a promising new partner.

It would be overstating the case to suggest a possible role for New Zealand as an intermediary as the United States and China pull and haul in the course of redefining their relationship and areas of interest. To the extent that the two fail to agree, it will not be because of failures to communicate, or a lack of understanding as to what the other is trying to achieve – rather the reverse. New Zealand has no special insights or standing with the parties that would fit it for the role of broker.

Such limited influence as New Zealand does possess relates less to the way China and the United States deal with one another than to the regional context in which those dealings take place. New Zealand does have a voice in determining the shape and the scope of regional institutions, and it can use that voice to advantage in seeking to shape the environment in a positive way. One worthwhile objective, under present circumstances, would be to ensure that China is not denied a seat at the table in regional groupings. It was, for instance, a helpful intervention for New Zealand's trade minister to make it clear that New Zealand would not wish to be part of a Trans Pacific Partnership if it would have the effect of isolating China.

As New Zealand follows a foreign policy line that does not accord wholly with either United States or Chinese imperatives, it should do so in the knowledge that its search for the middle ground will not necessarily recommend itself to either of the major powers. The United States has not in the past shown itself much in favour of nuanced positions, tending rather to divide the world into those who support it and those who do not. It is a fair assumption that Australia will for the foreseeable future continue to accord the Americans something close to unconditional support. To the extent that New Zealand falls short of that mark, its stated strategic goal of realising 'a highly trusted political and security relationship with the United States' will be rendered more difficult.

Nor can it be assumed that China will be greatly sympathetic to a small state's disposition to pursue its own destiny. The PRC has consistently demonstrated a willingness to bring heavy pressure to bear on countries that fail to endorse policies important to it. Its readiness to use diplomatic and economic levers is unlikely to lessen as China's grasp on those levers becomes more assured. Martin Jacques has raised the spectre of New Zealand (and Australia) becoming economically so dependent on China that they become in effect vassal states. Even if that extreme situation is avoided, it is very likely that in years to come China will exercise a significant level of economic influence over New Zealand, and that it will not feel constrained from bringing that influence to bear when it thinks the circumstances warrant it.

Pursue, but not allow itself to be limited by, close cooperation with Australia

In spite of the United States' concern to shore up its influence in the region, it is likely to be New Zealand's relationship with Australia, rather than the United States, that requires to be handled most carefully in the context of enhanced links with China. Australia's preference will be for New Zealand to develop its policies towards China in close harmony with Australia's own.

Given the existence of some differences in the two countries' interests, and in particular Australia's closer military and security ties to the United States, this has the potential to complicate New Zealand's preferred lines of policy development. The situation is one that will require to be handled with considerable finesse, especially since the comprehensive nature of the New Zealand/Australia bilateral relationship gives ample scope for Australia to bring pressure to bear should it form the view that New Zealand's strategic direction could pose a threat to Australian interests. At the same time it needs to be born in mind that it is New Zealand's status as a developed country, including its association with Australia (and the United States), that underpins much of the value that China sees in taking relations with New Zealand a step further than it does with many other countries.

Keep under constant review relations with other countries in Asia, and with Europe

Adding to the complexities of New Zealand foreign policy decision-making in the decades ahead is the fact that it is not just New Zealand that will face the need for constant reassessment and rebalancing. The dilemma is one that will to a greater or lesser degree confront all the countries of the Asia-Pacific region. The relatively stable and predictable situation that has prevailed for the past 40 years is likely to give way to one of shifting allegiances and alignments. New Zealand will find itself framing its policies in a more fluid and risky environment.

The rebalancing imperative will apply particularly to the countries of Southeast Asia, traditionally the swing states of Asia. But it has relevance too for the big countries of North and South Asia – for South Korea, historically often a vassal state of China, for Japan, and for India. These are all countries of considerable economic importance to New Zealand, and India in particular is second only to China in terms of its potential for growth over the next two decades. New Zealand cannot afford to become so preoccupied with the claims of China and the United States that it allows its relationships with the other major powers in the region to fall away. These are relationships that are important now, and that will in the future have much to offer in terms of spreading economic risk, and providing a broadly based strategic perspective.

Looking further afield, New Zealand should resist any inclination to disengage from Europe. Even if the EU as an entity remains preoccupied with domestic exigencies in the years ahead, and even if its member states are not uniformly adroit in managing their dealings with the Asian region, Europe and the EU should remain an integral part of New Zealand's vision over the next 20 years. Historical and cultural links aside, this is the market that New Zealand has expended so much diplomatic effort to protect over the past 40 years, and that investment deserves to be protected. The EU will continue to be of fundamental importance to New Zealand's economic well-being as an established and reliable market for the goods New Zealand produces most competitively. The values it promotes internationally will continue to be closely aligned with those held by New Zealand. Closer engagement with China in no way implies a requirement to downgrade other, longer-standing relationships. Entering a more challenging future, New Zealand would be well advised to continue to devote resources and energy to maintaining solid links with Europe.

Conclusion

Viewing events in a 20-year time frame has the advantage of by-passing short term uncertainties in favour of long-term trends. Conclusions can never be more than a balance of probabilities, but they provide a base, however qualified, for planning how a small country like New Zealand can best seek to accommodate itself to emerging global realities.

The analysis in this paper suggests that by around 2030 China will be the world's largest economy. It will be a central player in world trade and global financial markets. Its political system will have become somewhat less authoritarian, but it will not have evolved into anything resembling a Western liberal democracy. While China will have the capacity to deploy a modern, regionally-focussed defence force, it is unlikely to have moved beyond that to a capability for global power projection.

In its international dealings, China will stand with the United States as one of the two dominant powers in the Asia-Pacific region. To a greater or less degree, it will compete with the United States for power and influence in the region and globally. In its own neighbourhood, China will exercise strong influence through a complex network of economic ties, and through the exercise of both hard and soft diplomacy. It will play a central role in regional and international organisations, on the basis of norms and codes of practice that China has helped to shape.

China's prosperity and economic power will be important factors in New Zealand's economic development. It will be among New Zealand's biggest markets and sources of imports. It will be a key contributor to New Zealand's earnings from education and tourism, and a logical investment destination for New Zealand companies wanting to expand their manufacturing base. In regional terms, the Chinese economy will be the locomotive of growth for countries throughout the Asia-Pacific, an indispensable market, central to closely linked manufacturing and supply chains, and the key driver of regional economic policies. These outcomes are the easier to predict because they are largely already upon us.

New Zealand will be the better off for China's rise. Its economy will benefit both from direct interaction with China, and from the growing levels of prosperity that China's rise will deliver to the region more generally. Nonetheless, China's economic strength, and the political power consequent upon it, will place New Zealand in a much more complex international environment that it has previously experienced. New Zealand will find it necessary to manage the competing claims and values of China and the United States, to deal with the shifting judgements and loyalties of other Asia-Pacific countries facing the same dilemma, and to accommodate Australian policies at times at odds with its own.

In navigating these uncharted waters, New Zealand's best course is likely to be to build upon the qualities of adaptability and appropriate modesty that have characterised its external dealings up to the present. New Zealand has prided itself on a diplomatic style that favours cooperation, problem-solving, respect for the other party, and honesty. In the future, as in the past, these are likely to be the qualities that advance New Zealand's interests most effectively. In dealing with an increasingly powerful China, New Zealand should proceed (the words are Michael Green's) by 'careful strategizing, thoughtful setting of objectives, persistent and often creative advocacy, and nimble deployment of professional skills'. ■