

# CHINA AND NEW ZEALAND

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S E P T E M B E R 2 0 0 9

Don't let the doubts of the crowd interfere with an individual view,  
but don't reject the words of others because of faith in your own opinion.

Huanchu Daoren, 1600

## Realigning New Zealand

The world is recovering from the depths of the recession, but developing countries are recovering faster than developed ones. Some, like China, were never in recession, while India and Brazil faltered only briefly. These countries were sustained by strong domestic demand and populations which, while often living marginal lives, are not staggering along the fringes of insolvency like so many in the developed world.

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This is New Zealand's chance to ally itself economically with the stronger centres of economic growth in the world, particularly China, but also South America, South East and Central Asia, India and the Middle East. For the purposes of this

article, the focus will be China.

Many New Zealanders believe in the myth that the country already has a broad global footprint. Of a population of just over four million people, according to New Zealand Treasury statistics, a further 460,000 New Zealanders live in other countries. The majority of these expatriates, over 350,000, live in Australia. The next significant block, some 60,000, live in the United Kingdom, and there are a few pockets in the United States. All are safe, English-speaking alternatives to living in New Zealand.

The idea that New Zealanders are largely an adventurous, experimental people who will throw themselves into unfamiliar cultures and adapt is therefore incorrect. Yet, the fact that many New Zealanders identify with those who do is positive, as it denotes the potential to revive the determination, adaptability and appetite for risk possessed by New Zealand's Anglo, Celtic and Polynesian forebears.

To be in step with history, a culture must be attuned to the economic rhythms of its age. If New Zealand is to be a contemporary nation, its businesspeople and politicians need to draw closer to the developing world. Without rejecting its cultural roots, New Zealand must recognise its future economic identity as a southern Asian nation.

## Emerging markets will drive future growth

**M**aking a conservative forecast, Union Bank of Switzerland (UBS), among the more sober and accurate economic observers of the current recession, postulates that if the gross domestic product (GDP) of the developed world grows at 2%, the developing countries of the world will grow at a healthy 5.5%. Even if globalisation is severely reduced by trade barriers and closed financial markets, and the GDP of the developed world grows at only 1.5%, the GDP growth of the developing world will still be 5.3%. The deep dependence that developing countries such as China had on developed countries in the past has been reduced. The world is entering a new economic area.

China has recently become New Zealand's third largest trading partner, but that is largely due to the export to China of animal by-products and forestry, dairy and seafood products. New Zealand has thus far failed to make China the manufacturing and trading platform it should become. Simply selling more 'stuff' remains the core motive of a nation with a short-term trading mentality.

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In circumstances in which raw materials or semi-manufactured products such as milk powder or lumber are sold in great volume to China, New Zealand companies need to look at how, within China's borders, it can better direct this trade and establish partnerships for further processing to capture more added value. For firms such as Fonterra and Zespri, the risk is that, with increased exports to China, non-tariff measures (such as the newly introduced Chinese requirement that each shipment of whole milk powder be registered separately) will be imposed. New Zealand companies need to be well established in developing markets so that they can manage perceptions of their products and services and, where possible, be seen as participants in the local economy. It is time to mine value from the country's narrow economic base wherever it can be found.

New Zealand also needs to open its markets to balanced investments from countries such as China in resources and manufacturing. China is now the second largest buyer of New Zealand's exports. New Zealand has not marketed itself well in Asia; the leading foreign investors in New Zealand at the end of 2008 were Australia, followed distantly by the United States, the Netherlands and the United Kingdom.

The focus of trade promotion and policy needs to move more swiftly to the emerging world and, as far as tax and trade subsidy reform is possible, it needs to reflect this new emphasis.

The private sector must lead New Zealand's alignment with the developing world, but rather than simply dismantling the incumbent system of trade promotion and advice throughout the relevant ministries, the New Zealand government can restructure the incentives and re-clarify mandates.

## Emerging markets are whetstones

In developing markets where commercial law is often weak and business practice opaque, human judgement and cultural understanding take on greater importance than in more developed markets. Opportunities must be seized, often before all information and assurances are available; at times one must know how to wait for what feels like interminable periods and without any indication of the other party's interest or disinterest.

Businesspeople must not underestimate the difficulties of working in developing countries. Underdevelopment might be not only economic, but also social and legal. Understandably, much has been made over the last few months of the arrest of Stern Hu, the Chinese Australian Rio Tinto executive, on charges of corruption. Nevertheless, this is an extreme case and is not representative of the market; foreign businesspeople are not, as the Fonterra Sanlu directors discovered, at risk of random acts of political revenge through the Chinese legal system. Operating in an opaque legal environment that is subservient to political interests does present many pitfalls, but they are usually more banal.

*The increased prowess of strong emerging nations will challenge the dominant position of the West...but not overturn it*

The positive prognosis for the developing world, that it will outperform the developed world over the next five years, reflects the pace and diversity of its economic growth. This does not mean that Europe and the United States will

remain moribund. The developed world will recover, hopefully emerging leaner and better-governed than before the recession. The increased prowess of strong emerging nations will challenge the dominant position of the West, particularly the United States, but not overturn it.

We are entering a highly competitive age which will demand greater market openness than the modern industrialised world has yet experienced. The countries that put energy into reassessing their own economies and those of their major trading partners and are intent on becoming more adaptable will outperform those that concentrate on protecting their domestic markets and resisting the natural forces of economic change. In the past, China opened its market to the rest of the world at an unprecedented rate because it needed to; now it must resist the temptation to protect its market, for short-term political benefit, simply because it can. New Zealand has the advantage of two decades of

opening, placing it in 2009 as the world's second most open economy, after Singapore.

One of the myths about the emerging world is that the GDP growth of emerging countries is so dependent on exports to developed ones that this recession, which has reduced the capacity of the developed markets to buy goods, will bring about major domestic imbalances. The rationale is that the fall in revenues and labour unrest from the collapse of companies will undermine real growth, or that those companies which used to export will sell recklessly into their domestic markets and create oversupply and deflation.

Yet in China's case, and in the case of many Southeast Asia countries, trade with each other was greater than with the United States or Europe. China's total exports fell in the first two quarters of the year by 24%, but they have by no means collapsed. There is also no strong evidence that China is suffering from domestic oversupply of manufactured goods. On the contrary, although it is too early to be absolutely sure, one result of the fall in trade has been widespread consolidation.

## Urgency and modest confidence

The hardest thing for New Zealand companies to face in dealing with China is the cost of establishing a base in the country. It is difficult to assess at what point it makes economic sense to spend money on

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employees, offices or even contracts with third parties to represent one's company in China. If a company waits until the costs of establishment are clearly covered, it will lose opportunities or may never attain the critical sales mass to justify being in China at all.

Businesses must read the sales trend, having assessed the market as exhaustively as possible, and then adjust the risk of the cost of representation.

New Zealand is inhibited by the size of many of its companies. It does not actually have a true small- and medium-sized enterprise (SME) culture. Instead, it has a small- and micro-sized enterprise culture that is spread out among small, dispersed urban and industrialised centres and therefore does not benefit from the kind of agglomeration enjoyed by neighbouring Australian and Asian trading partners, with businesses in Auckland being the exception.

Although China can be an expensive country in which to do business, the market, while large in absolute terms, is actually an interlocking maze of local economies, and it can lend itself to dealing with small, flexible enterprises.

Knowledge of China has improved in recent years in New Zealand. There has been increased tourism and a well established tradition of, albeit somewhat fragmented, academic dialogue and exchange. The new conservative government in New Zealand has continued, and may even be accelerating, the positive political contact that the country has maintained with China over the last two decades. There has also been a marked increase in companies visiting China.

New Zealand has, nevertheless, still a great deal more work to do to understand the developing world. It is unacceptable that there is not a single accredited New Zealand journalist based in China, or Hong Kong. As a result, with the exception of opinion pieces in a few publications, such as the *New Zealand Herald*, the *New Zealand Listener* and *Unlimited Magazine*, general reporting on China in New Zealand publications tends to be judgmental, taking a vaguely pious first-world view toward developing countries.

New Zealand has much ground to cover in understanding the challenges of engaging with the new economic order that is emerging from this global financial crisis. This challenge is shared by nearly all developed countries. The business communities of the United States and Europe are not necessarily better (and in many cases are less) informed than the business community in New Zealand.

*New Zealand can no longer use the tyranny of distance as an excuse for economic underperformance*

Given the continuing evolution in communications technology and increased automation and efficiency of international shipping, New Zealand can no longer use the tyranny of distance as an excuse for economic underperformance. It is also unhelpful to continue the

habits of excessive self-criticism and, in the case of the private sector, railing against the government for lack of efficiency. New Zealand is reforming key institutions governing foreign affairs and trade, and at a rate unmatched by its European and American counterparts.

In branding and marketing itself, New Zealand compares well with other small nations, such as Denmark, Scotland and Wales, that have the huge advantage of large markets at their borders. With a shared sense of objectivity and ruthless focus, New Zealand can reposition itself well in this recovering global economy.