

# asia info

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## Director's report Professor Hugh Whittaker

I recently undertook a trip to South-East Asia with Associate Professor Rob Scollay, where we visited Indonesia, Thailand and Vietnam. I returned with a number of impressions, prompted by stimulating discussions we had with researchers, government officials and business people in those countries.

A number of South-East Asian countries are said to be caught in a "middle income trap" – squeezed by lower wage economies producing the same goods or inputs more cheaply on the one hand, and unable to produce the higher value-added goods and inputs needed to escape such price competition on the other.

In fact, it appears to be increasingly difficult for developing countries to become industrialised, as "premature de-industrialisation" or "simultaneous industrialisation and de-industrialisation" catches them. While participation in global commodity or value chains may offer a leg up, it is not easy to secure higher value within them, and spillover benefits to surrounding districts or related industries can be elusive. Investments flow to other sectors, like real estate, or to financial instruments or out of the country, as Natasha Hamilton-Hart's article shows in this edition.

Such "traps" may appear to have little to do with New Zealand, a developed country,

but there may be more similarities than first meets the eye. In part this may be because development is becoming more "compressed", in which developing countries experience different stages of development at the same time, including those being experienced by developed countries.

In part, too, it may be because New Zealand has also experienced de-industrialisation and financialisation over the past three decades, with high levels of investment in real estate. We also have difficulty in securing value in some of our global value chains. Our surge in exports to Asia are powered by commodities – not necessarily a bad thing in itself, but we have trouble maintaining our position in sophisticated manufactures at the same time. Relatedly, the Growing New Zealand Businesses report by Ben Fath and Antje Fiedler suggests that SMEs with high levels of engagement with Asia have lower levels of innovation than SMEs with lower levels of engagement.

If there are some similarities, however, there are also complementarities with South-East Asian countries, and indeed other Asian countries. Food security is of huge concern, fueled by fears of tainted ingredients and foods of either domestic origin, or coming across borders. New Zealand's food exports are looked on most favourably, sometimes with a certain bemusement that the track record and image are not taken full advantage of.

Significantly, on our trip we encountered hopes that New Zealand might become engaged in a range of food security matters, ranging from high quality commodity food exports, value-added foods, and foods backed by traceability and a national quality badge, through to a range of services such as education for postgraduates, training of food safety inspectors and technology assistance for a burgeoning range of food safety tests.

In other words, there is an opportunity for New Zealand to become a partner for Asian food security needs. This would require us to go beyond the export of commodities, even those of high value. To some extent, we are already doing this, albeit through largely



disparate, uncoordinated activities. Universities are playing a role, which will be helped by the increase in New Zealand government scholarships to ASEAN students for such studies.

The potential could be boosted, however, through cooperation by a range of public and private sector actors. Most of all, in order to develop these opportunities, we need to understand what food security means in different Asian countries, from the perspective of people in those countries. In other words, it requires us to develop new understandings and capabilities, and to some extent coordinate them across a range of sectors.

We need to become more "Asia-savvy", and more savvy about how to respond to the opportunities which exist and are emerging in Asia, including those related to food security. Fortunately, as the Asia-Savvy Conference report shows, some very smart students from universities in New Zealand are doing this, but it is a challenge for us all.

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# Re-discovering and re-engaging Japan

The New Zealand Asia Institute (NZAI) this year initiated a joint three-year project, “Re-discovering and re-engaging Japan”, with the School of Asian Studies.

With the aim of using this project to strengthen Japanese studies at The University of Auckland, the NZAI has secured a grant from the Japan Foundation for three years to partially fund a Chair Professor in Japan Studies, a post-doctoral fellow, an international conference and related publications and an academic database on Asia. The NZAI is grateful for the support and assistance of the Consulate-General of Japan in Auckland in this project, which was kicked off with three seminars about Japan in August.

## Japan’s trade diplomacy in the Asia-Pacific

Professor Yorizumi Watanabe from Japan’s Keio University gave a seminar on Japanese FTA policy and its attitude towards the Trans-Pacific Partnership (TPP).

He explained how Japan began its FTA negotiations in 2001 when they were called Economic Partnership Agreements, or EPAs. Japan has since signed a dozen such agreements and is now in negotiations with Australia, India, Peru and the Gulf Corporation Council nations.

The recent earthquake and tsunami, in Professor Watanabe’s opinion, may add momentum to the process. Specifically, the area hit by the disasters has a high concentration of agriculture and fishery products and it is likely to take years before farming can resume there. The resulting supply-demand pressure might prompt Japan to review its agricultural policy and agricultural tariffs, which could have a positive impact on the potential of a Japan-New Zealand FTA.

Professor Watanabe noted that against the backdrop of these signed and impending FTAs, Japan could consider taking the logical next step of joining the TPP initiated by New Zealand, Brunei, Chile and Singapore.

The Japanese business community in particular will welcome such an ambitious “second-generation” trade architecture. One important reason is that FTAs and the WTO-related rules have already exposed their limitations in managing problems arising from international and intra-state trade, investment, competition, government procurement and the like. The TPP may, on the other hand, provide a more effective forum for greater transparency in international trade governance.

Professor Watanabe told delegates that whether or not Japan participates in the TPP, the country should remain vigilant against protectionism, especially in the current trying economic times.



## Japan after March 11

With Japan coming to grips with the triple disaster of last March and beginning to rebuild from its worst post-war crisis, greater attention is focused on longer-term domestic effects and global implications of the earthquake, the tsunami and the nuclear crisis.

How will Japan finance its massive reconstruction programme? How will the disasters complicate Japan’s recovery and re-orientation following its “lost decade”? How have they affected regional and global supply chains? What are the impacts on Japanese society, politics and culture? These are some of the questions that were addressed at an NZAI panel discussion that included Professor Yorizumi Watanabe, Keio University, Mr Meishi Sonobe, Chair of the Japan Beachhead Advisory Board in New Zealand, Professor Hugh Whittaker, NZAI Director, and Mr Corey Wallace, a PhD candidate from the Department of Political Studies with a research focus on Japan.

Emerging from their discussion were serious concerns about the impact of a potential power shortage on Japan’s recovery and growth. The panellists noted that should the Japanese public continue their petition against the restarting of some nuclear reactors, and should the government feel pressured to respond to public opinion, 30 percent of power supply could be taken out of the national grid.

With no ready-to-use alternative energy source to fill in the gap, Japan might find it even more challenging to re-emerge economically from its “lost decade”.

## Tax reforms in Japan

In the aftermath of Japan’s earthquake and tsunami, the Japanese government has approved a number of supplementary budgets for 2011 but even more relief and recovery funds are likely to be needed.

These fiscal difficulties have added fuel to domestic Japanese discussions on tax reforms, so the NZAI hosted a seminar by Professor Satoshi Watanabe from Hitotsubashi University in Japan to talk about Japan’s consumption tax.

According to Professor Watanabe, the Japanese government has for decades been bridging fiscal shortfalls by issuing treasury bonds that are now running at 200 percent of Japan’s GDP. In his opinion, the consumption tax may serve as an important complementary source of government earnings. Its revenue contribution since its introduction in 1989 has been stable, which is very different from the fluctuating income and corporate taxes.

Furthermore, in comparison to New Zealand’s 15 percent Goods and Services Tax (GST), Japan has a lot of manoeuvring space for lifting its present five percent consumption tax to a higher level through progressive increments.

Professor Watanabe suggested Japanese economists and policy analysts might want to invest more efforts in studying the New Zealand case, in particular the political conditions which enabled the tax reforms to bring in the broad-based and controversial GST. This comment sparked a heated discussion among seminar delegates on the overall effects of New Zealand’s tax reforms on income distribution and economic efficiency. As may be expected, no consensus was reached at the end.

# South-East Asia's role in global imbalances: Reserve accumulation and export surpluses

In the decade since the 1997-98 Asian financial crisis, foreign exchange reserves accumulated by South-East Asian countries have reached extraordinary levels.

- Natasha Hamilton-Hart

Although they do not come close to the size of the foreign reserve pool that China has built up – approaching US\$3 trillion – they are nonetheless very large. Total reserves for developing Asia, excluding India and China, amounted to US\$476 billion at the end of 2010, according to the IMF. Why have these countries built up such reserve holdings?

One reason is almost certainly to “self-insure” against any future large capital outflows. South-East Asian countries that experienced a currency crisis in 1997-98 (or those, like Singapore, that did not experience one directly but witnessed the havoc wreaked on their neighbours) have every motive to build up a war chest to help ward off a future abrupt reversal of investor sentiment.

Larger national holdings of foreign exchange reserves make it more feasible to avoid an economically disastrous currency crisis, and reduce the threshold at which a country could be forced to go to the IMF for emergency loans – an experience that was both economically and politically painful for Indonesia, Thailand and Korea in 1997.

Precautionary motives for building up foreign reserves, however, probably do not fully explain the trend in much of East Asia. For some countries, levels of reserve holdings are likely to be in excess of what prudence would require, although how much is enough is something that economists continue to debate.

Further, if countries were solely motivated by concerns about avoiding a future currency crisis they could use alternative measures to reduce vulnerability, in particular taking steps to restrict short-term capital inflows and avoiding current account deficits. In fact, most countries in the region have been running sustained current account surpluses since 1998, and China – the country that has accumulated the most spectacular foreign exchange reserves – does restrict short-term capital inflows.

There is thus likely to be a second reason for reserve accumulation in much of the region. Reserve accumulation is the by-product of what economists Joshua Aizenman and Jaewoo Lee have termed “monetary mercantilism” – a strategy to ensure that the national currency does not increase in value vis-à-vis major export markets.

The charge of deliberate currency undervaluation as a means of gaining a trade

advantage has been made most prominently by the United States against China, but there is evidence that other countries in East Asia have over the last decade taken steps to limit the upward appreciation of their currencies. In a context marked by high capital mobility, these countries have engaged in what is known as “sterilisation” – effectively mopping up capital inflows by issuing bonds or other instruments denominated in local currency, and turning around the proceeds to invest in foreign currency assets.

Monetary mercantilism as an explanation for reserve accumulation, however, raises further questions. Why are countries that are already running large current account surpluses intent on sustaining them? The strategy is puzzling when one considers the costs attached to reserve accumulation. Reserves are a form of self-insurance, but insurance is costly.

In this case, there is a direct cost (most often borne by the central bank, and so therefore conveniently off the government's books) that is the consequence of sterilisation. When a central bank intervenes in the local money market by issuing bonds to mop up excess liquidity, it pays a relatively high interest rate (at the moment, for example, the coupon rate for short-dated government bonds issued by Indonesia's central bank ranges between 11 and 14 percent).

The central bank then uses the proceeds to intervene in foreign exchange markets by selling the local currency and buying foreign currency

assets, such as US government securities – which currently have yields close to zero.

For countries that remain at substantially lower levels of per capita income than the US, this transfer of resources from poor to rich represents a significant misallocation: over-saving and under-consumption by those who have less, to sustain under-saving and over-consumption by those who have more. In addition, the process of sterilisation perpetuates incentives for short-term capital inflows and the accumulation of private sector foreign liabilities, as interest rate differentials and expectations of eventual exchange rate appreciation create a perverse spiral of market behaviour.

Despite recent financial market instability, which has created a tendency for investors to return to low-yield US assets and reduce exposure to emerging markets, the overall picture is one that resembles the macroeconomic position of South-East Asian countries in the lead-up to the Asian financial crisis.

To be sure, the current account deficits that many of these countries ran then have since been reversed, making them less vulnerable. Precautionary motives alone, however, do not account for the determination to run current account surpluses. The underlying drivers for the set of intervention measures employed in the region are likely to be found in the domestic political economies of regional countries, which have long catered to a growth strategy based on exports rather than domestic consumption.



# Dawn of a new era in Singapore politics

Singapore's 2011 election is seen by many Singaporeans as an important watershed in the city-state's political history.

The long-ruling People's Action Party (PAP) won only 60 percent of the popular vote and lost a Group Representation Constituency for the first time in five decades of governing the country.

Yet the significance of this changing political landscape is not just because Singapore now has the highest number of opposition MPs since its independence, NZAI Asian Affairs Adviser Charles Chow told guests during a seminar in May.

More importantly, the significance of these changes is because Singaporeans are no longer politically apathetic. In their genuine, engaging and informed pre and post-election discussions and debates, they have put across their opinion loud and clear that the PAP government has lost touch.

According to Charles, Singaporeans do acknowledge and appreciate the accomplishment of Lee Kuan Yew and his PAP party in lifting their island county from a third world economy to a first world "Asian tiger" within one generation.

Many of them, however, believe that nation-building and community development are not all about GDP, especially when economic growth is accompanied by widening income and wealth disparities. Charles believes the 2011 election results indicate that the Singapore government completely failed to judge the frustration of its citizens over unfairly high salaries paid to upper echelons of the civil servants and top executives of risk-free government-linked public listed companies.

While political dissent is still vigilantly monitored, Singaporean voters seem no longer hesitant in expressing their discontent with the government policy of replacing local "slow learners" with foreign "talents" for economic "competitiveness". They have openly voiced their resentment that among the three million born and bred Singaporeans there are now more than two million foreign permanent residents and work permit holders, resulting in overcrowding, climbing housing costs and a growing "underclass".



Charles Chow talks politics during an NZAI presentation on the changing Singaporean landscape.

In Charles' opinion, the election saw the people of Singapore unite and demand a more compassionate society ruled by the heart as much as by the brain.

# China's October Revolution: 100 years on

The NZAI marked the 100th anniversary of republicanism in China with a lecture in October from Dr Richard Phillips, Senior Lecturer in the School of Asian Studies and author of *China since 1911* (Macmillan, 1996).

Richard argued that the events that led to republicanism in 1911 involved two simultaneous movements represented by the Chinese term *geming* 革命, now routinely translated as "revolution".

The first movement took its inspiration from the older meaning of *geming*, which is about overturning the mandate and the expectation that a particular ruling royal house had reached the end of its legitimate tenure of power. By 1911 the Manchu Qing dynasty had been buffeted for decades by difficulties common to every declining dynasty in China, but most clearly epitomised by its poor response to acute flooding in the lower Yangzi Valley in September 1911.

The second movement related to the new meaning of *geming* in Japan, which is a total overthrow of the existing system as in the anti-monarchic revolutions in European history. The inspiration for this movement came from nineteenth century external challengers who wished to control China not as potential insiders, like earlier Inner Asian conquerors of China, but as confirmed outsiders who had no intention of ruling the world from China. These challengers also doubted the value of Chinese

culture, even while looting its museums and private collections for their artefacts.

Along with these outsiders came powerful and corrosive ideas such as representative assemblies under a constitution that limited central government power by defining citizens' rights and duties, with the ultimate possibility of republicanism as a replacement for monarchy.

During his lecture, Richard outlined the problems of the Qing Dynasty and noted the lesser-known first instance of a declared republic in China, in Taiwan between 23 May and 21 October 1895 in the face of a Japanese take-over. He explored the battle after 1895 between those pursuing a constitutional monarchy and those aiming for a republican revolution.

Richard also praised Sun Yatsen (Sun Yixian) for his early and ongoing commitment to revolution, while expressing considerable doubt over Sun's organisational skills and questioning the orthodox view that Sun was the unopposed leader of the revolutionaries.

He spoke about the events of the latter half of 1911, when the independence of the Qing

Dynasty was first declared at county level in Sichuan in September, well before the publicly honoured date of 10 October 1911. The new republic, formally announced on 1 January 1912, carried out its foreign inspired mandate very promptly, holding the elections with the world's largest electorate in late 1912 and convening the parliament in 1913.

Yet from then on the political situation deteriorated rapidly and the optimistic promise of a strong China after the removal of monarchy was not achieved.

Richard talked about the chief legacy of the revolution, which destroyed the monarchical option for China, despite efforts by royalists to restore an emperor, but was the first step on a complex journey to the reconstruction of Chinese social and political order.

He concluded by saying there is value in seeing parallels between the history of China and the history of France, with different numbered republics respecting some aspects of the republican ideal but lacking direct continuity of structure.

# China and the US in the twenty first century

China and the United States hold the single most important bilateral relationship in the world during the twenty first century, says the New Zealand Prime Minister's Fellow Professor Cui Liru.

Professor Cui, who is also President of the China Institutes of Contemporary International Relations (CICIR), shared his views during a roundtable at the NZAI in August and a public lecture on China-US relations and implications for the Asia-Pacific region.

Furthermore, he told guests, the relationship between China and the US is a matter of concern for not only themselves, but also other Asia-Pacific countries because they mainly interact in this region.

In Professor Cui's opinion, international consensus seems reachable only with some qualifying words such as "diversity" and "complexity". Within China, scholars in policy and public circles for American studies are not able to agree on a characterisation of the relationship either. They are, however, of a similar opinion that the two countries are increasingly becoming economically interdependent, but remain frozen in political and security mistrust.

Professor Cui says many Chinese believe there has been a change of political and public mood in the US on China's rise since last year. Yet they

do not think China should be too concerned about the seemingly growing conservative trend in the US.

No matter what happens during next year's general election, Washington will most likely signify continuity rather than change in its international relations, including policies towards Beijing. At the same time, there are louder voices in China arguing that there may be some truth in the popular description of China as "a lonely rising power". After all, there are huge differences between the Chinese and mainstream democracies' ideologies and political systems.

Similarly, there are also increasing public appeals in China for better understanding of regional and international concerns over its rapid ascend to a dominant economy in the world. According to Professor Cui, there is a greater realisation among the Chinese that in international affairs, perceptions are often more important than reality.

To convince its neighbours and the world about its "peaceful rise", China cannot just issue statements about its intentions. Rather, its

leaders and overseas businesses need to be sensitive about others' worries and behave like "a responsible member" of the international community.

Translating this to the current global economic crisis, said Professor Cui, China should take up the challenge of striking a balance between its high savings for domestic development and greater corporate and household consumption for global economic recovery and growth.

Yet from his point of view, China is not ready for a leadership role in the world. As a matter of fact, it was caught by surprise and unprepared when the global financial crisis pushed it to the central stage and under the spotlight. China does not share the concern that the world is facing a leadership vacuum in major strategic arenas, but maintains that the US still has the capability to lead the global governance system and enforce international norms.

China does, however, support a stronger Japanese yen, euro, and other reserve currencies to help reduce "hiccups" in the economic component of Sino-US relations.



# Intra-regional popular cultural flows: Towards an East Asian identity?

Against the backdrop of a region-wide enthusiasm for East Asian integration since the 1997-98 financial crisis, there has been an explosive growth of cross-border popular cultural flows among the countries in this area.

Regionally circulated popular culture is now an indispensable part of the average Asian's daily life. The magnitude, dynamics and massive geographic coverage of the "flows" of this cultural form in East Asia signify its potential to become a powerful vehicle for realising the 1998 ASEAN-Plus-Three Summit's vision of an integrated regional community.

Of course, the identity-formation effect of the production and consumption of popular culture will take a long time and a tortuous route to occur, if it ever does. Yet the creative industry-produced popular culture "flows" and the resulting immense intra-regional contacts at the people-to-people level may trigger instantaneous and massive nationalist responses in any locale and to any imported cultural programme.

Perceptions of contents' "truthfulness", "accuracy" or "insinuation", for example, may turn mundane pop cultural commodities into deliberate distortions for political purposes. Given that cultural commodities originating from more developed economies in East Asia generally find it easier to break into the emotional structures of less prosperous nations than the other way round, "unequal" cultural dialogues may also be interpreted as cultural penetration by countries with economic and political muscle into their economically weaker neighbours.

Clearly, the identity reconstruction of East Asians through popular cultural consumption

is an issue of both political significance and political consequence for the region, and possibly with serious repercussions for the world. It thus calls for systematic and collaborative studies covering the key nations caught in the dense cross-border cultural traffic in East Asia.

Yet the research community world-wide does not seem able to keep pace with the growth of creative industries in the region and the trans-cultural flows they have initiated. Also, research on the consumption side of the intra-regional popular cultural exchanges has to date focused mainly on their contextual specificities, textual factors, economic interests, and technological infrastructure. Few attempts, either in the region or internationally, have been made to examine the interface of cultural adaptation and political identification in the consumption process of popular culture.

To help bridge this gap, the NZAI initiated in February 2010 a comprehensive study on the junction between an East Asian popular cultural regionality in the making and an East Asian identity. A team of 21 scholars and three PhD students from 18 universities in New Zealand, Australia and the Asian region were invited to conduct case studies on interactions of popular cultural flows, state politics and the average audience's receptions in Japan, Korea, China, Taiwan, Vietnam, Singapore, Thailand, Malaysia, Indonesia and the Philippines.

These context-specific investigations were

expected to identify key factors that either facilitate or impede the potential for viewers in a specific location to loosen up the conceptual confines of their grounded nationalities and to forge cultural and political identification first with other Asian stage personae then the countries where they are created.

With the help of a grant from the Chiang Ching-kuo Foundation, the NZAI, in association with the Institute of International Relations (IIR) at Taiwan's National Chengchi University, organised a conference at the IIR for the participants to share their research findings and seek feedback.

They reached the conclusion that since the Asian financial crisis brought the issue of regional integration to the fore of the national policy agenda of East Asia, popular cultural exchanges picked up momentum and became an important component of the regionalisation process among its member states.

The word "popular" in this context served as not only a definition of a cultural category, but also an indication of massive consumer participation. The latter has added both dynamism and dynamics to the evolution of regionalism in this region. Yet there was not at present a definite and shared regional identity in East Asia.

The research findings are expected to be published in an edited volume in 2012.



# The global economy from 2015 to 2030

The western world economy is in an even more dangerous condition than in late 2008 after the Lehman Brothers collapse, Professor Robert Wade told an NZAI seminar in September.

During his seminar on the current global crisis and recovery, the London School of Economics professor said policymakers back in 2008 were in a cognitive fog but stumbled on the right recipe involving fiscal and monetary stimulus. Now, they confidently prescribe the wrong solution of austerity, or “fiscal consolidation”.

Basing their confidence on pre-Keynesian economics, policymakers ignore empirical evidence of the damaging effects of fiscal austerity when the growth rate is very low, unemployment is extremely high and private demand remains sluggish. As a result, this fiscal consolidation recipe is likely to keep many western economies in or close to recession for several more years.

In Professor Wade’s opinion, the fundamental cause of the 2008 global crisis was the rising financial fragility, including high global payment imbalances and serious national income inequality. In other words, few microeconomic efforts could possibly have effectively regulated capital flows of the magnitude that accompanied the huge global imbalances and surging income concentration in the 2000s.

Professor Wade explained how international imbalances played an important role in domestic financial instability by credit recycling to those at the local end of the external deficit who spent more than their income. Credit recycling was

largely facilitated by the rising inequality of national income distribution. His data indicates, for example, that the top one percent of income recipients in the United States received more than 70 percent of the total real income increase in the 2000s, while the bottom half of the American income distribution stagnated through the 1990s and 2000s.

The bulk of the population on stagnant or near-stagnant incomes nevertheless increased their consumption and housing investment by borrowing. Meanwhile, high net worth households were investing even more in financial instruments to store and multiply their wealth. This resulted in a seemingly virtuous circle in which the rich put their savings into the financial sector that in turn provided loans to low and middle-income families to buy houses, big-ticket items, private education and the like.

Global surplus countries fuelled the cycle by buying the bonds of mortgage lenders, thus helping to keep the cost of household borrowing low and further inflating the housing bubble.

Yet little attention has been given to the importance of rising global imbalances and income inequality as deep causes of the recent financial crisis, and even less to mechanisms that could curb them. The problem lies in the fact that within the dominant neoclassical paradigm, widening income disparities are seen as the

inevitable consequence of private property rights, and a necessary incentive for entrepreneurship and hence economic growth. Not coincidentally, developed countries where these views are most vigorously asserted demonstrate the highest degrees of income concentration and lowest levels of intergenerational social mobility.

Similarly, in emerging and often export-oriented countries, efforts to restructure growth models seem also to have overlooked the issue of achieving a more equitable distribution of income and social services, which will provide a foundation for building up domestic consumption and developing a denser domestic input-output structure.

Professor Wade concluded that the creation of a more stable global economic architecture may require a paradigm shift. As pointed out by Keynes during the Great Depression, when faced with a deep uncertainty about future income and demand as in a recession, neither households nor firms would spend more than the bare minimum.

It is thus a wrong policy choice to cut wages and public spending. Instead, both the deficit and surplus countries should bring income concentration and global imbalances into the centre of their policy debates on how to avoid repeating financial and economic crises.

## What is the emerging global paradigm?

Visiting Professor Jean-Pierre Lehmann from IMD Business School in Switzerland gave a seminar in August on major transformations in the world over the past decade that are the “most profound in all of its millenniums”.

He summarised these transformations under five simultaneous revolutions, including the Chinese economic revolution, the global market revolution, the information and communications technology (ICT) revolution, the demographic revolution and the climate revolution.

Of these revolutions, the rise of China and the “Global South” has contributed the most to the rapid shifting dynamics of international trade and the conclusion of the 200-year Western dominance of the global economic power structure. If Deng Xiaoping said in 1978 that China could not do without global capitalism, today it is the other way round.

Yet Professor Lehmann also pointed out that the transitions have thus far been chaotic and are headed towards uncertainty. The multiplicity of players in the international arena may enhance,

or incapacitate, the international system. De-globalisation and protectionist sentiments, for example, are arising in Europe in the face of the Eurozone crisis. This situation projects that the failure to adapt, modernise and strengthen global institutions and global governance may prove extremely costly, whether it is world trade, food security or climate change. The social backlash against global liberalisation may also become a key international and domestic uncertainty.

In this uncertain world, however, there are also some reasonable certainties noted by Professor Lehmann. One of them is that the global economic power will continue to gravitate towards Asia. Another is that the world population will further its increase in the South, but decrease in the North.

Additionally, the international community is likely to witness continued rise in food and commodity prices, urban population, middle incomes in emerging economies, consumption expectations of their “aspiring class”, South-South trade ties and increasing Chinese influence.



# Survey points to SME engagement with Asia

- Ben Fath and Antje Fiedler

A survey investigating the growth, export and innovation patterns of small and medium-sized enterprises (SMEs) across New Zealand has yielded more than 1,900 responses.

The survey is part of the Growing New Zealand Businesses project, which is being spearheaded by staff and research students at The University of Auckland Business School and the NZAI with the aim of helping New Zealand SMEs to grow internationally.

Thirty six percent of the final sample (1,762 businesses) were exporting in 2010, up from 31 percent three years ago. Twenty seven percent of the exporting businesses were exporting to Asia, second only to Australia by region. There was a significant difference between businesses with fast turnover growth and no or moderate turnover growth; businesses with fast turnover growth (ten percent or more annualised) tended to sell more to Asia, namely 12.9 percent of their sales on average, while those with less than ten percent annualised turnover growth sold only 6.7 percent of their products and services in Asia on average.

This suggests that solid growth can be, and probably to a degree has to be, achieved by engaging with Asia.

There is also a relationship between Asia engagement and export growth. We divided the

SMEs which engaged with Asia into four groups: low sales (three percent or less), moderate sales (three to ten percent), high sales

(ten to 30 percent) and very high sales in Asia (more than 30 percent).

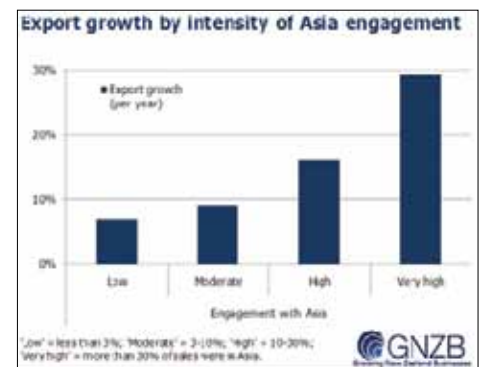
Figure 1 shows annual export growth by the intensity of Asia engagement over the past three years. SMEs with higher sales in Asia had markedly higher export growth, indicating that Asia engagement positively influences export growth.

On the other hand, there was evidence raising concern about the sustainability of this positive relationship. Looking at the innovative activities of Asia-engaged SMEs reveals that only about half of the SMEs with very high sales in Asia reported innovations in the past two years compared to the other three groups in which over 80 percent of the SMEs were innovating.

It seems that many of the fast-growing SMEs with very high sales in Asia tend to focus on today's success, instead of preparing for future opportunities through innovation. At the same time, Asia-engagement seems to be

more challenging for SMEs focusing on future opportunities (innovators).

Together this evidence raises a number of interesting questions that call for further analysis. Why do innovative SMEs not achieve very high levels of business in Asia? What are the characteristics of the innovators with high export growth and very high sales in Asia? And how can we help innovating SMEs to achieve higher export growth and higher sales in Asia? These and related questions will be explored in ongoing research by the NZAI.



## Conference inspires Asia-savvy students

- Jennifer Donnelly

The inaugural Asia-Savvy Conference was the brainchild of a group of students who are passionate about a future where New Zealand values its relationship with Asia.

We organised the conference at the Business School in September to provide a forum for more than 60 delegates to develop their Asia-savviness and hear from an exciting line-up of panellists and guest speakers representing business and political circles.

The speakers, including businessman and benefactor Owen Glenn, Ministry of Foreign Affairs and Trade representative David Walker, immigration specialist David Cooper and MPs Raymond Huo and Melissa Lee, brought a number of varied perspectives to the table.

We received a large body of feedback relating to how seamlessly the conference programme had run. This was indicative of how well the forum related to and engaged with the participants. The Business School, with its multitude of facilities, played a huge part in this. Any potential issues were able to be solved without outside help and the quality of business school resources ensured the delegates were constantly connected.

It was inspiring to see the commitment of a growing group of talented students to being Asia-



savvy citizens. The panel and breakout sessions showed there is an increasing recognition among students, businesses and the wider society that it is in New Zealand's best interests to foster a culture that is aware of Asia's value. While many delegates were interested in offshore opportunities, the majority were dedicated to helping New Zealand businesses become more Asia-savvy.

We are aiming to draw on this success to create an improved event next year and have already received some interest from potential sponsors. There are also plans to branch out beyond an annual event to hold smaller events for students, so watch this space.

Jennifer Donnelly is a Law/Arts student at The University of Auckland and was the project manager of the 2011 Asia-Savvy Conference.

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