The dollar, the deficit and international currency reserves: How New Zealand compares to East Asia
- Dr Natasha Hamilton-Hart

The New Zealand dollar remains stubbornly high and the governor of the Reserve Bank continues to cite the currency’s overvaluation as one of the bank’s two biggest challenges. With recent headlines drawing attention to the loss of value on the part of some emerging market currencies, notably the Indonesian rupiah and the Indian rupee, some may find solace in the strength of the New Zealand dollar. But the high dollar is a not a good thing for New Zealand and the country’s persistent external imbalances invite a comparison with other countries.

The figure here charts the level of the Kiwi dollar in comparison with trends for other regional currencies. Clearly, East Asia is heterogeneous in terms of currency trends, but Australia, New Zealand and Indonesia stand out for significant overall appreciation since 2000, while Hong Kong, Taiwan, Korea, Japan and Malaysia stand out for the very limited appreciation or depreciation of their currencies.

Note: Trends in the real effective exchange rate are based on annualized exchange rate data, calculated on the basis of trade-weighted averages of bilateral exchange adjusted by relative consumer prices. The source data has been re-indexed to 2000 as the base year.

Set against current account balances, the currency trends call out for some explanation. Table 1 shows that much of East Asia remains in export overdrive, running large external surpluses, but some countries in Southeast Asia appear to be moving closer to patterns of external imbalance that characterise the chronic external deficit countries of Australia and New Zealand.

Sources: IMF, World Economic Outlook Database, April 2013. Taiwan data from Statistical Bureau, Republic of China.
Continued from page 1

A final element in the external profiles of these countries is the level of foreign currency reserves held by the central bank or monetary authority. While most of the attention has focused on China’s foreign exchange reserves (standing around US$3.5 trillion in mid-2013), several other countries in the region have accumulated very high reserve holdings. Notably, even when scaled against the size of the economy, New Zealand’s official reserves (around US$17 billion) are very low in comparison with the export-surplus countries of East Asia, as shown in Table 2.

The extraordinary build-up of foreign exchange reserves by countries running large and sustained current account surpluses has led to charges of unfair manipulation of currency values in order to boost exports – a strategy termed “monetary mercantilism” by Joshua Aizenman and Jawoo Lee. By intervening in currency markets to sell local currency and buy reserve currencies, central banks or monetary authorities limit the appreciation of the local currencies. The accumulation of official reserves is a by-product of this strategy. It is impossible to prove that such strategic manipulation is occurring, especially as countries have a strong precautionary or self-insurance motive for accumulating reserves. Despite these caveats, there is a convergence of opinion among many economists that since around 2003 countries with high reserves have “over-accumulated” their reserves. Countries accused of reserve hoarding have frequently argued that reserve accumulation is simply the consequence of running large export surpluses. Although this is hard to refute, in many ways it simply raises another puzzle: why are these countries apparently wedded to running such large external surpluses?

Conversely, the countries with the greatest currency appreciation are also those with the largest deficits. These combinations are counter-intuitive, as one would expect the direction of economic pressure and political logic to move currencies in the opposite direction. In the case of the external deficit countries with significant currency appreciation, one puzzle is the continued willingness of market players to export capital to these countries. Clearly, this is not always the case. Indonesia’s currency weakening since 2012 as its current account has swung into deficit, for example, shows that market forces often exert a corrective pressure. Yet this pressure has been remarkably absent for some of the Asia-Pacific deficit countries. Malaysia’s former Prime Minister Mahathir once claimed that international money markets were racist in that the sins of Western countries such as Australia were allowed to escape the market discipline meted out to developing countries. The more obvious source of confidence in Australia and New Zealand is the ability of the central banks of these countries to signal credible commitment to very constrictive monetary policy. But where does this commitment come from, especially in the context of prolonged deficits and an appreciating currency?

At the most basic level, the willingness and ability to sustain external surpluses or deficits is driven by a political trade-off between interests in exporting and interests in domestic consumption. Export surpluses represent the transfer of consumption abroad, or deferred consumption; deficits, in contrast, represent the prioritisation of immediate consumption. The distributional struggle over consumption can be seen in the way public debate over the New Zealand currency has played out in recent years. There has been a wave of discontent over the high currency on the part of manufacturing sector exporters, who cite the loss of 40,000 manufacturing jobs between 2008 and 2012. Government ministers, in turn, have pointed to the benefits for consumers from a higher dollar.

Why has the trade-off turned out so differently in New Zealand compared to the export surplus countries of East Asia? The latter have long had domestic political economies that privileged exporters over domestic consumers. In New Zealand, longstanding public commitments to the provision of social safety nets in the form of redistributive spending on health, retirement income and unemployment entitlements have reduced the need for private savings. Consumption thus accounts for a much higher share of national income than in the export-surplus economies, and has continued to do so despite persistent and very large current account deficits.

The willingness of foreign investors to continue financing these current account deficits is a condition for currency strength, and investor confidence is very plausibly a consequence of institutionalized central bank independence that has prioritized domestic price stability over other goals. This stance can be traced to the political shift in the 1980s. Justified at the time as technocratically rational depoliticisation of policy, the commitment to very low rates of inflation regardless of economic output actually reflects a distributional bias in macroeconomic policy, as shown by political economist Jonathan Kirshner. In contrast to the policy preference for price stability in the export-driven countries of East Asia, the political ascendance of interests in price stability in countries such as Australia and New Zealand took place in the context of democratic welfare states in which the political weight of consumer interests was much more salient.

The primacy of politics is illustrated by the trajectory of Indonesia since its democratisation after 1998. It is in Indonesia – more than middle-income Malaysia or high-income Singapore – where democratisation has meant that political leaders could not sustain prolonged transfers of consumption abroad through export surpluses. Without the institutionalisation of central bank independence, Indonesia’s switch towards a more consumption-based economy has been more subject to sharp shifts in foreign investor confidence than the consumer economies of Australia and New Zealand. With the decline in commodity prices, the Indonesian currency has lost value dramatically, providing offsetting gains that have been welcomed by major resource sector firms and should help restore balance. The New Zealand Reserve Bank’s institutionalised credibility, in contrast, may be a major factor adding to its challenges.

Table 2

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Note: World Bank data on reserves and GDP. Figures for Taiwan from the Central Bank of China and Statistical Bureau, Republic of China.

Notes
Insights from the Business Engagement with Asia project - D Hugh Whittaker, Antje Fiedler and Ben Fath

During the past decade, the New Zealand Government has successfully negotiated a number of free trade agreements with Asian countries and is actively negotiating others, aiming to stimulate New Zealand trade in the Asia-Pacific region, particularly among SMEs. Despite these efforts, and their widely reported successes, the total value of exports in non-primary goods and services has not changed much in the past decade, in part due to rebalancing away from traditional export markets such as the US and the EU, which stagnated during this time, towards Asia. In other words, while New Zealand exporters gained in trade with Asia, they did not grow their trade with the rest of the world, and export growth was confined largely to the primary sector. Our research provides insights into these global export trends.

As part of the Business Engagement with Asia project conducted by the New Zealand Asia Institute (NZAI) in collaboration with the Mira Szászy Research Centre for Māori and Pacific Economic Development and the University of Auckland Business School (UABS), we investigated how New Zealand businesses responded to opportunities resulting from free trade agreements in terms of firm strategies and innovative efforts. Based on insights from interviews with more than 100 CEOs and senior managers, we presented a paper to the SASE (Society for the Advancement of Socio-Economics) Annual Meeting 2013 in Milan, Italy. Some of the issues raised are as follows.

Interview data revealed New Zealand businesses do indeed increasingly look towards Asia to take advantage of the liberalised trade environment. There are various barriers for businesses to engage successfully with Asia, including specific market knowledge, cultural barriers, a high degree of regulatory uncertainty, intensive price competition and language barriers. In addition, finding a suitable business partner or distributor and establishing good relationships typically require a lot of effort and time, which is for many small businesses a major hurdle for market entry into Asia.

New Zealand businesses have adopted a number of different, but not mutually exclusive, strategies to overcome the above challenges and to productively engage with Asian markets. Most of the productively-engaged businesses have chosen to compete in a quality niche that allows them to mitigate disadvantages of the small scale. Competing in mass markets in Asia is rare. For example, some businesses explicitly targeted customers in a niche segment of the market who had a strong affinity towards Western brands, including expats and affluent Asian customers who had lived overseas for some time and therefore valued Western products of relatively high quality. Serving these customers allowed New Zealand businesses to charge premium prices without adapting the product offering to local customer preferences. At the same time, finding such small pockets in the market that allow for differentiation requires focus and relevant market knowledge, which is not easy to obtain.

To overcome the lack of specific market knowledge and knowledge about local customer needs, businesses often relied on a distributor. Here, it was important to find a suitable business partner, who understood the value offering of the New Zealand business well, and hence was committed to grow the market for the New Zealand business. Establishing a relationship with a trustworthy and competent distributor has been critical for many New Zealand SMEs in entering Asian markets. Importantly, while a deep friendship often evolved between the New Zealand business managers and the Asian partner, this relationship was not a substitute for performance control. To compete successfully in a quality niche, stringent quality control spanning over the whole value chain was often necessary, a lesson that had been learned by some New Zealand businesses in developed Asian markets such as Japan and Korea.

Somewhat worryingly, many businesses appeared to rely on existing capabilities to compete in developing Asian markets, rather than developing new capabilities for a long-term platform. Partly in response, in order to improve the competitiveness of New Zealand businesses in Asia, the New Zealand Government has actively promoted trade with Asia by providing financial and other support such as consultancy to New Zealand businesses. Roughly one quarter of NZTE’s off-shore personnel are now permanently located in China. Empirically and theoretically, this is an interesting development; it seems that the New Zealand Government is joining a growing number of developed and developing countries in turning to industrial policy to achieve competitive success under liberalised trade and FTAs.
A key theme emerging from the symposium was China’s heterogeneity. Providing the first academic keynote, titled “Understanding Consumers and Marketing in China”, Professor Yuhuang Zheng of Tsinghua University highlighted geographic, generational and gender differences in China. Regional differences were also graphically illustrated by Patrick Chovanec, Managing Director and Chief Strategist at Silvercrest Asset Management, in his popular “Nine Nations of China” work.

The first business keynote was given by Mme Mianmian Yang, former president of Haier, and responsible for much of Haier’s strategic innovation and global expansion. She discussed how their platform not only facilitates the establishment of micro-companies by former employees, but offers distribution and channel services for other firms, including appliance firms seeking to distribute in the Chinese market.

The symposium highlighted additional means for New Zealand firms seeking to distribute products in China. Mark Lawley, General Manager of International Business at New Zealand Post, introduced us to how the online B2C site Ule New Zealand Mall has enabled more than 20 New Zealand firms to sell products directly to Chinese consumers. The website, a joint venture between China Post and Tom Group, allows New Zealand firms to list their products in Chinese and allows Chinese consumers to order and pay online in Chinese currency, with the New Zealand firm then mailing the parcel to China.

Alex Worker, Director of the Marianas Group, demonstrated how through providing an end-to-end supply chain that guarantees quality, they are becoming “trusted NZ storytellers” for a portfolio of high-end Kiwi brands and products in North and Southwest China.

Professor Marshall Meyer, of the Wharton School, provoked the audience with the second academic keynote, “Entry into China: Do Smaller Firms do Better and Why?” He showed results challenging the received wisdom that big firms do better, indicating that this may be due to China’s hyper-competitive and fragmented market structure - driven by its culture and history. The implication? Firms may require innovative and potentially uncomfortable strategies and organisational designs.

Another key symposium theme was collaboration. Richard Jones (Poutama Trust) “The Taniwha and the Dragon” reviewed how Miraka, Maori Red Meat Group, Miere (honey) Coalition, and an Indigenous NZ Cuisine cluster had benefitted from “collaborating onshore to compete offshore”. In addition, Matt Crawford (Zespri), pointing out the Chinese consumer’s increasing demand for premium products and an “obsession” with food safety and health, illustrated an example of co-creating brand value with stakeholders - Zespri’s partnership with China’s Ministry of Health, the Chinese Nutrition Society, the CCDC (Children Foundation) and the Formosa Cancer Foundation, to create the Rainbow 5-A-Day programme.

Copies of the presentations are available on-line at the New Zealand China Trade Association website.
Burma/Myanmar, China, and India

Burma gained independence from Britain, outside the Commonwealth, in January 1948. That meant, of course, that it had to conduct its own foreign policy. The new government, insistent on a “union”, faced domestic challenges from its own “minorities”. Its foreign policy had to deal with the spread of the Cold War to Asia. And though geographical factors can be modified by human action, it had to face the fact that, unlike Southeast Asian states, it had frontiers with both the largest states, India and China.

In the early 1950s India pursued Nehru’s policy of “non-alignment”. China’s initial stance, sharpened by the Korean War, shifted towards a policy of co-existence, enunciated in the 1954 agreement with India over Tibet as the “five principles”. Those were endorsed at the Afro-Asian conference at Bandung in 1955, where Zhou Enlai’s diplomacy outshone Nehru’s. The principles suited Burma. Under Nu, its prime minister, it stressed its neutrality. Indeed it played a significant role in international affairs, and Thant, Nu’s aide, later became UN Secretary-General. But Burma failed to deal successfully with its domestic affairs, and not only the “minorities” - the ruling AFPFL party fell apart over the priorities and patronage involved in “development”.

A “caretaker” government under the military leader Ne Win was called in on a temporary basis. It concluded a long-prepared negotiation with China over parts of the frontier left unsettled by the British, and also a non-aggression treaty, sprung on the Burmese delegation by the Chinese. It is generally thought that China made these arrangements because of its increasingly bitter frontier disputes with India: it would show India that China was reasonable, but also ensure that India would get no help from Burma. The disputes climaxed with India’s military defeat in November 1962. The following year, indeed, the Indian Navy was anxious lest China set up a naval base in the Cocos Islands, a Burmese territory. But that was unlikely.

Ne Win, who had now taken control on a permanent basis, pursued a left-wing but non-Communist domestic policy and a neutralist foreign policy. That was satisfactory to China, which found Burma a useful contact with the outer world when other contacts were limited, and which could present its relations with that country as a model of Peking-style co-existence.

The Cultural Revolution changed the relationship. In mid-1967 a demonstration in Rangoon/Yangon celebrating China’s explosion of a hydrogen bomb was followed by a dispute over the wearing of Mao buttons by Chinese schoolchildren, Burmese attacks on the Chinese embassy and Chinatown, and those by denunciations and threats in Beijing. Recent research points to the boldness with which Ne Win stood up to the ideologues in Beijing, and suggests that he was thereby hoping to win nationalist support at home for his still shaky regime. Only gradually, and perhaps never completely, did relations work their way back towards the Bandung model.

With the PRC’s compromise with the US after 1972, and its normalisation of relations with other states, it found Burma less useful. The Dengist reforms then took it down a new development path, while Burma stuck to its failed experiment in “socialism”. Political events, however, brought the two states together again, the suppression of the democracy movement in Burma in 1988-1990, the Tiananmen massacre of 1989, and the international disapproval they both evoked. The SLORC seemed indeed to move much closer to China than any previous Burmese government, even though it sought to evoke a rather spurious version of Burma’s traditions. But it did in fact seek to improve ties with other governments in the region, including its other great neighbour.

Under Mrs Gandhi and her son, India gave up Nehru’s grand plans for world peace and concentrated on the sub-continent, one object being to erode the growing influence of China in such states as Nepal. As had the British, the Indians recognised the strategic importance of Burma/Myanmar. As a result its military leaders did not have to depend only on China for their acquisition of military hardware, nor indeed investment in energy and minerals and infrastructural development. In 1993 the Indian government conferred the Nehru Award for International Understanding on Aung San Suu Kyi. In 1995 its army and the Burmese Tatmadaw co-operated against border insurgencies. China’s investment would secure new outlets for its western provinces and a route for its oil supplies alternative to the Straits of Melaka. India gained an outlet for its landlocked easternmost states.

Nevertheless the relationship between Myanmar and China seemed so close to President Thein Sein’s decision to suspend the Myitsone dam building in 2010 as “against the will of the people” came as a surprise, and the political changes in Myanmar that have followed seemed to confirm the view some historians have taken that Burmese politics have always been unpredictable. But another argument has some value. China’s investment in Burma’s resources in the long term and indeed in its location has made it anxious to ensure Burma’s “stability”. In 2004, for example, Wen Jiabao had expressed China’s hope that Myanmar would “accelerate the process of political reconciliation and democratisation in a real sense and embark on the road to unity, stability, peace and development at an early date”. Perhaps you could say that China did not want another North Korea.
At a joint seminar on 16 April sponsored by the School of Asian Studies and the Korea Studies Centre in the New Zealand Asia Institute, Dr YuKyung Lee of Kookje College, formally dressed in black with a necklace of discreetly coloured beads, led an audience of staff and students in a fascinating photo-filled exploration of the darker side of black, in the context of the Goth fashion among Korean youth bands. Her opening remarks set the context in two ways; firstly, the emergence of the term Korean Wave (hanliu/hallyu) in the Chinese media in February 2000, after the appearance of the Korean boy band H.O.T. in Beijing, following on from the success of Korean TV dramas in China since 1997, and the subsequent success of K-pop globally; and secondly, the origins and earlier meanings of the related terms Goth and Gothic. Although the term Gothic has had extensive range of use, including as a term of negative critique of the medieval period for many Renaissance figures and in literary criticism for Gothic novels, the re-emergence of Goth in relation to gothic rock came with the post-punk British band Bauhaus in 1978, with a focus on darkness, death and fetishism. Further reinforcement came from the Whitby Gothic Weekend, first held in 1994, but at the moment when Korean bands began to explore the Goth image, its peak in popular culture had seemed to have passed in the West, although “haute Goth” had appeared in high fashion work by Alexander McQueen and others. With the background set, Dr Lee then explored numerous photographic images from ten Korean girl bands and eight boy bands active since the turn of the century, including Wonder Girls, 2NE1 and Shinee. Most of the artists were clothed starkly in black, but often with complex accessories including studs and netting, while areas of body flesh might or might not be exposed, particularly the arms. Red was also used on occasion, as part of make-up and occasionally in red clothes modelled on previous black styles. Her analysis of this Goth fashion drew on five themes, a dark aesthetic, the place of eroticism and in particular the femme fatale, the use of clothing to express defiance and resistance, the reversal or ambiguity of gender identity, and the cultivation of mystery. Her presentation provoked a lively range of questions, exploring the image of blackness, the apparent lack of any indigenous Korean content to the Goth style, and the issue of the appropriation of the term gothic in such a specific direction.
Embracing Asia: Building New Zealand

On 31 August, NZAI hosted its third student-led conference, Asia Savvy. About 90 participants from across New Zealand participated in the one-day forum, which featured ten invited speakers. They were Mervin Singham from the NZ Ethnic Office, Patrick English from the NZ China Council, Dr Lisbeth Jacobs from The ICEHOUSE, Elizabeth Chan from the UN Youth NZ, former NZ Minister of Foreign Affairs and Trade and Labour MP Phil Goff, Al Mono from Broadfield Advisory Ltd, Cameron Zhang from NZ New Milk Ltd, former NZ Race Relations Conciliator and Labour MP Dr Rajen Prasad, Ethnic Peoples Advisory Panel Member for the Auckland Council Bevan Chuang, and Dr Melinda Webber from the University of Auckland.

Mervin Singham focused his keynote speech on what New Zealand might learn from Asia's rapid growth and accompanying challenges. According to him, the main forces driving Asia's success include vision, ambition, education, family and leadership. He illustrated his observations with the story of industrialist Konosuke Matsuishi, who built and sustained an electronic giant with the insight that business companies should endeavour to help lead society to prosperity rather than strive solely for their own profits and expansion.

Drawing on his extensive working experience in Asia, Patrick English noted that "Asia savvy" meant knowing "others" and "yourself", and adapting the two effectively and sensibly. He cited Fonterra's recent milk powder scare in China as a case in point. Specifically, when it comes to food safety, New Zealand has a "low-regulation, but high-trust" culture, while the reverse is true in Asia. Thus to fare well in Asian markets, New Zealand companies and the government will need to work together as partners. Dr Lisbeth Jacobs continued the discussion by comparing different philosophical and cultural foundations of the West and East reflected in their management styles. One important tip from her for creating successful New Zealand solo or joint ventures in Asia is to balance "honesty" and "courtesy", "direct" and "indirect", "empowering" and "directive" in managing and motivating their local employees. Elizabeth Chan complemented their remarks by pointing out that Kiwis could in fact begin their journey towards becoming "Asia savvy" at home in New Zealand. She encouraged the conference participants to take advantage of local Asia-related institutions and programmes from some which she had benefited enormously both in terms of knowledge on Asia and employment.

In his speech, Phil Goff recalled the moment when he signed the NZ-China Free Trade Agreement with his Chinese counterpart in Beijing in 2008. It was the first and remains the only FTA China has entered with a Western country. The value of New Zealand export to China has since more than doubled. Yet repeated incidents like milk power contamination, or tons of meat stranded at Chinese docks because of a paperwork mix-up, or double invoicing for kiwifruit exports to China, all call for urgent reconsideration of New Zealand fragmented approach to and "cutting-cost" mentality of doing business with Asia. Al Mono also advised against New Zealand companies trying for quick success, or instant profits, in Asian markets. In his opinion, multiple as Asia is, its businesses seem to share one thing in common, that is, taking long-term views of growth. In other words, Asian business people are rarely heard talking about "quarterly" or even yearly returns. Yet New Zealand and Western ways and "Asian ways" are not totally incompatible, nor do they have to completely succumb to each other. Kiwi and Asian companies, argued Cameron Zhang, should instead work on the overlapping parts in their respective approaches to business. These may include "clear" but "adaptable" rules and boundaries, "good working relations" for doing business together, "contracts" with "after-signature" negotiations permitted, and "yes" to further discounts but "need to be paid up front" for a positive "cash flow".

Then what is the New Zealand way, or even New Zealander? Dr Rajen Prasad answered this question from the perspective of identity formation. While "I am who I am", one's identity does evolve and is context-sensitive. Māori, for example, began to define themselves when they were to restate their relationship with the mainstream society. The same should apply to other ethnic minority groups in New Zealand. Today, through education and participation in communities, migrants manage to use what they bring with their identity to come to the common good as New Zealanders. This "Kiwi" identity is what makes culturally diverse New Zealanders confident to live and work together. From her own experience, Bevan Chuang, a 1.5 generation Asian in New Zealand, believed that one's identity boils down to what, why and how s/he fits the best in his/her social-economic environment. A pro-active approach and positive attitude may thus help migrants from Asia find their places in their new home country in an efficient manner.

For her research on the content and consequences of racial-ethnic identity for adolescents at high school, Dr Melinda Webber defines "racial identity" as a sense of belonging shaped by cultural activities, values and language use. Her survey in five multi-ethnic urban high schools in New Zealand suggests that schools are inherently social places for adolescents to pursue social and academic goals in the presence of many others. Adolescents' participation and experiences of success in different domains enable them to build new friendships and talents within and without the school context. As such, they adopt multiple identities to represent themselves. Such adolescents can strategically emphasise identities that are valued, and de-emphasise identities that are not, in a social context. These "multiple identities" appear to effectively protect their psychological wellbeing.

The New Zealand Asia Institute would like to acknowledge again the generous support of the ASB Bank, the Ethnic Affairs Office, the Confucius Institute, Printing.com, Moustache Milk & Cookie Bar, and Wow Sushi.
China’s rise, America’s pivot and Japan’s choice

The New Zealand Asia Institute, in association with the Japanese Consulate-General in Auckland, hosted a public lecture on 10 June by visiting Professor Noboru Yamaguchi from the National Defence Academy of Japan. The guest speaker was a retired Japan Ground Self-Defence Force Lieutenant General and was on an Oceania lecture tour funded by the Japan Foundation.

Professor Yamaguchi observed that the security landscape in the Asia-Pacific region will in the long run be determined by two significant actors, the People’s Republic of China and the United States. China’s rise has been and will be an extremely prominent factor. Yet how fast and in which direction China will grow remains an open question. The United States meanwhile attempts to stay involved in the Asia-Pacific by “rebalancing” towards the region. In this context, if China’s “rise” presents a peaceful/co-operative to assertive/aggressive continuum and the prospects of US “pivot” range from weak/isolation to robust, Japan may be faced with one of four possible scenarios of regional order. These are G2+/status quo, Sino-centric, Chinese hegemony, or US-China confrontation. Under any of the scenarios, Japan will likely stay allied with the United States. But what position will it take towards China?

Professor Yamaguchi acknowledged the increasing level of anxiety in Japan over China’s growing defence budget, its impact on the regional balance of power and the resultant escalation of rivalry between the two countries for strategic supremacy in Asia. Yet he also candidly shared his opinion that should Japan have a “friendly relationship” with China, it might not feel necessary to keep comparing its “capabilities” with those of its rising neighbour’s. He encouraged Japanese security strategists to, first, scrutinise, without any bias, both the negative and positive impacts of China’s rise; second, to have a clear picture of the rebalancing by the United States and the roles expected of American allies in the enforcement of this policy; and third, to develop possible courses of action and policies for Japan to better serve the region’s peace and stability.

About the heightening tensions over the age-old Senkaku/Diaoyu dispute, Professor Yamaguchi stated that he felt less concerned today than he used to be about a potential incident taking place between Chinese and Japanese law enforcement vessels near the Islands because of improved administration and restraint on both sides. He was, however, extremely worried about the increasing encounters among the Chinese, Japanese and American navies in the East China Sea. He stressed the urgency for all sides to develop “maritime crisis management mechanisms” to reduce risks of accidental or unintended military skirmishes.

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