

# Submission to the Justice Committee of the New Zealand Parliament

on

## Post-election inquiry: Foreign Interference

by Michael Reddell

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### Introduction and summary

Thank you for the opportunity to submit on the foreign interference aspect of the Committee's inquiry following the 2017 General Election and the 2016 local body elections.

I am submitting as a concerned citizen. I spent several decades as an economist, policy adviser, and senior official at the Reserve Bank of New Zealand (and, for a time, at the Treasury). I also spent several spells overseas, including representing New Zealand (and a range of other countries) as Alternate Executive Director of the International Monetary Fund, and acting as resident economic policy and financial markets adviser to two developing country central banks. I provide analysis and commentary on my Croaking Cassandra blog. Some of the issues covered in this submission, especially as regards the People's Republic of China are dealt with in various posts at this link <https://croakingcassandra.com/category/china/>, including this recent post <https://croakingcassandra.com/2019/04/11/foreign-interference-and-deference-to-foreign-powers/>.

There are some specific legislative initiatives that would be desirable to help (at the margin) safeguard the integrity of our political system:

- All donations of cash or materials to parties or campaigns, whether central or local, should be disclosed in near real-time (within a couple of days of the donation),
- Only natural persons should be able to donate to election campaigns or parties,
- The only people able to donate should be those eligible to be on the relevant electoral roll,
- Consideration should be given to tightening up eligibility to vote in general elections, restricting the franchise solely to New Zealand citizens.

I would also favour tight restrictions on the ability of former politicians to take positions (paid or otherwise) in entities sponsored or controlled, in form or in substance, by foreign governments.

But useful as such changes might be, they would be of second or third order importance in dealing with the biggest "foreign interference" issue New Zealand currently faces - the subservience and deference to the interests and preferences of the People's Republic of China, a regime whose values, interests, and practices are inimical to most New Zealanders. Legislation can't fix that problem, which is one of attitudes, cast of minds, and priorities

among members of Parliament and political parties. Unless you - members of Parliament and your party officials - choose to change, legislative reform is likely to be little more than a distraction, designed to suggest to the public that the issue is being taken seriously, while the elephant in the room is simply ignored. It is your choice.

## **Background**

The invitation to the public to submit on this aspect of the inquiry reads as follows

The Justice Committee has resolved to invite further submissions on its Inquiry into the 2017 General Election and 2016 Local Elections. The committee is inviting submissions on the specific issue of how New Zealand can protect its democracy from inappropriate foreign interference, notably on the issues of:

- the ability of foreign powers to hack the private emails of candidates or parties
- the risk that political campaigns based through social media can be made to appear as though they are domestic but are in fact created or driven by external entities
- the risk that donations to political parties are made by foreign governments or entities.

In my assessment, this listing of specific items largely avoids the real and significant issues that New Zealand faces.

And in respect of the People's Republic of China - a regime whose values, actions, and interests are inimical to those of almost all New Zealanders - these are not just risks, but realised facts. Whether because of false narratives about New Zealand's "economic dependence" on China, lobbying from specific vested interests (public and private sector, or political party fundraisers), or whatever other consideration, political parties and elected politicians have allowed themselves to arrive in a position where all seemed scared to utter a word critical of the regime in Beijing, and appear to go out of their way to laud the regime and/or to solicit donations from people with close ongoing ties to Beijing. That brings our democratic system into disrepute, undermining the confidence of citizens that the political process is operating in their collective interests, and that those running it have interests and/or values that align well with the values and longer-term interests (including of a robust open political system) that aligns with those of the citizenry.

This isn't primarily about inappropriate foreign interference itself but about the repeated choices of, it appears, every single member of Parliament, across successive Parliaments, and each of the parties represented in Parliament. Big and evil foreign regimes will attempt to exert pressure where they can, or to identify points of vulnerability. We can't change that, and we can't change the character of the Chinese Communist Party controlled People's Republic of China. But we have choices as to how to react to the regime. The choices made by successive governments, apparently without material dissent from anyone in Parliament, have worked against the longer-term interests of New Zealanders.

No doubt most of those involved believe that, at some level, they are serving some version of “New Zealand interests”, but in the process there is no doubt that Beijing’s interests are advanced. What are those interests? Well, they include (without limitation) keeping western nations hitherto known for their regard for political freedom, the rule of law, and human rights, quiescent. When (otherwise) decent countries treat the PRC - a country with few real friends and allies - as normal and decent that (in some small way) helps the regime.

New Zealand governments were once known for a fairly forthright stance in responding to large and evil regimes: the first Labour government was well-known for its opposition to appeasement policies in the 1930s, and successive governments (of both parties) recognised the Soviet Union for what it was. But no longer.

The People’s Republic of China is at least as evil a regime - expansionist abroad, increasingly repressive at home, attempting to coerce diasporas (including in New Zealand) abroad, often with not-very-veiled threats to people at home. And yet our governments and members of Parliament treat the leaders and representatives of this regime as part of some sort of normal state, unashamed to share platforms with them and (apparently) afraid ever to utter any word of criticism. Citizens of a close ally have been abducted by Beijing in recent months, and the New Zealand government utters not a word of support. A free and democratic country in east Asia is constantly threatened and harassed by Beijing, and New Zealand governments say nothing. What message does this send to New Zealanders about whose interests governments are serving, and values they represent? By contrast, party presidents of both main political parties have been in Beijing in the 18 months praising the PRC regime and its leader - and they don’t even have the excuse perhaps open to ministers of maintaining normal diplomatic relations.

No one supposes that our elected MPs or political parties share the values, or even support the methods, of the People’s Republic of China. And the People’s Republic of China poses no direct physical threat to New Zealand. Thus, the only reasonable deduction is that the deference and subservience, to a regime responsible for so much evil, is about deals and donations: direct two-way trade opportunities, and the flow of political party donations from people (often New Zealand citizens) with affinities to Beijing.

The People’s Republic of China is known to attempt to use “economic coercion”<sup>1</sup> to bend other countries and their politicians to its way (sometimes - as with Norway - just keeping quiet about evil). From an economywide perspective, these are mostly not serious or real threats - more like bogeymen that people in other countries choose to scare themselves with, sometimes egged on by political leaders. A key insight of the economic growth and development literature is that the countries make their own prosperity (not by closing themselves off to the world, but through good institutions, smart people, decent tax and regulatory provisions, which allow them to develop industries than can take on the world). But the threats - usually unspoken, but real nonetheless - are real for individual firms

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<sup>1</sup> Discussed at greater length, drawing on a US think-tank report, here <https://croakingcassandra.com/2018/06/15/economic-coercion-prc-style/>

(including public sector ones like universities) that have made themselves very dependent on the PRC market.

Wise businesses don't make themselves excessively dependent on markets controlled by capricious brutes, and when they find themselves over-exposed they look to diversify and/or build greater resilience into their own processes. But too many New Zealand exporters - well aware of the character of the regime - have only redoubled their exposures, and then seek to influence the New Zealand state to protect their dealings in those markets. Perhaps among the more shameful are the universities, historically guardians of open debate etc, and yet several now actively partner with arms of the PRC and all have chosen to make themselves dependent on PRC students - in the process handing the thug a baseball bat. Not one university vice-chancellor has been heard from in recent years lamenting the increasingly closed and repressive nature of the regime in Beijing. There are parallels with people who pay protection money to the Mafia. Such people might garner some sympathy but little respect. But whereas an individual may have few protections against organised crime syndicates, a sovereign state positioned as New Zealand is, has plenty of choices. A generation of politicians has made bad choices around the PRC. Those choices may have boosted two-way trade to some extent (even as our overall economic performance - more influenced by our overall foreign trade, which has been shrinking as a share of GDP - has remained poor), but have also compromised our longer-term interests, values, and the sense of decency and self-respect that most New Zealanders pride themselves on. New Zealanders can have little confidence that the political system is operating for them.

As just one example of the problem, your committee is chaired by a member of Parliament who is widely regarded as being close to the embassy of the PRC in New Zealand, is reported to have ongoing affiliations to various (PRC) United Front bodies, and is on record as having declared his intention to champion PRC perspectives in New Zealand's Parliament<sup>2</sup>. That fact alone made me quite reluctant to make a submission to the inquiry, because submitting could be read as suggesting that I thought members of Parliament were serious about the issue. I welcome the fact that Mr Huo has belatedly indicated publicly that he will recuse himself from aspects of the inquiry involving Professor Anne-Marie Brady, but it remains inappropriate for him to be chairing (or participating in) the inquiry at all. The fact that Opposition MPs have raised no open concerns just reinforces my doubts.

The continued presence in Parliament, over the public objections of precisely no MP or minister, of Mr Jian Yang, a former member of the PRC military intelligence system, who now acknowledges misrepresenting his past on his immigration and/or residency papers is further reason to doubt the seriousness of this inquiry. No government MPs express any concern about his position in Parliament.

The foreign interference aspect of the inquiry thus has the feel of something being done to suggest to the public that politicians recognise the risks - in light of rather different US and

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<sup>2</sup> References for these points are to be found, and documented, in Professor Brady's *Magic Weapons* paper, which members will no doubt be familiar with.

Australian (eg social media and email hacking) experiences - rather than to address the real and immediate, entrenched, issues New Zealand faces.

The issues are not just about PRC-born members of Parliament - although it is telling that neither main party appears to have ever chosen ethnic Chinese candidates who are critical of the regime, including its activities in New Zealand. Late last year, it was the National Party's foreign affairs spokesman who dishonoured our political system in declaring that the mass internment of a million of more Uighurs in Xinjiang was really just a domestic matter for the PRC, recycling regime propaganda that somehow these camps were "vocational training centres". Responsibility is widely shared.

### **Specific proposals**

This general perspective notwithstanding, there are some specific areas where the Committee should recommend legislative reforms. Some of these suggestions relate to the more general case for increasing transparency around political donations.

I would favour a model under which all donations of cash or materials (perhaps above (say) a \$20 *de minimis*, to allow for (say) raffle tickets) should have to be disclosed, within a few days of the donation being received by the relevant campaign or party. There is no good reason for donors or parties to be able to arrange donations in a way that gets a donation below some inevitably arbitrary threshold. Requiring all donations of cash and materials to be disclosed would eliminate any such incentives, and help remove public doubts about just who is financing our parties and campaigns. Rules should be drawn in such a way as to require successful bidders in fundraising auctions<sup>3</sup> to comply with donation (and disclosure) rules.

There is, of course, a counter-argument around individual privacy. A person's vote is something they can keep private. But each individual has only one vote, whereas there are very large differences in the ability to make donations and donations can, cumulatively, influence parties. An individual's vote is also unknown to the party for which he or she voted, while the source of a donation is generally known. It should, therefore, be known to the citizenry.

I would also favour a move to a system in which only natural persons should be able to make donations to political parties and campaigns, and in which the only people who could donate are those eligible to be on the relevant (central or local) electoral roll.

Why rule out companies? Mostly because in recent months there has been some discussion of the possibility of banning donations altogether from individuals who are not New Zealand residents. The current limit for such donations (in national elections) is already very low, and thus any change to this limit - while perhaps sensible - would achieve almost nothing. There are no limits at present on the ability of New Zealand resident companies to make donations, even if those companies are substantially controlled or influenced by

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<sup>3</sup> Thus, for example, the large "donation" to Phil Goff's 2016 mayoral campaign, in the form of a bid of a volume of the works of Xi Jinping.  
([https://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11712664](https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11712664))

foreigners. Large donations from several such companies have been disclosed in recent years.

It seems a reasonable maxim that you can donate to a campaign or party if you are eligible to vote in the relevant contest, and not if you aren't. Companies are not voters, but are owned (mostly, ultimately) by natural persons who may, or may not, be eligible to vote. In the case of closely-held companies, such a rule would not act as a constraint on New Zealand resident shareholders: the company would free to make a distribution to shareholders which those shareholders (as named, eligible, individuals) would be free to make donations. Companies that are more widely-held - whether owned mainly by New Zealanders or not - should simply not be in business of making donations to political parties.

It is now well-known that New Zealand has an exceedingly liberal franchise, as regards resident foreign citizens (of whom, of course, there are unusually large numbers in New Zealand). There seems little good basis for such provisions and, in national elections at least, a reasonable argument that voting should be restricted to people who have demonstrated sufficient commitment to the country to become a citizen (not, itself, a high hurdle in New Zealand). The case for change is as much as confidence-building - that the political system is being run by and for New Zealanders (old and new) - as because of demonstrated substantial problems about the activities of newly-resident non-citizen voters.

### **Bigger picture**

Changes along the lines of those proposed in the previous section would be a helpful step forward in enhancing confidence in New Zealand's political processes, parties, and systems.

But it would simply be wilful pretence to suggest that they are the main game around foreign interference. As members will be well aware, the United States (for example) has very tight laws on foreign donations (much more so than New Zealand's) which has not avoided allegations of interference/collusion or whatever roiling the political system for the last few years.

In a New Zealand context, it is generally recognised that many of the problematic donation flows are made by New Zealand citizens. The controversy last year around Auckland businessman Yikun Zhang was once such possible example, but the point generalises and is well-recognised by those close to the major political parties<sup>4</sup>. In the PRC case, in particular, parties have actively sought to tap donations from ethnic Chinese citizens, often people with close associations with, or sympathies for, the regime in Beijing. No law is going to stop most such people donating, but decent political parties would choose not to tap (knowingly) such morally questionable sources of funding. All parties will be well aware of the activities of the regime, and its agents, in attempting to coerce, or incentivise, ethnic Chinese living here who have ongoing business or family connections in China.

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<sup>4</sup> Comments by some such people were captured, in a Chatham House rules session reported here <https://croakingcassandra.com/2018/06/27/foreign-influence-and-the-wellington-establishment/>

But again, the issue isn't just about PRC-born New Zealand citizen donors. There are not a few domestic entities with a strong interest in the New Zealand government deferring to Beijing whenever possible, and avoiding if at all possible ever upsetting the regime in Beijing. Many of them are people who readily get the ear of ministers or senior officials. Indeed, the government is in league with many of these same people/institutions in promoting and funding the New Zealand China Council, a body that uses taxpayers' money to attempt to propagandise the relationship the government itself and specific businesses have with the party-State in Beijing.

For the country as a whole this is not some sort of "win-win" situation (in a way that free trade between consenting firms generally is). Rather, to some extent at least (and perhaps less so in substance than in belief), the access of New Zealand firms (a minority of New Zealanders' financial interests) is held to depend on New Zealand governments and MPs doing as little as humanly possible to upset one of the most heinous regimes on the planet. Those firms then become, in effect, champions locally of the interests and values of Beijing and – to the extent that politicians respond to such pressures (as they seem to, enthusiastically or otherwise) - they themselves become complicit. Since MPs represent the public, we are all tarred to some extent or other by that association. That, in turn, discredits our political system, which comes to seem no longer interested in championing or representing the values that shaped and formed our nation and our political system.

Quite possibly almost all those involved in the New Zealand political system believe they are primarily serving the interests of New Zealand. But until the major parties (in particular) and the governments they form begin to make observable choices in ways that prioritise New Zealand interests and values over those of Beijing, there is a certain observational equivalence between claiming to focus on New Zealand interests and actually serving Beijing's. That inability to tell the two apart corrodes any confidence in our political system, and any respect for our politicians and parties. The political spat earlier this year, around which party was most willing to defer to Beijing, will only have reinforced public doubts.

That cannot be a desirable state of affairs. Modest legislative reforms around foreign donations do not go to the heart of the problem and, welcome as they might be, will not represent any material part in a fix. A real fix requires MPs and parties to start consistently choosing and acting differently; choosing to prioritise the longer-term values and interests of New Zealanders.