

Strategic Analysis Paper

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New Zealand: National Involvement in the Indian Ocean Region

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Key Points

- New Zealand is negotiating Free Trade Agreements and enhancing its cultural and linguistic ties with a number of key countries in the Indian Ocean region.
- Wellington provides aid and financial resources to assist emerging economies and to promote New Zealand businesses in the region.
- New Zealand maintains its national security interests through diplomatic and defence engagements with traditional and emerging regional powers and intergovernmental organisations.

Summary

New Zealand has recognised the significance of the Indian Ocean region and is adapting its foreign, defence and economic policies accordingly. New Zealand is expanding its regional engagement through the deepening of diplomatic ties, the negotiation of bilateral and multilateral trade agreements, greater cultural integration and the refocussing of defence, aid and foreign policies to reflect the changes nature of the region.

Analysis

New Zealand has significantly increased its diplomatic presence in the Indian Ocean region. Wellington has identified the development of political and security ties, economic

co-operation and enhanced socio-cultural links as being enhanced by a growing diplomatic presence.

New Zealand has significantly increased its network of regional trading partners through the implementation of Free Trade Agreements (FTAs). In the wider Indo-Pacific Region, New Zealand has secured FTAs with Malaysia, Thailand, Singapore, ASEAN and China, and is developing agreements with the Gulf States and India. FTAs are used to promote foreign investment in New Zealand, to remove trade barriers and to increase the competitiveness and sales of New Zealand-made products. Expanding middle classes and an associated increase in demand for such products as specialised foods, dairy, meat, wool, international tourism, education and coal mean that well-designed FTAs can play a key role in New Zealand's trade with the region.

While the Ministry of Foreign Affairs and Trade (MFAT) has experienced some NZ\$24 million (\$19 million) in budget cuts as part of the government's response to global financial crisis, New Zealand is nonetheless devoting increasing attention to the broader Indo-Pacific region.

New Zealand-India Relations

The [New Zealand-India relationship is deepening](#). New Zealand has pledged its support for India to have permanent membership on the UN Security Council and will broaden its relations with the emerging economic, social and political superpower through the whole-of-government and, indeed, whole-of-economy, "NZ Inc. India Strategy". The strategy is based on the NZ Inc. China Strategy, itself loosely based on the successful Latin America Strategy that has been in place since 2000. New Zealand exports to India in 2011 totalled NZ\$917 million (\$731 million). Imports stood at NZ\$369 million (\$294 million).

New Zealand is formulating a Free Trade Agreement (FTA) with India, similar to that which it has in place with China that eliminated tariffs on 96 per cent of NZ exports. Under the NZ Inc. India strategy, New Zealand wants to boost merchandise exports to at least NZ\$2 billion (\$1.6 billion), grow the services trade by 20 per cent annually, improve bilateral investment, attract and maintain skilled migrants and engage with India on international issues. According to MFAT, India is to become one of New Zealand's core trading partners, with commodity exports boosted to satisfy the growing demand for dairy, horticultural and meat products, beverages, agro-technology, high-value manufacturing and construction, while enhancing tourism and education exchanges.

The NZ Inc. India strategy aims to see the number of New Zealand businesses exporting to India rise to 700 by 2015, double the 2011 figure. It is also to raise the profile of New Zealand products in India and to enhance cross-cultural business etiquette.

India has developed a number of very successful high-tech industries, manufacturing centres and research institutes. Derek McCormack, Chair of the Universities New Zealand International Policy Committee, has highlighted the potential for both countries: '... we need to make further contact with Indian agencies and build stronger relations with university networks and foster opportunities to engage in joint research. University exchanges will create rich friendships and further business networks that will benefit both countries.'

Tourism has much potential for both countries. Despite the lack of direct air links, the number of Indians visiting New Zealand has continued to grow significantly. In the year to October 2012, visitor arrivals from India increasing by over 5.5 per cent on the previous year, reaching almost 30,000.¹ The number of New Zealanders visiting India – where they are one of only a handful of nationalities eligible to receive a visa on arrival – shows a similar trajectory. A bilateral Air Services Agreement allowing direct flights between Auckland and Mumbai, signed in 2006, is still to be taken up by carriers from either country. The economic slowdown notwithstanding, it could further boost the numbers travelling. Profitability may also require the deployment of lighter weight aircraft such as the Boeing 787-9, for which Air New Zealand is to be the launch customer in 2014.

Infrastructure offers another opportunity for New Zealand companies in India. MFAT notes that, 'Over the next 15 years there will be massive competition for the US\$1.2 trillion worth of infrastructure required in India's cities. New Zealand's large engineering consultancies are aware of the market and are assessing opportunities.' New Zealand is thus endeavouring to deepen its relations with India based upon the needs of the Indian economy and New Zealand's own economic strengths.

A number of impediments constrain the Indian economy, however. India is ranked at 132 in the World Bank Ease of Doing Business Statistics, having progressed seven places from 139 in 2011, but the investor protection, access to credit and trading across borders criteria all fell. New Zealand, by contrast, is ranked in third place. The European Union-India Free Trade Agreement negotiations have highlighted a number of deficiencies which New Zealand could similarly encounter. In the European case, conflicting state and Union laws within India have undermined the effectiveness of competition and trade legislation.

Non-tariff barriers such as import licensing, the compulsory testing of many products, bureaucracy, complex customs procedures and a culture of protectionism continue to hinder investment and development. Ensuring adherence to international trade norms also continues to pose difficulties.² These impediments will affect New Zealand's capacity to reach the targets it has set. Australia has experienced similar problems, especially with contract work for the 2010 Commonwealth Games. In the 2011 World Audit corruption rankings, which ranked New Zealand in first place, India was placed seventy-fifth.³ The elimination of such practices will be necessary to ensure confidence in the Indian economy, as will the reduction of India's public debt. Although not particularly high by world standards, at 49.8 per cent of GDP, it is predicted to increase by another 12 per cent in 2013 to 51.2 per cent.⁴

¹ Statistics New Zealand, 26 November 2012, 'International Visitor Arrivals to New Zealand: October 2012'. <http://www.stats.govt.nz/browse_for_stats/population/Migration/international-visitor-arrivals-oct-12.aspx>.

² Gasiorrek, M. *et al.*, 'Qualitative Analysis of a Potential Free Trade Agreement between the European Union and India', Centre for the Analysis of Regional Information at Sussex, 2007, p.7.

³ World Audit, 2011 Corruption Rankings. <<http://www.worldaudit.org/corruption.htm>>

⁴ The Economist, Global Debt Clock. <http://www.economist.com/content/global_debt_clock>.

Regional Relations beyond India

As even MFAT admits, New Zealand's relations with Burma, Bangladesh, Nepal, Pakistan and Sri Lanka are slight and are largely overshadowed by those with India. New Zealand has played an active role in Afghanistan, where it has responsibility for the Provincial Reconstruction Team in Bamiyan Province. Relations with the Gulf States continue to expand, while those with Iran are coloured by concerns over Tehran's nuclear programme.

Burmese Foreign Minister Wunna Maung Lwin met his New Zealand counterpart, Murray McCully, earlier in 2012 to develop deeper economic ties following the democratic reforms in Burma, which, as Mr McCully notes, New Zealand supports 'both symbolically and practically'.

Despite infrequent engagement, relations with Nepal and Bangladesh are friendly. Relations with Nepal are enhanced by the high regard for mountaineer and Everest conqueror, the late Sir Edmund Hillary, who continued a deep philanthropic involvement with the country for the remainder of his life.

Sri Lankan demand for dairy and meat products and a mutual liking for cricket have helped to foster bilateral trade and a steady growth in NZ exports to the island state. New Zealand tempered its response to alleged war crimes in 2009, calling for peace, a ceasefire and humanitarian access. Wellington stopped short of condemning the Sri Lankan Government's actions and has not explicitly supported the war crimes investigation.

Pakistan

Commerce Secretary Zafar Mahmood led the Pakistani delegation to the inaugural Pakistan-New Zealand Joint Trade Commission held in Wellington in March 2012, at which Pakistan expressed its interest in an FTA with New Zealand and the furthering of training linkages in the fields of agriculture and dairy sectors. The visit, along with that of then President Pervez Musharraf in 2005, helped to raise the profile of Pakistan in New Zealand.

Wellington has strengthened its relations with Pakistan through the establishment of an honorary Consulate-General in Karachi, as well as through the engagement of both countries with ASEAN and numerous high-level meetings, including Foreign Minister Consultations in 2006 and 2011 covering education, information, communication and agriculture. New Zealand is home to around 5,000 persons of Pakistani origins and hosts 110 postgraduate Pakistani students. New Zealand has funded water pumps, medical and school equipment, provided NZ\$500,000 (\$398,500) for flood relief in 2007, NZ\$2.25 million (\$1.8 million) for earthquake relief and NZ\$1 million (\$797,600) to assist internally displaced people. New Zealand raises concerns over human rights, freedom of expression and democratic reform in its discussions with Pakistan.

Afghanistan

New Zealand has made significant contributions to Afghanistan through the deployment of elite SAS forces and New Zealand Defence Force and Police personnel in the Provincial Reconstruction Team (PRT) in Bamiyan Province. New Zealand provides NZ\$14 million (\$11.2 million) in aid annually to Afghanistan. Priority areas are health and education, human rights, community safety and justice and rural economic development, including agriculture and the development of renewable energy and eco-tourism initiatives, such as at the Band-e-Amir lakes. The NZ PRT worked in partnership with United States forces to rebuild and reopen Bamiyan University, which had been closed – and largely destroyed – by the Taliban in 1998.

Ahead of the drawdown of the New Zealand contingent and the end of the Bamiyan PRT in April 2013, Wellington has announced an assistance package for local staff who have worked with the NZ Defence Force and NZ Police contingents in Bamiyan. Current and former interpreters and their dependents have been offered the choice of resettlement to New Zealand or a lump sum payment equivalent to three years' salary. Other staff, including mechanics and office personnel, have been offered compensation in a system of tiered payments. Of the 23 interpreters, 21 have opted for resettlement. With their family members, some 65 persons will be resettled in New Zealand from April.

Gulf States

Although New Zealand has a limited diplomatic presence in the Middle East, it does have multiple interests there, including trade, defence and regional stability. New Zealand exports over one billion dollars worth of goods to the region, primarily food and wool, and imports oil. In October 2011, New Zealand concluded a Free Trade Agreement with the Gulf Co-operation Council (GCC). Now awaiting signature, the removal of tariffs under the FTA will enhance the competitiveness of NZ agricultural and manufactured goods. Bilateral trade in the region was worth NZ\$3.85 billion (\$3.07 billion) in 2011, with NZ exports to the GCC increasing by 218 per cent over the period 2000-09.

Iran

New Zealand exports to Iran totalled NZ\$130 million (\$103.7 million) in 2011, primarily comprised of dairy, fish and wool products. New Zealand has consistently expressed concern over the Iranian nuclear programme and has actively implemented all UN Security Council sanctions against Iran. Phil Goff, then-Minister for Disarmament went on the record to say that, '... it remains New Zealand's strong desire to see this matter resolved in a peaceful, diplomatic manner. We urge Iran to take the steps required by the Security Council and the IAEA to build confidence about the nature of its past and present nuclear activities.'

ASEAN-Australia-New Zealand FTA

The Free Trade Area established under the 2010 ASEAN, Australia and New Zealand agreement was a significant enhancement of trade relations between the diverse member

economies. The agreement encompasses a market of more than 600 million people with a combined gross domestic product of US\$2.7 trillion.⁵ New Zealand-ASEAN two-way trade had reached NZ\$9.82 billion (\$7.82 billion) by June 2010.

The agreement removed tariffs on 99 per cent of New Zealand exports to the four major ASEAN markets including Indonesia, saving approximately NZ\$50 million (\$39.8 million) based on 2012 trade figures. This FTA will enhance trade through increased competitiveness, the removal of barriers, provide greater certainty and transparency for investors, create more favourable trade conditions and raise the profile of New Zealand companies operating in the ASEAN countries.

South Africa

South Africa-New Zealand trade is increasing. Two-way trade was NZ\$359 million (\$286 million) in 2010 and is likely to expand into the film, dairy and education sectors creating, according to Trade Minister Tim Groser, 'greater engagement between government, businesses and community organisations.' The New Zealand-South Africa rugby rivalry has always played a part in relations. The most common air link between the two countries is via Perth. According to the 2006 census,⁶ there were over 41,000 South Africans residing in New Zealand, up from 26,000 in the 2001 census. In 2010, 93.3 per cent of South Africans living in New Zealand had applied for, or gained, citizenship.

Diplomatic Consolidation with UK and Australia?

New Zealand's relations with the region are of great importance, having prompted the development of trade and security relations and enhanced Wellington's involvement in the region. Fiscal constraints will, for the time being at least, inhibit future expansion. The United Kingdom Government suggested in September 2012 that New Zealand and Australia should consider joining it and Canada in introducing shared diplomatic premises to reduce costs and expand foreign representation. Wellington could expand its reach through this initiative; Foreign Minister McCully noted that New Zealand and the UK have already collocated their embassies in Kabul and that there have been '... positive discussions about co-location elsewhere.'⁷ New Zealand and Australia are usually aligned on most global issues and New Zealand's regional engagement frequently serves to strengthen the stances taken by Australia.

Soft Power Engagement

New Zealand has enhanced its regional engagement through the provision of international aid, giving NZ\$73.5 million (\$58.6 million) to South-East Asia (Pacific Island countries receive the bulk of allocations, at NZ\$169 million (\$134.7 million)).

⁵ Needham, R., 'Opening the Doors to Trade in South-East Asia' *Asia:NZ Online*, 22 February 2012. <<http://www.asianz.org.nz/our-work/action-asia-business/action-asia-insights/trade-seasia>>.

⁶ The 2006 census is the most recent available. The census that was scheduled for 2011 has been delayed until March 2013 due to the February 2011 Christchurch earthquake.

⁷ Harper, P., 'UK Hopes NZ Will Join Sharing Initiative', *New Zealand Herald*, 24 September 2012. <http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10836185>.

New Zealand's aid programme is oriented towards achieving the UN Millennium Development Goals. The overseas aid and development agency, NZAid, reports that New Zealand provides NZ\$24 million (\$19 million) in aid to Indonesia to support 'economic development, renewable energy and disaster risk management. New Zealand provides scholarship opportunities to access education and qualifications through the New Zealand-ASEAN Scholars programme that provides scholarships for postgraduate study in New Zealand. Specific programmes underway in Indonesia include increasing preparedness for natural disasters, developing renewable energy capabilities and advancing Indonesian agriculture. Due to Indonesia's developing economic potential, demand and productivity, New Zealand's relations with Indonesia are earmarked for expansion. New Zealand supports East Timor by providing NZ\$12.5 million (\$9.9 million) annually for many similar programmes.

New Zealand is developing cultural and linguistic ties to streamline business processes with Asian countries and to increase dialogue, trade and people-to-people exchanges. The government has also implemented social programmes aimed at attracting future immigration and to ensure the success of multiculturalism.

New Zealand has been instrumental in fostering relations through the education of foreign students. In 2010, there were 11,597 Indian students studying in New Zealand, up from 2,599 in 2006. India now ranks as the third-largest origin country for international students in New Zealand, after China and South Korea.

Defence Policy in the Indian Ocean Region and Beyond

Since the capability reforms of the early 2000s, the New Zealand Defence Force has had a significantly greater emphasis towards peacekeeping and humanitarian tasks, while continuing its responsibility to defend the territory of the Realm of New Zealand and to contribute to the defence of Australia. The 2010 Defence White Paper has continued that approach.

The Five Power Defence Agreement (FPDA) is a longstanding obligation to protect, consisting of New Zealand, Malaysia, Singapore, the United Kingdom and Australia. Nowadays, it also serves to build regional capabilities against non-conventional threats, including cyber-attacks.

New Zealand's membership of the ASEAN Regional Forum (ARF) aims to strengthen ties between governments to counter terrorism and trans-national crime, while improving regional security and encouraging confidence building. The NZDF is strengthening its ties with Indonesia, East Timor and India, including the appointment of a Defence Advisor to India. Closer links between the Indian and Royal New Zealand Navies to ensure the security of sea lines of communication in the Indian Ocean region will be a likely future development.

The recent [visit to New Zealand of United States Defence Secretary Leon Panetta](#) was the first by a US Defence Secretary in 30 years. It came after the signing of the Wellington and Washington Declarations to strengthen the two countries' strategic partnership and expand bilateral defence relations. With the rise of China, defence relations with New Zealand have

taken on a new significance and Washington is keen to work around New Zealand's anti-nuclear policy and normalise relations to the greatest extent possible. US Assistant Secretary of State for East Asia and the Pacific, Kurt Campbell, describes US-NZ relations as now being 'as close a relationship as two countries can have' and foreshadowed a 'leading role for New Zealand in the move towards greater regional co-ordination of humanitarian and disaster relief', as well as further training and operations with north-east Asian countries.⁸

In addition to its role in Afghanistan, New Zealand contributes elsewhere in the Indian Ocean region to the Multinational Force and Observers in the Sinai Peninsula, the United Nations Truce Supervision Organisation in Israel and southern Lebanon, as well as other UN-mandated deployments in Iraq and South Sudan.

New Zealand has contributed to the anti-piracy [Combined Task Force \(CTF 151\)](#) operating in the Gulf of Aden, the Red Sea and the waters off the coast of Somalia. The sea lanes in this area are vital to New Zealand's growing trade relations with the Middle East and its substantial trade with Europe. Dr Wayne Mapp, Defence Minister at the time, confirmed the importance to New Zealand of addressing piracy, stating that, 'Our economy is impacted by piracy, even far from our shores. By sending a command team to this multinational task force [CTF 151], New Zealand is showing its commitment to protecting security and stability in the international maritime environment.'

Conclusion

New Zealand is deepening its diplomatic and trade relations with developing Indian Ocean superpowers to share in their economic growth. This meshes with New Zealand's efforts to increase its competitiveness and export markets and to strengthen its ties with countries beyond its traditional trading partners. New Zealand will also continue to engage with the region through defence commitments, development assistance and soft power initiatives such as the provision of educational opportunities. Despite the distance, New Zealand's awareness of the importance of the Indian Ocean region is increasing significantly. As economies expand and linkages deepen, it is an awareness that will continue to grow into the future.

⁸ Young, A., 'US Keen on NZ-China Link', *New Zealand Herald*, 17 December 2012. <http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10854525>.

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