



Effective Strategies for New Zealand Firms in China

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1.0 Introduction

It takes a long time to make an oil tanker change course. But it can be done.

The renaissance of the Chinese civilization is a colossal example of an oil tanker having changed course and avoided the cliffs. This renaissance began with the defeat of China at the hand of Japan in 1884/5. From that humiliating defeat, the aging Qing Dynasty, and with it thousands of years of dynasties, was doomed. Through revolutions and wars, uprisings and civil wars, natural and man-made disasters, China struggled for almost a full century to avoid elimination, like other great civilizations – the Egyptians, the Romans, the Mayas, to name just three - had before.

But China has made it. Nobody with open eyes and an open mind, who has known China over the last quarter century, can be in any doubt that China is reclaiming its role as one of the leading civilizations in the world.

The key to living in one world with China is a better and different understanding of what is the heart and soul of the developments that we observe in China. No word expresses this more clearly than Deng Xiaoping's *gaige, kaifang*.

Like the American Declaration of Independence, like the "liberté, égalité, fraternité" of the French Revolution, like the "glasnost" and "perestroika" of the end of the Soviet Union, China's *gaige, kaifang* also encapsulates in a few words the essence of a historical process.

So what does *gaige, kaifang* actually mean? The standard translation into English is "economic reform and opening up". This, at first glance, does not appear to suggest more than an enlightened economic reform (*gaige*) programme, with the obvious component of an economy ready to trade with the rest of the world.

Indeed, in the west the Deng reforms are still seen mainly in economic terms. Discussions are characterised by a variety of responses including economic fear ("We cannot compete"), wide-eyed optimism ("Don't worry, we are investing in China"), dismissive predictions ("Full speed ahead to another Asian meltdown"), cultural fear ("We will be subsumed by the Chinese juggernaut"), military lunacy ("How do we fight China?"), and racism ("We are selling our souls to the devil"). All of which does no more than demonstrate that the west completely lacks an

intellectual framework for dealing with the global consequences of the re-emergence of China.

However, this narrow interpretation falls well short of what gaige, kaifang means. For the Chinese, the most important part of gaige, kaifang is the second part, the opening up. This becomes immediately clear, when one realises that kaifang is not the opening up like the opening of a drawer, or a door or a window, but it is like the opening up of a flower. China – this is the unmistakable message of gaige, kaifang, - has unilaterally decided and declared that it is back to grow, prosper, blossom and shine in the world, as it had done for many centuries, before it lost the leading role to the Europeans.

No helpless prattle about “the Chinese juggernaut”, or the “Chinese devil” will change the reality that China will change, and has already begun to change the world. And no bursting real estate bubble or banking scandal or corruption affair will stop the energy that China will impart on the world.

It might be helpful to recall that this influence of a dominating power is by no means new or unique. The dominance of the United States (US) with its combination of size, resources, political and administrative unity and economic dynamism is comparable. It is worth remembering that neither the Great Depression, nor more recent international policy blunders have led to a collapse of the US.

The issue is not whether or not China is a threat or an opportunity. In Peter Drucker’s words: “Mainland China, and this means particularly the coastal areas, is thus both the most promising and the most dangerous part of the present world economy”.¹ The issue is whether others are prepared to accept China – and perhaps not far behind it India – as a major player at the table, and to which extent countries, like New Zealand, are preparing to live in the changed and changing international environment.

¹ Drucker P.F. and Nakauchi, I. (1995), *Asia: A dialogue between Peter Drucker and Iso Nakauchi*, Tokyo, p.14.

⁵ Press release by the New Zealand government, 11 November 2001, www.scoop.co.nz/stories/PA0111/S00202.htm [accessed 11 October 2005].

2.0 Economic Linkages between New Zealand and China

Since the early 1990s, China and New Zealand have witnessed an encouraging development in bilateral economic relations. China has emerged as a major trading partner of New Zealand. At the same time, New Zealand became the first nation to reach an agreement on China's accession to the WTO as well as the first country to grant China market economy status.⁵ New Zealand is also one of the first developed countries to start negotiations for a Free Trade Agreement (FTA) with China. This section focuses on recent trends in key dimensions of this relationship. In particular we discuss bilateral visible trade between the two countries, trade in services with a focus on tourism and education, foreign direct investment (FDI) and immigration.

2.1 Bilateral Trade

In 2003, China became New Zealand's fourth largest trading partner in both exports and imports, for the first time overtaking the UK - historically an important trading partner (Figures 1 and 2).

Figure 1: New Zealand Top 10 Export Destinations (2003-04)

Rank	Country	2003 NZ\$ Million	2004 NZ\$ Million	% Change
1	Australia	6,119	6,403	4.6
2	United States of America	4,119	4,428	7.5
3	Japan	3,123	3,444	10.3
4	People's Republic of China	1,376	1,744	26.7
5	United Kingdom	1,363	1,457	6.9
6	Republic of Korea	993	1,167	17.5
7	Germany	746	727	-2.5
8	Taiwan	626	704	12.5
9	Hong Kong (SAR)	559	560	0.2
10	Malaysia	545	523	-4.2

Source: Statistics New Zealand,
[www2.stats.govt.nz/domino/external/pasfull/pasfull.nsf/0/4c2567ef00247c6acc256fa30007b910/\\$FILE/Alltbls.xls](http://www2.stats.govt.nz/domino/external/pasfull/pasfull.nsf/0/4c2567ef00247c6acc256fa30007b910/$FILE/Alltbls.xls), [accessed 11 October 2005].

Figure 2: New Zealand Top 10 Imports by Country of Origin (2003-04)

Rank	Country	2003 NZ\$ Million	2004 NZ\$ Million	% Change
1	Australia	7,175	7,816	8.9
2	United States of America	3,722	3,917	5.2
3	Japan	3,718	3,896	4.8
4	People's Republic of China	2,848	3,377	18.6
5	Germany	1,683	1,817	8.0
6	United Kingdom	1,055	1,173	11.2
7	France	895	1,038	16.0
8	Republic of Korea	849	993	17.0
9	Singapore	630	973	54.5
10	Malaysia	725	843	16.3

Source: Statistics New Zealand,
[www2.stats.govt.nz/domino/external/pasfull/pasfull.nsf/0/4c2567ef00247c6acc256f9700061a6b/\\$FILE/Alltabls.xls](http://www2.stats.govt.nz/domino/external/pasfull/pasfull.nsf/0/4c2567ef00247c6acc256f9700061a6b/$FILE/Alltabls.xls) [accessed 11 October 2005].

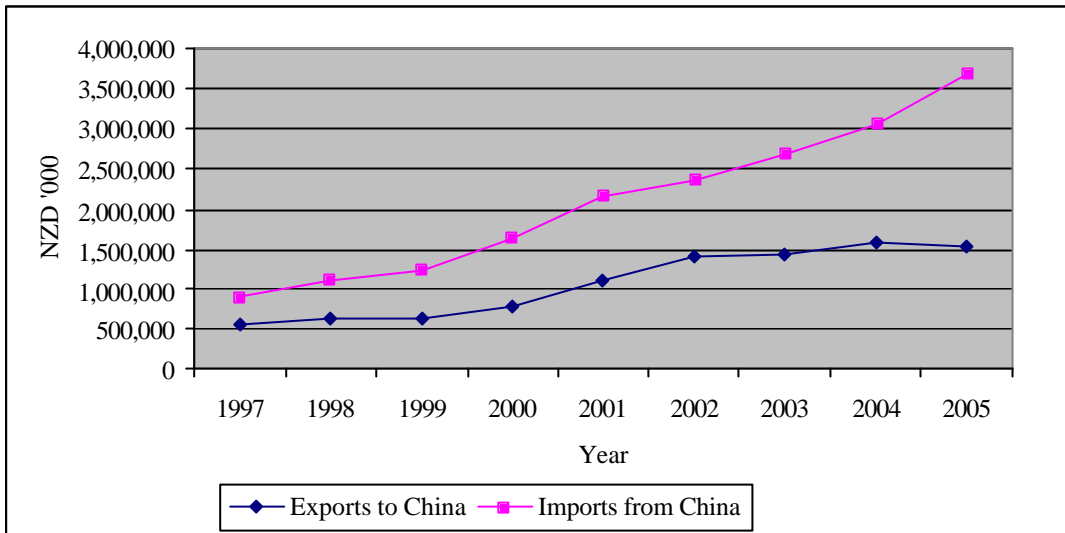
Although at present, the Chinese market is much smaller than the Australian, United States and Japanese markets, the growth in exports to China has been phenomenal. Between 1990 and 2004, bilateral trade with China grew at an average annual growth rate of 98.5 percent, compared to 9.1 and 5.1 percent for Australia and the US respectively. Exports to China grew at an average growth rate of 72 percent, compared to 7.9 percent for Australia and 8.5 percent for the US. Imports, on the other hand, grew faster than exports at 119.5 percent per annum for China, while imports from Australia grew at 10.1 percent and the US, a meager 2.8 percent.

In 2004, bilateral trade reached an all time high of NZ\$ 5.12 billion or a 21.2 percent increase compared to 2003. New Zealand exports to China totalled NZ\$ 1.744 billion (+26.7 percent), while imports from China reached NZ\$ 3.38 billion (+18.6 percent). China is New Zealand's fastest growing trading partner.

The statistics also show that New Zealand has a trade deficit with China. In 2003, for example, imports exceeded exports by about NZ\$ 2.13 billion (see Figure 3). This is mainly due to increasing imports in the last few years while exports have been stagnating. However, over time it is likely that bilateral trade will continue

to grow in a more balanced fashion as cooperation between the two countries strengthens.

Figure 3: New Zealand Trade Deficit with China



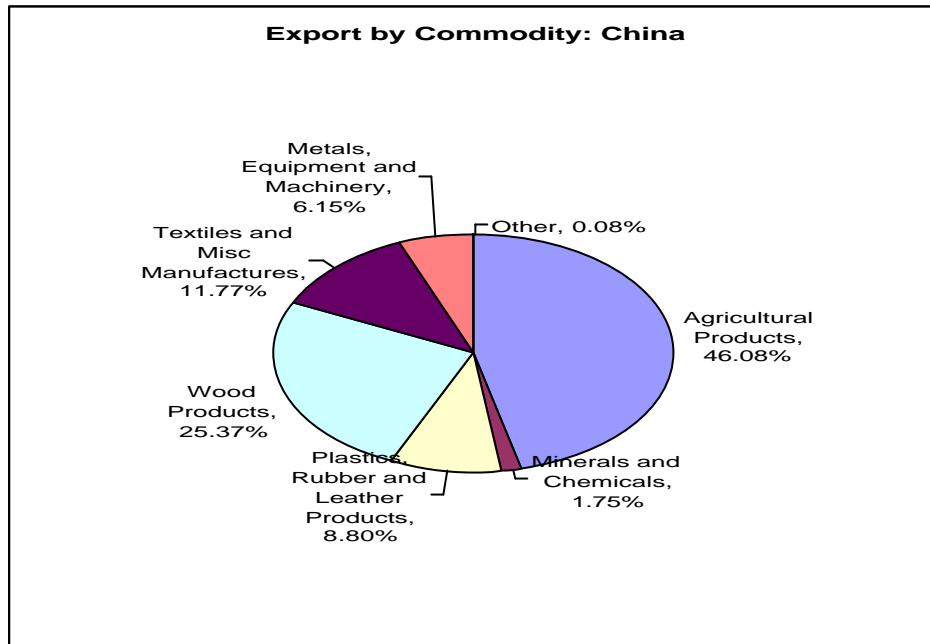
Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/DDDA8D8E-630E-49DA-8CFB-FF8FC7B7C20E/0/Section4.xls [accessed 11 October 2005].

Trade Structure

New Zealand's exports to China mainly comprise of agricultural products (46.1 percent). More than 60 percent of this is dairy products. Other major product categories include wood products, textiles, and miscellaneous manufactures. For comparison, New Zealand's exports to Australia are largely in the categories of metals, equipment and machinery, although agricultural products still account for more than a fifth of its exports (see Figures 4 and 5).

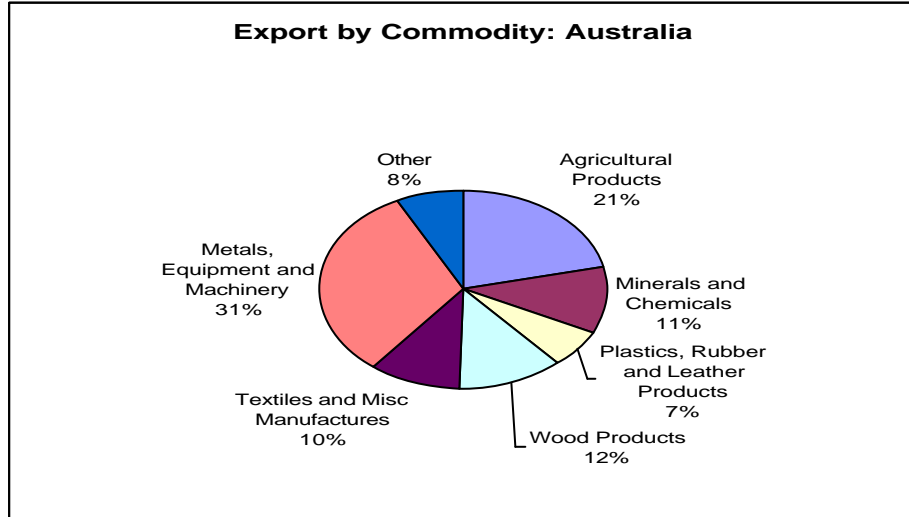
At a more disaggregated level, milk, wool, and timber logs remain the key exports to China (Figure 6). Exports of dairy products and live cattle have soared due to huge demand in China's consumer market. Special, unique events also play a role: in 2003, due to the outbreak of SARS (Severe Acute Respiratory Syndrome), the Iraqi War and the devaluation of the US Dollar, the New Zealand dollar witnessed a continued rise, resulting in a drastic drop in exports. However, dairy product exports to China still surpassed the NZ\$300 million mark or a 49 percent growth in 2003. Wool exports to China, on the other hand, dropped by 32 percent.

Figure 4: New Zealand Exports to China by Commodity, 2003



Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9E5D4711-0F89-4A6A-B79F-48449193ED44/0/Section3.xls [accessed 11 October 2005].

Figure 5: New Zealand Exports to Australia by Commodity, 2003



Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9E5D4711-0F89-4A6A-B79F-48449193ED44/0/Section3.xls [accessed 11 October 2005].

Figure 6: Top 10 New Zealand Exports to China 2001-2003 (NZ\$ million)

Description	2001	2002	2003	% Change 01-03	% of Total Exports 2003
Milk	161.4	209.4	267.1	+65.4	19.5
Wool	209.3	172.9	142.2	-32.1	10.4
Log	85.5	130.2	120.3	+40.6	8.8
Guts, bladders etc	51.6	58.9	73.6	+42.7	5.4
Sheep skins, raw	65.6	47.5	62.6	-4.7	4.6
Sheep meat	42.6	48.6	50.1	+17.5	3.6
Animal fat	27.8	37.4	49.6	+78.4	3.6
Chemical wood pulp	90.2	59.6	48.0	-46.8	3.5
Sawn timber	33.9	47.4	38.2	+12.8	2.8
Frozen fish	35.8	40.9	34.6	-3.6	2.5

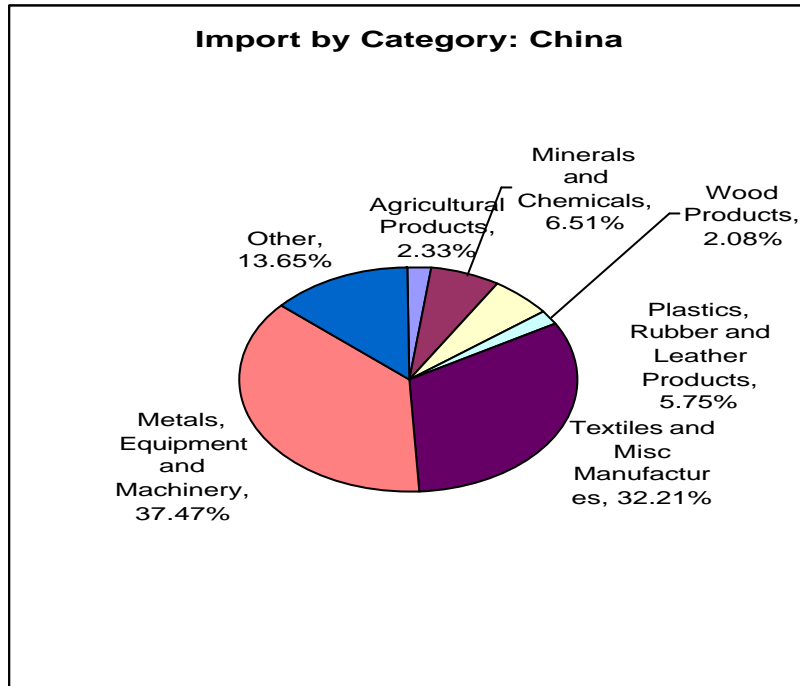
Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9CBB2DF0-CD28-42F0-BF31-BC4637077828/0/Section5.xls [accessed 11 October 2005].

New Zealand imports from China are mainly metals, equipment and machinery, textiles and miscellaneous manufactures. These categories together comprise more than 70 percent of New Zealand's total imports from China (Figure 7). For comparison data for imports from Australia are given in Figure 8.

At a more detailed level, Figure 9 shows that computers and transmission apparatus saw phenomenal growth of nearly 400 percent, as China strengthened its position as the world's major producer in these categories.

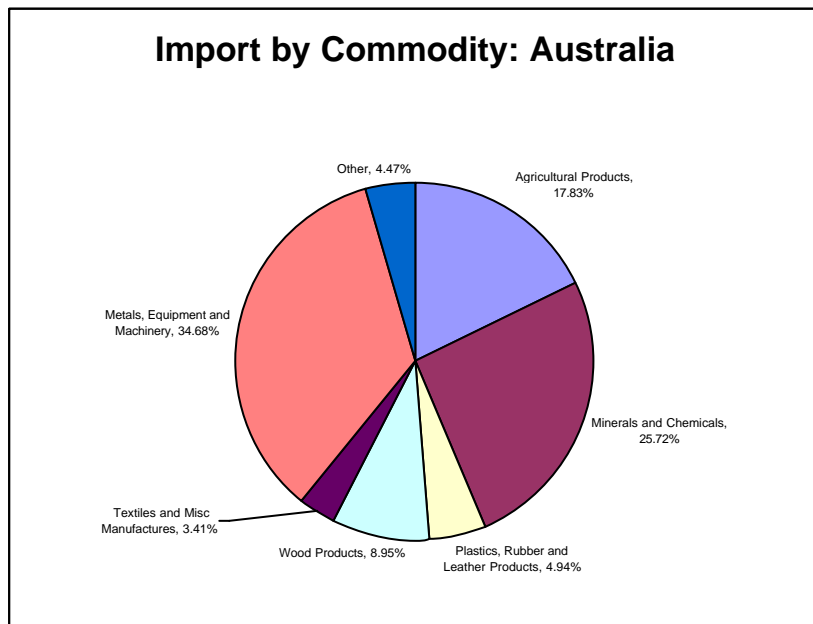
When we consider the import and export structure in the New Zealand–China relationship, it would appear that the trade relationship between the two countries is complementary as the two largest categories of exports and imports are markedly different. Assuming that this specialisation reflects relative comparative advantages, such a structure could and should result in a win-win trade relationship for both countries.

Figure 7: New Zealand Imports from China by Category, 2003



Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9CBB2DF0-CD28-42F0-BF31-BC4637077828/0/Section5.xls [accessed 11 October 2005].

Figure 8: New Zealand Imports from Australia by Commodity, 2003



Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9CBB2DF0-CD28-42F0-BF31-BC4637077828/0/Section5.xls [accessed 11 October 2005].

Figure 9: Top 10 New Zealand Imports from China 2001-2003 (NZ\$ millions)

Description	2001	2002	2003	% Change 01-03	% of Total Exports 2003
Computers	89.5	132.5	178.3	+99.2	6.3
Apparel, ladies	82.1	95.3	100.3	+22.2	3.5
Toys	65.4	71.5	73.4	+12.4	2.6
Knitted apparel, jerseys etc	83.9	74.0	71.4	-14.9	2.5
Footwear	58.0	69.4	69.7	+16.7	2.4
Knitted apparel, T-shirts etc.	62.0	64.4	63.8	+2.9	2.2
Transmission apparatus	12.3	29.8	61.1	+395.3	2.1
Electric equipment	47.1	59.0	60.3	+28.1	2.1
Plastics articles	51.7	53.4	54.0	+4.5	1.9
Apparel, men's	57.8	56.1	50.7	-12.3	1.8

Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/9CBB2DF0-CD28-42F0-BF31-BC4637077828/0/Section5.xls [accessed 11 October 2005].

Trade in Services

While New Zealand's total exports grew at an average rate of 7 percent over the last five years, exports of services are developing more rapidly. Between 1999 and 2004 exports in the travel industry witnessed a 17.4 percent increase per annum. Among the major industries in the travel sector were education (46 percent average annual growth) and personal travel (18.8 percent). On the other hand, imports of services demonstrate a less remarkable annual growth rate of 3.9 percent, with transportation, travel, and business services being the key areas. For New Zealand, exports of services to China far surpass imports from it.

The most recent data suggests that tourism and education (i.e. visitors to New Zealand and international fee-paying students) contributed NZ\$6.1 billion and NZ\$1.4 billion (up 3.0 percent and 10.8 percent) respectively to trade in services. A significant proportion of the visitors and students are from China. Specialist consultancy is another theme in Sino-New Zealand bilateral trade in services. As we shall see below from our research at the company level, this is an important and very positive characteristic for New Zealand's economic relationship with China.

Tourism

Tourism is the dominating category under trade in services for both New Zealand and China. Robust expansion in tourism has taken place between the two countries. Since 1990, some 330,000 citizens from China visited New Zealand. Over the same period, China also received about 300,000 visits from New Zealanders.

Visits by New Zealanders to China have doubled in the period between 1993 and 2001. Of the 55 million visitors to China, New Zealanders, however, make up only about 0.4 percent (see Figure 10). Except for 1997, the year of the Asian financial crisis, steady growth per annum has been seen in New Zealand visitors to China. However, the share of New Zealand visitors to China as a percentage of the total number of visitors is essentially unchanged.

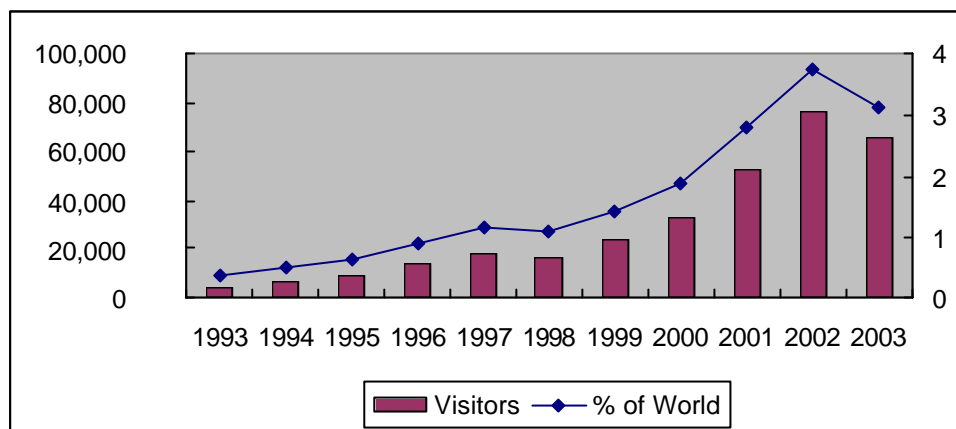
Figure 10: New Zealand Visitors to China

	New Zealanders	World Total	Share
1993	19,000	4,655,900	0.41%
1994	20,400	5,182,100	0.39%
1995	22,900	5,182,100	0.44%
1996	30,200	6,744,300	0.45%
1997	28,300	7,428,000	0.38%
1998	30,000	7,107,700	0.42%
1999	31,400	8,432,300	0.37%
2000	37,600	10,160,400	0.37%
2001	44,400	11,226,400	0.40%

Source: www.tourismchina-ca.com/statistics.htm [accessed 11 October 2005].

Owing to the growing purchasing power of the Chinese and the liberalisation of international travel regulations in 1999, the last decade saw a remarkable increase per annum of China's visitors to New Zealand. From a mere 600 tourists from China visiting New Zealand in 1983, figures have grown exponentially to nearly 84,000 in 2005. Visitors from China are beginning to make a sizeable proportion of the total tourist inflow to New Zealand (Figure 11). Note that the share of Chinese visitors to New Zealand as a percentage of the total number of visitors has grown ten-fold in the decade from 1994 to 2003. This, as we have just seen above, is not reflected in China-bound visits from New Zealanders.

Figure 11: China's Visitors to New Zealand, 1993-2003



Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/7FB1556C-96A5-401A-8391-0DA22311D981/0/tsa2004201.xls [accessed 11 October 2005].

Education

Before the late 1980s, education for international students in New Zealand was on a "less than full cost-recovery" basis. Empowered by the 1989 Education Act, tertiary institutions and schools have gradually started recruiting full international fee-paying students. Since 2000 there has been rapid growth in international student numbers; by the end of 2003, nearly 120,000 international students were studying in New Zealand.

Although student exchange between the two countries started as early as 1974, a dramatic increase was only seen from 2000. By 2003, of these international students in New Zealand about 50 percent came from China (see Figure 12). This was due to the increase in the quota for Chinese students in October 1999 and the signing of the Sino-New Zealand Memorandum of Understanding for cooperation in education in September 2002. China has now overtaken the traditional source countries of international students such as Malaysia, South Korea and Japan. China is already the most important partner across all education sub-sectors of New Zealand, not to mention the future growth potential.

Figure 12: Student Permits and Visas by Nationality, 1999-2004

Nationality	Year Ended December						Percentage Change	
	1999	2000	2001	2002	2003	2004	2002–2003	2003–2004
China, People's Republic of	4,211	10,999	28,614	51,937	61,941	55,942	19.3	-9.7
Korea, Republic of	3,686	6,424	12,133	17,996	19,515	15,207	8.4	-22.1
Japan	3,888	4,258	5,242	5,508	5,525	5,187	0.3	-6.1
United States of America	1,121	1,250	1,440	1,974	2,605	3,034	32.0	16.5
India	233	569	1,699	2,739	3,244	3,015	18.4	-7.1
Thailand	1,808	2,187	2,878	3,035	2,866	2,650	-5.6	-7.5
Taiwan	1,772	2,013	2,313	2,410	2,033	1,859	-15.6	-8.6
Malaysia	1,995	1,615	1,553	1,450	1,556	1,661	7.3	6.7
Hong Kong (SAR)	1,307	1,479	1,626	1,750	1,695	1,598	-3.1	-5.7
Fiji	937	1,114	1,696	1,521	1,417	1,462	-6.8	3.2
Other	8,646	10,478	13,991	15,405	17,221	18,457	11.8	7.2
Total	29,604	42,386	73,185	105,725	119,618	110,072	13.1	-8.0

Note: (a) The data in this table refer to the number of student permits and student visas issued, not the number of individuals granted such permits and visas. It is possible for a person to be granted more than one student permit in a 12 month period.

(b) Figures are subject to revision.

Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/FE40DAE8-8D66-4C85-AC11-02603304E582/0/tsa20041202.xls [accessed 11 October 2005].

Currently no detailed demographic studies are available on students from China in New Zealand. Relevant statistics by the New Zealand Ministry of Education indicate that the biggest group of students is for English language study (ELS), followed by public tertiary institutions. The figures correspond with the general trends in China: at the one end of the spectrum are those students who aim to pursue tertiary qualifications, and on the other, younger applicants who need to start from scratch to better fit into a different culture and education system.

Like everywhere else, the growth in the number of international students is susceptible to changes in economic conditions and in the regulatory framework. For example, the recent strengthening of the New Zealand dollar has caused an effective rise in tuition fees and living expenses. Furthermore, competition from other English speaking countries and the outbreak of SARS may have diverted many Chinese students and their financial supporters away from New Zealand. The tightening of immigration policies in the US, on the other hand, may have diverted many Chinese students to countries like New Zealand.

In 2004, students from China and the world in total declined by 9.7 percent and 8 percent respectively compared to the same period the previous year. Unfavorable media reports in China (such as the “high-profile collapses” of private New Zealand schools like *Modern Age* and *Carich* in 2003), pressures of studying and living in a different culture and student crimes are likely to have worried not only Chinese parents, but also Chinese authorities.

The New Zealand government seems determined to take measures to further attract Chinese students. In September 2003 for instance, Education Minister Trevor Mallard visited China to reassure the Chinese of the position of New Zealand as a leading education provider for international students.

2.2 Foreign Direct Investment

Foreign Direct Investment (FDI) to China started in earnest in 1992, after the famous Southern Tour by the architect of China’s economic reforms, Deng Xiaoping. Since then China has become the largest recipient of FDI among developing countries (see Figure 13).

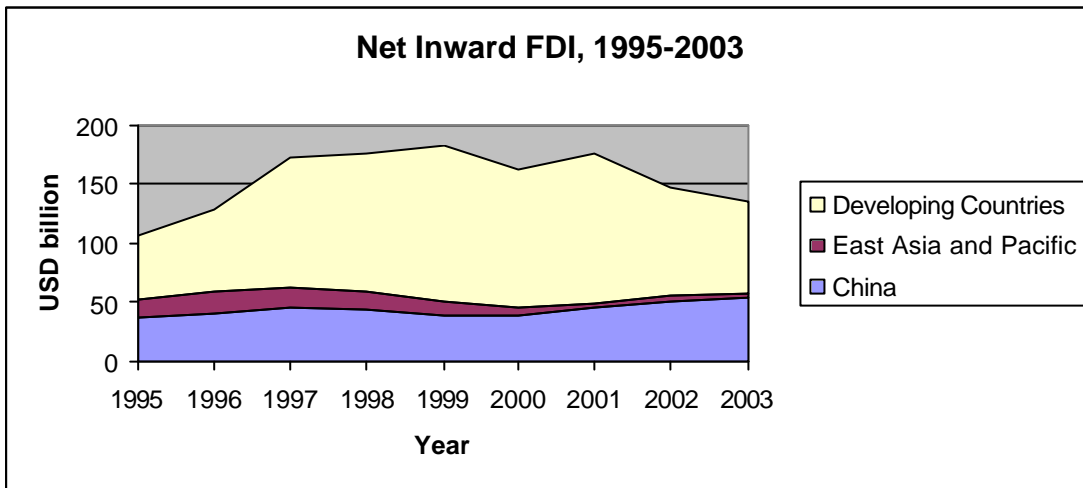
The largest investors are Hong Kong, Taiwan, Japan, the US and Virgin Islands, and the countries of the European Union. It should be noted that Asian investors make up nearly two thirds of total investment in China.

Although initial years saw investment into labour intensive industries, more recently, FDI into China has focused on the capital and technology intensive sectors as well. Manufacturing and real estate are two main sectors and when combined accounted for more than 80 percent of FDI utilisation in 2002. In terms of location, the coastal provinces of Guangdong, Jiangsu, Fujian, Shandong and the city of Shanghai together receive nearly two thirds of total FDI into China.

Statistical data indicates that New Zealand’s FDI flow to China and vice versa take up only a small proportion of the two nations’ total investments (Figure 14). Up to the end of December 2003, the stock of New Zealand contractual investment in China, invested on 819 projects, amounted to US\$812 million, with actual investment of US\$405 million.

By the end of December 2003, the number of New Zealand investment projects in China reached 819, with a total contractual value of US\$812 million. Actual investment amounted to US\$405 million.⁷ One of New Zealand's largest investments in China was Lion Nathan's US\$280 million investment in a green-field brewery in Suzhou and the purchase of a second brewery in Wuxi. Fonterra, Richina Pacific, and AFFCO also have major holdings in China.

Figure 13: Foreign Direct Investment to Developing Countries, East Asia and Pacific, and China (Net, \$US billion)



Source: World Bank (2004), *Global Development Finance 2004: Harnessing Cyclical Gains for Development*, Washington DC.

Approximately 27 Sino-invested trading entities and manufacturing enterprises have been established in New Zealand involving nearly US\$48.97 million of Chinese investment. Today New Zealand is China's 23rd FDI destination country.⁸ China's total investment in New Zealand is in the vicinity of US\$600 million, most of it in joint ventures in the forestry sector. There is also significant investment in manufacturing and commercial construction in New Zealand, and sectors such as property, meat processing, electronics, fish farming, tanning, light manufacture and hotels and restaurants have all attracted the interest of smaller Chinese investors.

⁷ Ministry of Commerce, China and Ministry of Foreign Affairs and Trade, New Zealand, A Joint Study Report on a Free Trade Agreement between China and New Zealand, www.mfat.govt.nz/tradeagreements/nzchinafta/pdf/chinanzftastudy.pdf [accessed 11 October 2005].

⁸ UNCTAD (2004) *World Investment Report 2004*

China's FDI in New Zealand is still gathering momentum. Figure 15 lists 10 important Chinese projects in New Zealand. Of these projects, most were established within the last decade. Their activities are in primary, transportation, and peripheral services. While some of the projects are privately-owned, the majority are State Owned Enterprises (SOEs) or former SOEs. With the imminent FTA, further FDI growth is expected for both sides.

Figure 14: FDI China – New Zealand, 1989 - 2002 (US\$ million)

	To China	Total World	From China	Total World	NZ's FDI Stock in China	Total World	China's FDI Stock in NZ	Total World
1989	-	226	..	725				
1990	-	3,961	..	2,824				
1991	-	2,546	..	2,932				
1992	-	728	..	2,026				
1993	-	-2,565	..	4,093	..	7,876	14	27,838
1994	-1	3,400	..	4,538	..	9,177	-	35,255
1995	1	2,662	..	4,100	..	11,748	-	40,076
1996	-	-1,827	2	5,360	1	13,163	-	49,534
1997	-	-2,424	..	2,766	..	9,707	-	54,164
1998	-	703	-	4,062	-	10,421	-	62,992
1999	-6	2,025	5	1,776	96	13,458	-	63,149
2000	-3	1,242	89	2,996	101	13,778	247	63,829
2001	-10	1,593	..	9,426	..	16,778	..	49,681
2002	-5	723	..	642	..	16,089	..	48,292

Source: www.unctad.org/sections/dite_fdistats/doc/wid_cp_nz_en.pdf [accessed 11 October 2005].

Note: ".." = Data Unavailable; "-" = nil, zero, or too small to be expressed

2.3 Immigration

In the year 2002/03, China accounted for the largest source of immigration for New Zealand⁹ and Canada¹⁰, the third largest source for Australia in 2002¹¹, and the fourth largest for the US.¹²

The number of long term and permanent migrants from China to New Zealand has increased dramatically. Figure 16 shows that in 2003 migrants from China

⁹ www.stats.govt.nz/NR/rdonlyres/6088AF03-6459-468C-A737-3C0E95CAF0DD/0/tsa20041101.xls, [accessed 11 October 2005].

¹⁰ www.asiapacificresearch.ca/data/people/Pi2number.cfm, [accessed 11 October 2005].

¹¹ www.immi.gov.au/statistics/publications/immi-snap-shot/immisnapshot-v1.pdf [accessed 11 October 2005].

¹² uscis.gov/graphics/shared/statistics/yearbook/2002/table2.xls, [accessed 11 October 2005].

Figure 15: Selected China's FDI Projects in New Zealand

	Industrial Sector	Mode of Entry	Description
CITIC New Zealand Limited	Trust & Investment	Wholly Owned Subsidiary	The initial investment was approx. US\$1.5 billion in 1996. At present CITIC New Zealand is the biggest overseas investment of CITIC
China Minmetals NZ Limited	Residential apartments, tile retail and wholesale, and nails and fastening	Wholly Owned Subsidiary	Registered in 1991, The subsidiary of the multinational China National Metals and Minerals Import and Export Corporation (Minmetals)
Cosco NZ Limited	Vessel management, container equipment and arrangement of port operation	Wholly Owned Subsidiary	Established in 1991 as the sole agent of Cosco in New Zealand
Wenita Forest Products	Forestry	Joint Venture	Commenced business 1st December 1990; Annual Capacity 30,000m ³ of lumber output
China Commodity Inspection Corp. New Zealand Limited	Inspection and surveying services	Wholly Owned Subsidiary	A branch of China National Import & Export Commodity Inspection Corporation (CCIC)
Three Rings Limited	Wool	Joint Venture	Established in 1985 with an initial investment of US\$950,000
Shengli New Zealand Ltd	Petroleum and petrochemicals	Joint Venture	Formed in 1992 and was incorporated in 1998
Air China Auckland Office	Airline passenger & cargo services		The largest airlines operator within PR China
Jianlibao New Zealand Ltd	Beverages	Wholly Owned Subsidiary	Kiwi Bottlers 96 Ltd, and Jianlibao Trading (N.Z.) as operating branches
China Insurance (NZ) Company Limited	Fire & General Insurance		Registered in 1994; SMEs as major clients

accounted for 16.6 percent of total migrants. China is clearly the largest Asian source. Still, it is worth noting that immigration from the United Kingdom is larger than that from China, and that immigration from the United Kingdom and Australia combined is double that from China.

Cantonese has now become New Zealand's fourth most used language after English with about 37,000 speakers.¹³

Figure 16: Permanent and Long Term Migration (1979 – 2004)

June Year	Australia	United Kingdom	China, PR	India	Japan	United States	Korea, Republic of	South Africa	Other
1979	34.7%	21.7%	0.2%	0.5%	0.5%	4.7%	0.2%	1.0%	36.5%
1980	31.9%	23.9%	0.3%	0.5%	0.4%	4.6%	0.1%	0.7%	37.5%
1981	30.7%	27.0%	0.2%	0.5%	0.6%	4.9%	0.1%	0.5%	35.4%
1982	31.2%	26.3%	0.1%	0.4%	0.6%	4.8%	0.1%	0.7%	35.8%
1983	36.7%	22.3%	0.1%	0.3%	0.6%	5.2%	0.1%	0.7%	34.1%
1984	38.4%	18.0%	0.2%	0.3%	1.1%	5.3%	0.2%	0.6%	35.9%
1985	33.3%	18.8%	0.3%	0.3%	1.2%	5.7%	0.2%	0.8%	39.4%
1986	29.6%	23.4%	0.4%	0.5%	1.3%	5.6%	0.3%	1.3%	37.7%
1987	30.2%	25.5%	0.5%	0.4%	1.5%	5.5%	0.3%	1.6%	34.4%
1988	27.5%	24.1%	0.7%	0.5%	2.4%	5.0%	0.9%	1.1%	37.8%
1989	25.8%	23.1%	0.9%	0.5%	3.2%	4.5%	0.5%	0.5%	40.9%
1990	30.5%	19.8%	0.8%	0.4%	3.4%	4.2%	0.8%	0.3%	39.8%
1991	32.0%	22.7%	1.0%	0.5%	3.5%	4.1%	0.9%	0.4%	34.8%
1992	26.9%	23.0%	1.2%	0.6%	5.0%	4.5%	1.4%	0.4%	36.9%
1993	23.0%	21.3%	1.6%	0.9%	4.7%	4.5%	3.8%	1.1%	39.2%
1994	22.3%	21.0%	1.6%	1.3%	5.1%	4.5%	4.3%	4.5%	35.3%
1995	18.2%	19.5%	3.6%	2.2%	4.9%	4.3%	5.2%	3.2%	38.9%
1996	16.0%	18.2%	5.2%	2.8%	5.1%	3.6%	4.8%	2.5%	41.9%
1997	16.8%	19.0%	5.0%	2.9%	6.0%	3.9%	2.7%	3.8%	39.7%
1998	18.8%	20.4%	4.8%	2.4%	6.7%	4.2%	1.5%	4.2%	37.1%
1999	17.0%	21.9%	5.2%	2.8%	7.2%	4.4%	1.1%	4.2%	36.2%
2000	17.6%	24.3%	7.6%	3.4%	6.3%	4.2%	1.4%	3.8%	31.5%
2001	15.8%	21.0%	11.5%	4.6%	5.4%	3.6%	2.3%	3.7%	32.2%
2002	14.1%	19.9%	15.9%	6.5%	4.5%	3.4%	3.5%	3.7%	28.5%
2003	14.0%	20.8%	16.6%	6.6%	4.3%	3.4%	3.8%	2.5%	28.1%

Source: Statistics New Zealand, www.stats.govt.nz/NR/rdonlyres/4FBOA2EB-C99D-4CC8-B523-C2C39829D24C/0/tsa2004906.xls [accessed 11 October 2005].

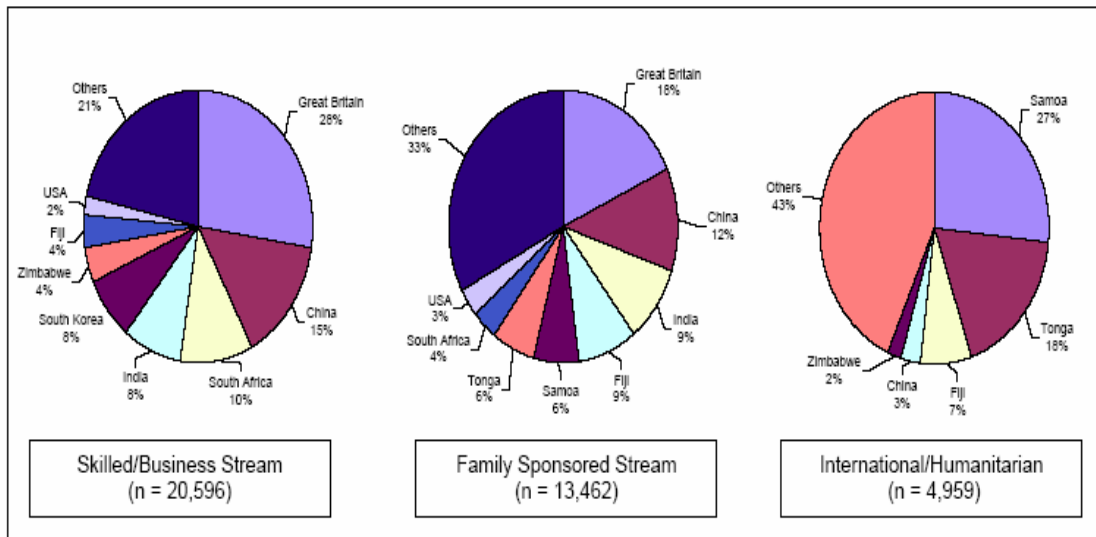
Immigration into New Zealand comes under three main immigration categories, namely, skilled labour/business, family sponsored and humanitarian. In 2003/04, for example, a large proportion of immigrants entered New Zealand under the skilled labour/business category, followed by the family sponsored track. Immigrants from China make up 15 percent and 12 percent respectively of total migrants under these two categories (see Figure 17). Figure 18 shows that Chinese migrants entering under the skilled labour/business category peaked in

¹³ www.stats.govt.nz/products-and-services/Articles/census-snpst-cult-diversity-Mar02.htm [accessed 10 October 2005].

2001/02, but have been declining since. The total number of migrants from China has also been on a declining trend since 2001/02.

It may be hard for New Zealand to reverse this trend. First, the policies of the New Zealand government with regards to migration have been tightened. Second, the rising New Zealand dollar is a major concern of potential immigrants in consideration of the financial pressures. Third, other western countries have recently adopted a more open approach to immigrants from China. Finally, the rapid economic growth in China might deter emigration, with people instead taking advantage of the economic potential in the homeland.

Figure 17: Immigration Approvals by Streams



Source: New Zealand Immigration Service, *Migration Trends 2003/04*, www.immigration.govt.nz/NR/rdonlyres/FC8301BC-B602-48F3-895A-BD3A87A47AD7/O/MigrationTrends200304.pdf [accessed 11 October 2005].

Figure 18: Immigration Approvals for Applicants from China

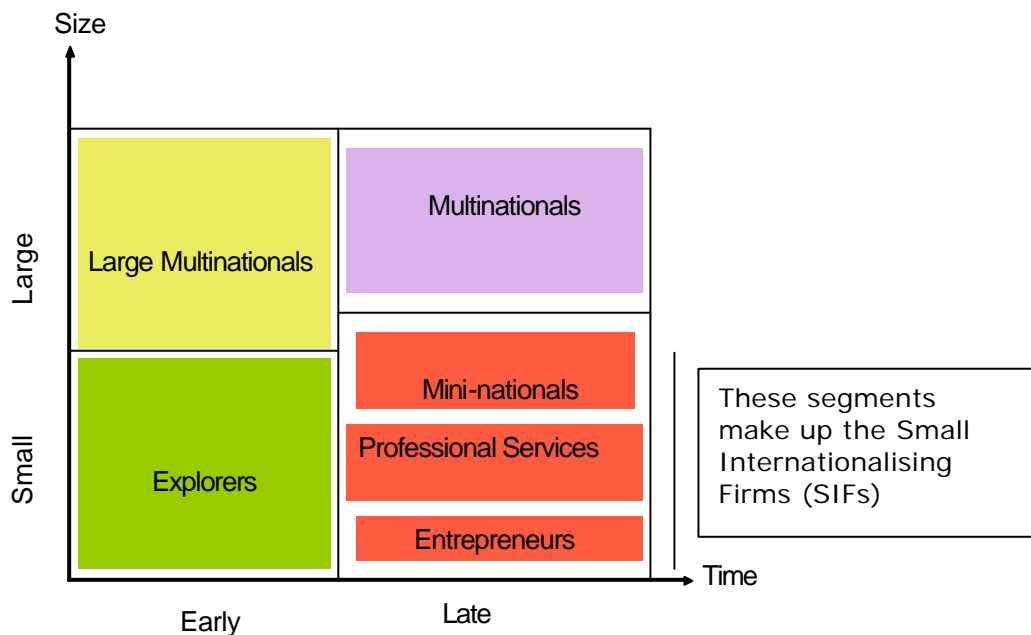
	1997/98	998/99	1999/00	2000/01	2001/02	2002/03	2002/03
Business/Skilled	895	790	1182	3042	6260	5894	3027
Family Sponsored	2932	2188	2247	2265	2421	1945	1641
International/Humanita	17	42	21	46	69	151	141
All Streams	3844	3020	3450	5353	8750	7990	4809

Source: New Zealand Immigration Service, *Immigration Fact Pack*, various issues

3.0 Research Focus and Design

Figure 19 provides a visualisation of our research focus and its ensuing design strategies. The size-time matrix of Figure 19 has four main segments. The two segments on the left refer to firms that entered China in the early stages of the reform era. They comprise large multinationals like Volkswagen and Philips who obtained early mover advantages in the 1980s. There were also smaller enterprises who explored the China market when it opened up to the outside world. A large number of firms from greater China (particularly Hong Kong and Macau) fall into this bottom left segment. China, especially the coastal regions, cannot be said to provide early mover advantages any longer. Firms that ventured into China more recently fall in the segments at the right of the figure. Large multinationals are still making their moves into China. For instance, Ford and several Japanese and Korean multinationals fall into this category.

Figure 19. The Size-Time Matrix



Our research focus is the bottom right segment, the SIFS, representing smaller late movers. This segment comprises several types of players:

- 1) Smaller multinationals or mininationals (defined as firms with sales between \$200 million and \$1 billion).¹⁴ While these are multinationals by definition, in that they operate in more than one country, they do not, as a rule, possess the same kind of resources and intangible assets (e.g. brand names) as their larger counterparts. These mininationals more often than not come from smaller developed economies like New Zealand, Australia, Canada etc. and developing economies like Korea and Singapore.¹⁵
- 2) Professional service providers. This category includes legal, advertising, accounting and consultancy firms. Their purpose in setting up operations in China is firstly to provide the necessary support services to their clients who have moved to China, and secondly, to expand their clientele to other foreign subsidiaries as well as to domestic enterprises.¹⁶
- 3) Entrepreneurs. Similar to the explorers at the early stage of China's reform era, these are "commercial backpackers" who venture into China with an idea and a great deal of confidence that they will be able to carve out a small piece of the action.

We followed a two-step approach in our methodology. The first step involved a mailed survey of the 200 largest firms in New Zealand as listed in *New Zealand Management* magazine.¹⁷ The survey, comprising 29 questions in five sections, solicited information on:

- the profile of the responding firms (see section 4.1)
- the nature of business activities in China (see section 4.2)
- the strategies employed (see section 4.3)

¹⁴ Czinkota, M.R., Ronkainen, I.A. and Moffert, M.H. (2005), *International Business*, 7th Edition, South-Western, p. 383.

¹⁵ This category may also include micromultinationals, defined as small and medium sized firms that internationalise but whose ownership of value added activities abroad are of lesser importance. Instead, these firms control and manage their foreign ventures through management contracts (Dimitratos, P., Johnson, J., Slow, J. and Young, S. (2003), 'Micromultinationals: New Types of Firms for the Global Competitive Landscape', *European Management Journal*, 21:2, pp. 164-74). See also Prahalad, C. K., (2005), 'Learning to Lead', *Vikalpa*, 30:2, pp.1-9.

¹⁶ Li, J. and Guisinger, S. (1992), 'The globalisation of service multinationals in the triad regions: Japan, Western Europe and North America', *Journal of International Business Studies*, 23:4, pp. 675-696.

¹⁷ See www.management.co.nz/top200/ for further details of these 200 companies.

- the challenges faced in China (see section 4.4) and
- external assistance (see section 4.5)

The purpose of the survey was to gauge views regarding the China business from a headquarter perspective. Surveys were sent out to 191 firms. For nine firms, the postal and email addresses were incorrect or unavailable. 50 firms responded (26 percent). Responses from 10 firms revealed that they had no engagement with China whether in the past, present or future. The responses of the remaining 40 respondents were analysed and relevant issues drawn out for the second stage of the research process.

This second part of the study was designed to seek an in-depth view of the opportunities and challenges faced by New Zealand businesses at "ground zero". The purpose was to compare views on China, on the Chinese and on doing business in China between decision makers based at the headquarters and those managers actually based in China.

A survey based study among New Zealand businesses in China was ruled out because the number of known New Zealand companies in China is too small to produce meaningful data for quantitative analysis. As an alternative, focus group discussions were utilised.

Focus group research is a carefully planned discussion designed to capture perceptions on a specific area of interest in a permissive, non-threatening environment. Unlike group interviews, focus groups capitalise on the interaction between group members on a topic raised by the researcher.¹⁸ When used correctly, the focus group can draw out attitudes, feelings and beliefs of the members in a way that a structured survey or a mail questionnaire is unable to do. The group discussion is able to probe into areas of interest while questionnaires might only provide superficial information. Through group interaction, the "what" and "why" questions can be considered at the same time, resulting in the closing of the gap between what people say and why they do.¹⁹ Focus groups are considered an excellent tool in cultures with a strong oral tradition and among respondents who consider flexibility in answering questions

¹⁸ Morgan, D.L. (1997), *Focus Groups as Qualitative Research*, London: Sage.

¹⁹ Gibbs, A. (1997), "Focus Groups", *Social Research Update*, University of Surrey, www.soc.surrey.ac.uk/sru/SRU19.html

important. Focus group discussion is also useful among respondents unwilling to commit on paper their views and explanation.

Four focus group discussions were arranged – two each in Beijing and Shanghai. The discussions involved 14 companies in total, with an average of six executives/managers taking part in each discussion.

4.0 The NZ Headquarters Survey Findings

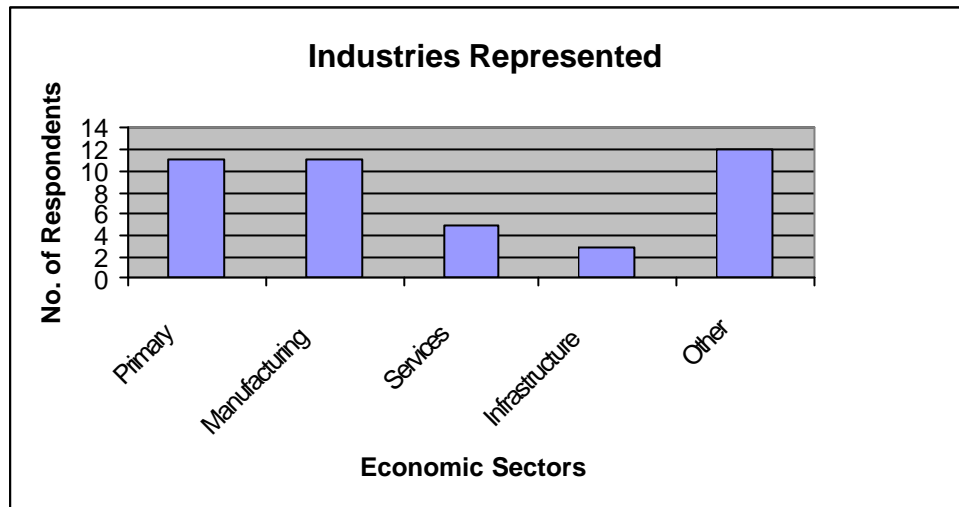
4.1 Profile of the Responding Firms

Of the 191 surveys sent by mail and email, 50 were returned i.e. a 26.24 percent response rate. We excluded responses from firms that did not currently engage with China or did not plan to engage in the future. We also excluded firms which were subsidiaries of foreign-owned firms, where strategic decisions, e.g. dealing with China, were made at their respective headquarters. For the analysis, we settled on 40 usable surveys.

We are confident that the responses provided are credible as the survey was completed by senior members of the organisation. Of the 40 usable surveys, 20 were filled by Managing Directors, General Managers or CEOs of the respective firms while others were by senior officers like the Human Resources manager, Chief Financial Officers etc. On average, the respondents had been at their position for 4.53 years, some as long as 11 years. 24 of these firms (60 percent) were New Zealand-owned. The remaining firms were foreign-owned. Our respondents were generally large enterprises by New Zealand standards. More than half of our respondents (52.5 percent) employed more than 500 employees. Nearly 75 percent of them had a turnover of more than NZ\$100 million.

Our respondents were well represented across the various sectors of the economy, as shown in Figure 20. In the primary sector, the respondents were from the agriculture, forestry, fishery and mining industries. In the manufacturing sector, respondents were involved in the production of a wide array of goods including shoes, garments, luggage, resins, scooter control systems and dynamic battery chargers. In services, respondents came from several industries including retail, media, finance and professional services. In the other category, we had representation from the energy and rail vehicle maintenance industries.

Figure 20. Industries represented in the survey



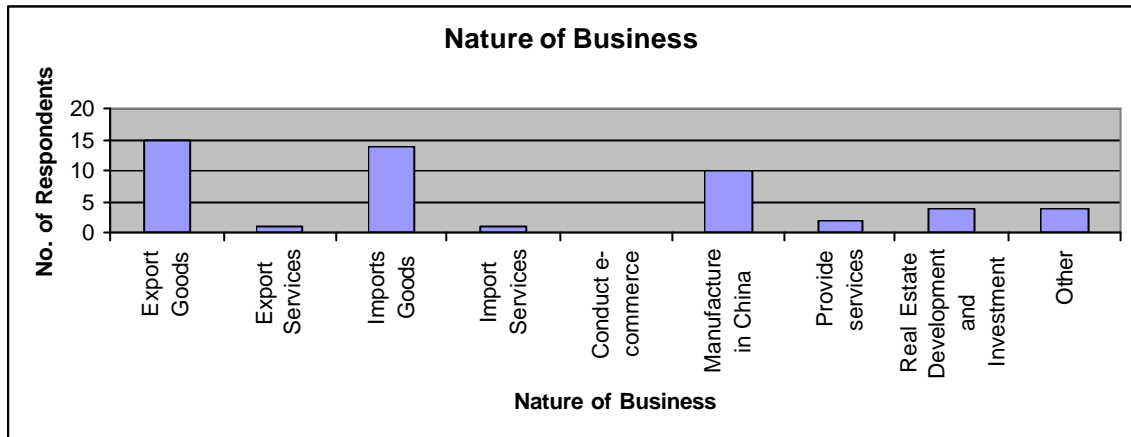
4.2 Nature of Business Activities in China

Of the 40 respondent firms 37 had engaged with China in the past. Among these 37 firms, 32 were still involved with China at the time of the survey. This finding suggests that New Zealand businesses in China are relatively successful and sustained. Of the five firms which had withdrawn, two were planning to engage China again in the future, while the rest were either uncertain or did not have any plans to do so.

More than two thirds of the firms had been in China for more than four years. 42 percent had been there for over 10 years. These firms were mainly involved in direct trade i.e. imports (15 firms) and exports (16 firms) as shown in Figure 21. Ten firms were also involved in direct manufacture in China. Our survey also found that nearly 65 percent of the firms surveyed did not intend to invest directly in China. In other words, they were quite satisfied with the arms length relationship (trade) that they had with China at the present time.

This deserves further comment. Exporting and importing are a minimal level of international business. The fact that New Zealand businesses were satisfied to merely trade with China is also evidenced by the amount of resource that New Zealand firms were allocating in their China related venture. Nearly 80 percent of the firms surveyed stated that they allocated less than 5 percent of their staff to the China venture. Not surprisingly, about 60 percent of our respondents reported that the China business accounted for less than 5 percent of total turnover.

Figure 21. Nature of Business in China



For those who had invested directly in China, the preferred locations were Shanghai (and the Yangtze River Delta), Beijing – Tianjin and the Guangdong Province. About a third of these investments were in the form of joint ventures with local Chinese firms while another 42 percent were wholly-owned enterprises. The scale of investment varied. Nearly half of firms invested less than NZ\$5 million (46.67 percent of firms).

It is obvious that New Zealand firms investing in China did utilise a large number of local Chinese employees, as is the case with many other multinationals. Firms like Richina Pacific Ltd. employ about 9,000 local employees and 400 employees of other nationalities. At the same time, The Warehouse has a smaller scale operation engaging only two local employees. An interesting point to note here is the utilisation of Asian New Zealanders in the China operation. Four of the seven firms reporting on their direct investment employed Asian New Zealanders.

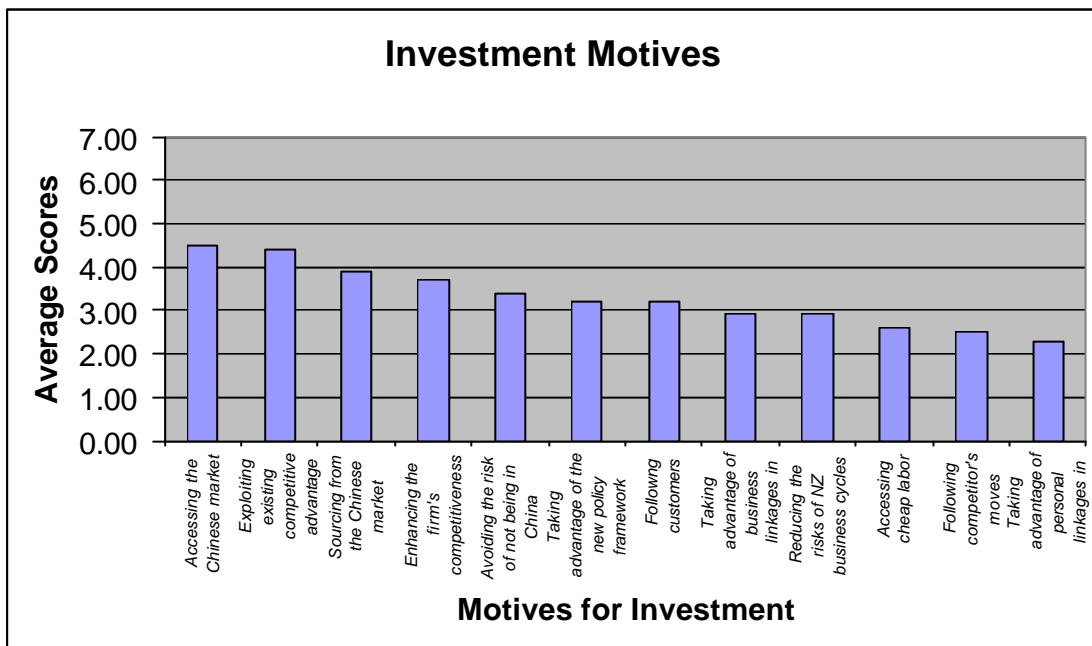
4.3 The Strategies Employed

Figure 22 shows the factors that drive New Zealand firms to China. The most important factors given by our respondents revolved around tapping into the Chinese market. Earning returns from the competitive advantage that New Zealand firms possessed as well as accessing the Chinese market were the two most important motives for entering China. It is well known that New Zealand possesses an edge in agricultural related areas like dairy and wool. Moving into the Chinese market is to take advantage of this core competency in a market known to provide immense opportunities. Accessing the Chinese market, enhancing the firm's competitiveness and sourcing from China further provide

evidence that China plays an important role in maintaining and expanding this core competency.

Strategic reasons like taking advantage of business and personal linkages, or following competitors are less important. Interestingly, accessing cheap labour in China – a view that is exaggerated by the media – is among the least important reasons for investing in China.

Figure 22. Motives for Investing in China



4.4 Challenges in China

Respondents were asked to rate the challenges faced under four separate categories – legal and political, financial, operational and human resources.

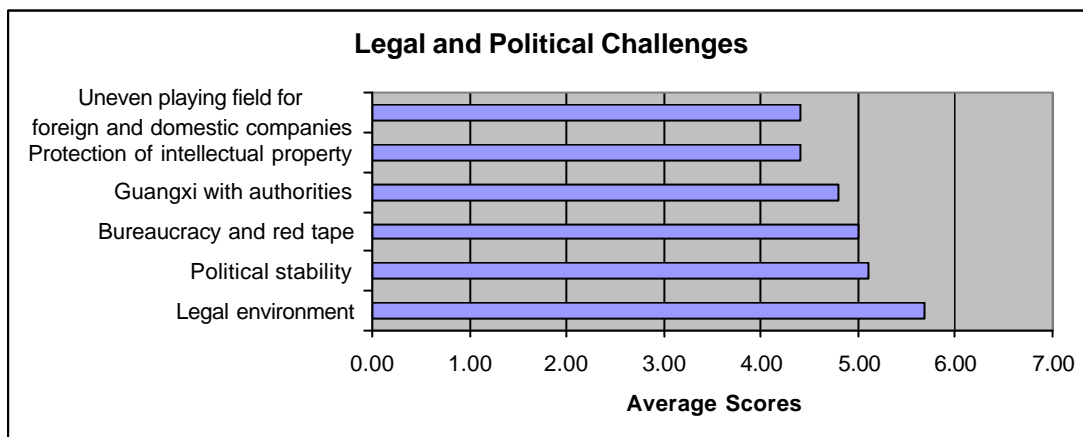
Legal and political challenges

Among New Zealand firms, the legal environment and political stability were factors of most concern (see Figure 23). This also related to the protection of property rights which were taken for granted in the home country. With accession to the WTO, China has to put in place the necessary legal and property rights requirements to global standards. Nevertheless, investors are always going to see

China's enforcement of its laws skeptically due to the lack of democracy and transparency of its governance.

It is interesting, that the uneven playing field involving local Chinese firms is relatively less important, but it should be noted it scores above average in its importance (4.4 out of 7). This may reflect a naïve, if not arrogant view of the capabilities of Chinese competitors. Almost all foreign firms who operate in China consider competition from Chinese firms as the No. 1 challenge.

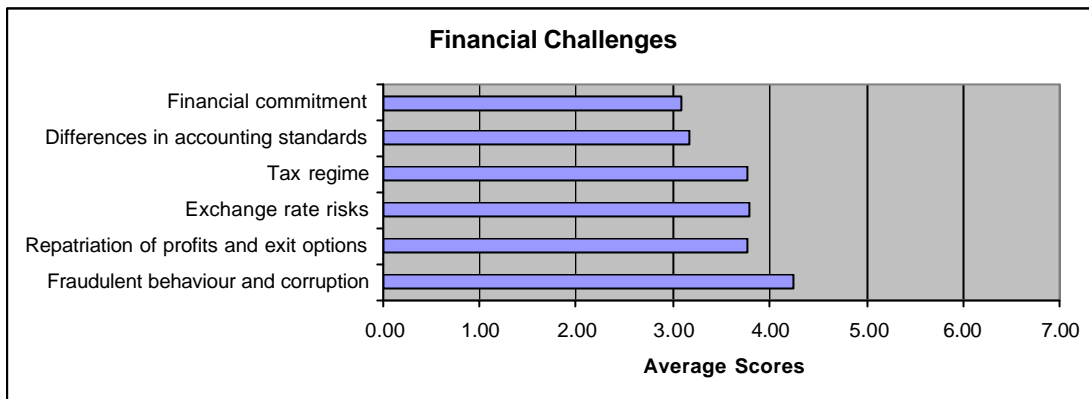
Figure 23. Legal and Political Challenges



Financial Challenges

Consistent with the legal challenges, respondents rated fraudulent and corrupt behaviour in China as the most important financial challenge (see Figure 24). In the latest *Global Corruption Report 2005* by Transparency International, China ranks 71 out of 146 countries surveyed. However, the report also stated that efforts were being made for greater transparency. The other important challenges relate to repatriation of profits and exchange rate. The recent revaluation of the Renminbi and the move from the US\$ peg to a currency basket peg are positive moves. But it should be pointed out that a floating currency in no way assures stability.

Figure 24. Financial challenges

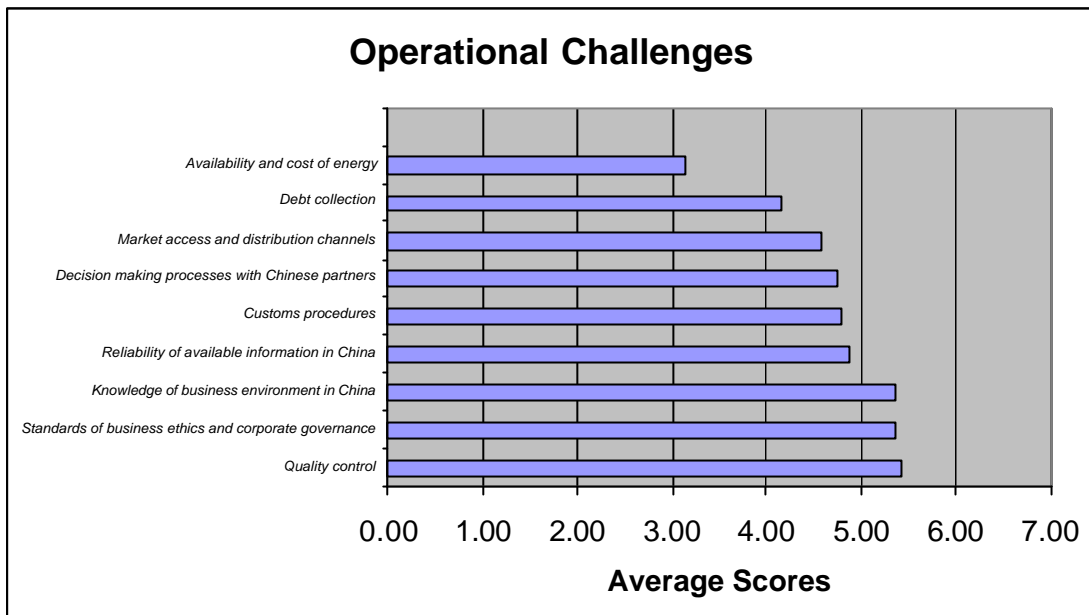


Operational Challenges

Quality control was rated as the most important operational challenge faced by New Zealand businesses in China (see Figure 25). It was recognised that a credible quality control system is the key to raising the image of made-in-China products and hence to international trade. However, it should also be recognised that greater demands by the foreign counterpart would assist in this upgrading process.

Business ethics and governance procedures are related to the degree of transparency explained above. This is also linked to knowledge of the business environment and the way things are done in China. In this regard, the use of Asian New Zealanders, particularly those with links in China would be useful, as their guanxi could be used for smoother operations.

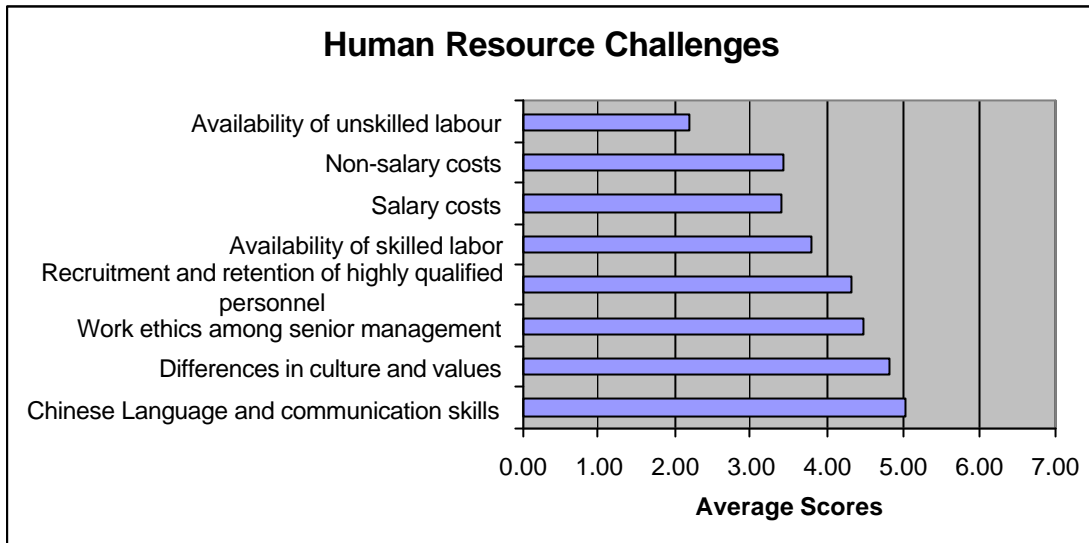
Figure 25. Operational Challenges



Human Resource Challenges

Language and inter-cultural relationships were ranked as the most difficult challenge faced in this category (Figure 26). This implied that senior managers sent from New Zealand must be able to adapt to the different cultural environment and be able to accept differences in work practices in China. It is perhaps here again that Asian New Zealanders may be helpful. Finding the right people in China at the senior level also seems to be a problem due to the great demand from so many foreign firms operating in the country. The ability of a foreign firm to reward and provide a challenging career for these highly sought personnel becomes critical to success.

Figure 26. Human Resource Challenges

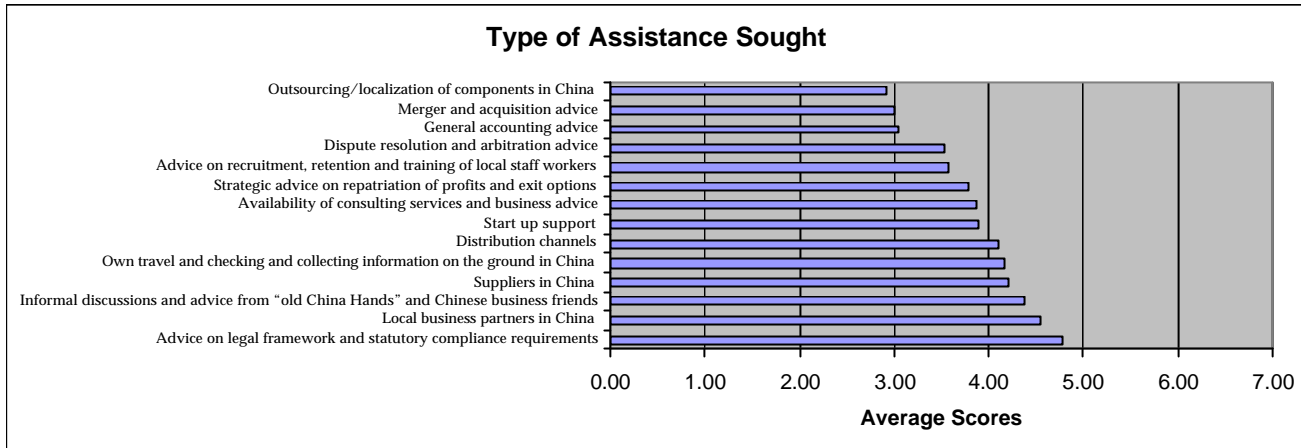


4.5 External Assistance

When asked about the assistance they had received from the New Zealand government, the average response was above average (4.13).

Our respondents were looking for information assistance regarding the workings of business in China (Figure 27). Among the list of options provided, they ranked advice on legal matters and information on local business partners at the top of their priority list. This is probably due to the size of New Zealand businesses in China, which tend to be small. Similarly, informal discussion with experienced people in China-related affairs was also considered important. The role of the New Zealand government in providing such information becomes imperative if it seeks to strengthen the economic relationship with China. More specific information like accounting and mergers and acquisitions (M&A) advice are less important.

Figure 27. Types of Assistance Sought by New Zealand Firms

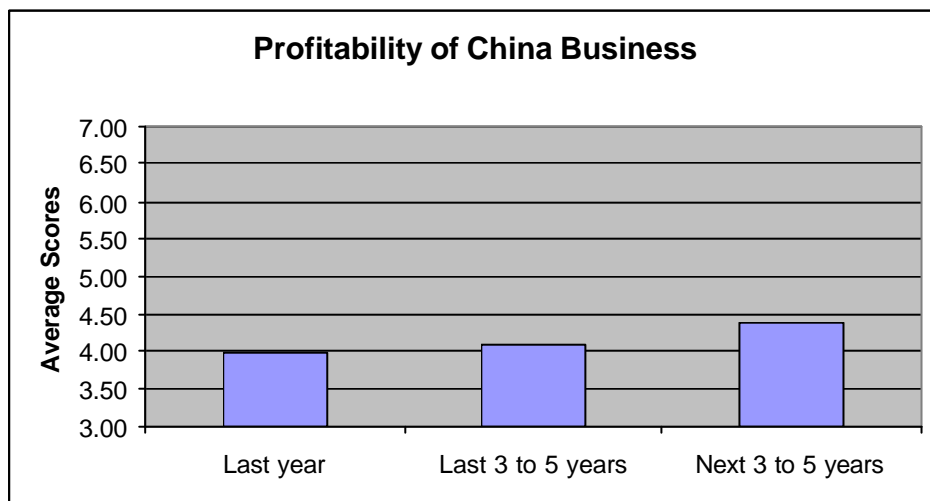


4.6 The Future

Although respondents were less satisfied with the performance of their ventures the last year compared to the previous three to five years, their prediction on future profitability was relatively higher (Figure 28). The confidence that New Zealand businesses have in China seems to be overwhelmingly positive.

This was also reflected in their responses with regards to the annual growth of their China business in the future. More than 50 percent of those surveyed indicated a growth of more than 10 percent over the next three years. A little more than a third were confident of expected growth of more than 10 percent in the longer term (10 years).

Figure 28. Profitability of the China Business



In terms of unexpected outcomes and challenges, the surveyed firms seemed to have planned their venture into China as nearly 85 percent and 65 percent of respondents did not report any unexpected outcomes and challenges respectively.

The growth expectation of our sample firms was not surprising. Other surveys by Accenture and PriceWaterhouseCoopers also pointed to the confidence that multinationals have in China's economic prowess. The Accenture survey of 100 Japanese and Korean firms, for instance, found 46 percent of firms planned to increase their investments in China.²⁰ PriceWaterhouseCoopers found that 95 percent of their respondents planned to increase their stakes over the next three years.²¹

These expectations however, might be based on reports of economic growth and increasing incomes of the Chinese. True as these macro-data may be, CEOs and senior managers fail to understand what is needed at the ground level to make their projections a reality. The buying behaviour of the Chinese, the role of culture, the incredible segmentation, fragmentation and diversity of the Chinese market, the politics of doing business, the gestation period required and the qualities of expatriate employees for instance, are not given due consideration when planning the China expansion.

The gap that exists between the headquarters in New Zealand and the people on the ground in China, whether in terms of knowledge and information or critical mindsets, needs to be closed to realise a business' ambitions in China. The strategies explained in the following section consider both the views of the headquarters and the people on the ground.

²⁰ Accenture (2003), *China: Continued Optimism, Growing Complexity: Perspectives from Japanese and Korean Investors*, www.accenture.com/xdoc/en/services/sba/hotidea/china_optimism.pdf [accessed 6 October 2005].

²¹ PriceWaterhouseCoopers (2004), *Doing Business in China: A Survey of Issues Encountered by Foreign Companies Doing Business or Investing in China*, www.pwchk.com/webmedia/doc/1079426369890_survey_db_china_rpt.pdf [accessed 6 October 2005].

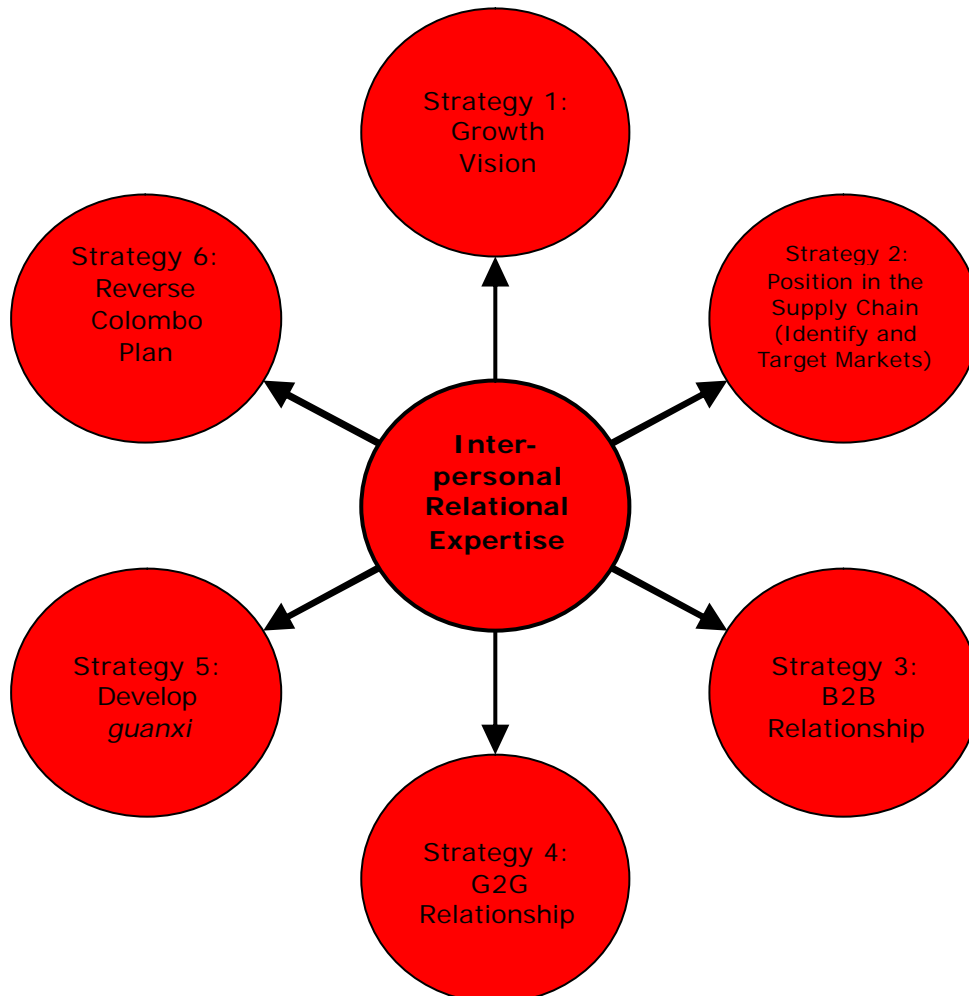
5.0 Strategies for Success when Engaging China

The findings from the survey and the input gathered from the focus group discussions combine in Figure 29 to an integrated model for success strategies in the China market. Our findings, as illustrated in the figure, suggest a success strategy in China for a SIF that relies chiefly on:

- One fundamental core competency; and
- Six related strategies.

At the heart of success among the SIFs lies the interpersonal relationship: a competency that is made up of and embedded in its people. By recruiting and nurturing the appropriate personnel the SIF is able to capitalise on the inter-personal relational expertise of key personnel and implement the six strategies. These strategies relate to vision (strategy 1), target market (strategies 2 and 3) and relationship building (strategies 4, 5 and 6).

Figure 29. One Core Competency and Six Strategies



5.1 Core Competency: Capitalise on your people and/or country

In a seminal article in the *Harvard Business Review*, Prahalad and Hamel stated that “only if the company is conceived of as a hierarchy of core competencies, core products, and market-focused business units will it be fit to fight”.²²

For many large multinationals, the core competency lies in their complex technological systems, or in the range of distribution networks they possess, or even

²² C.K.Prahalad and G. Hamel (1990), ‘The core competence of the corporation’, *Harvard Business Review*, May-June, p.91

in the global image perceived through their brand names. Utilising such competencies, multinational companies (MNCs) like Coca Cola, Microsoft, Philips, Nokia etc. have been able to penetrate most developing economies including China.

SIFs, especially those from developing countries, do not normally possess such advantages to compete with their larger counterparts. Even excellent New Zealand products, such as Manuka honey will not succeed in China without a sustained, expensive marketing campaign, which is simply beyond the resource base of most New Zealand firms. On the other hand, a good product, such as New Zealand-made fashion jewellery, may succeed through the dedication and charm of an enthusiastic artist-entrepreneur with a love for China and the Chinese. It is not the product that sells, but the producer, although the former has to be good as well.

Among SIFs success in China thus relies more on the intangible assets they possess, in particular, the individual traits of the manager and the personal relationships/s/he has with business people in China. This appears also to be a common view among New Zealand business people working in China. When asked what core competencies New Zealand firms have in China, our respondents in both Shanghai and Beijing had this to say:

New Zealand people are quite a likeable people and the Chinese tend to respond to the New Zealanders' personality a little better than an American or European.

We're not so steeped into tradition and formal ways ... we are willing to give anything a try, we can be innovative. We're often very adaptable, we just get on and get the job done. Others may be more inhibitive.

When you say you're a New Zealander ... the reaction is very visual, very noticeable.

Personal attitudes and interpersonal skills are thus critical for SIFs. Being a New Zealander is, in this respect, an advantage, because the international perception of

New Zealanders is distinctively positive. Virtues like sincerity, caring, openness and adaptability may be more forthcoming among executives who come from smaller and lesser-known countries like New Zealand. Furthermore, the specific perception that the Chinese have of New Zealand is a bonus. For instance, the perception that New Zealand is clean, agriculture-based and neutral in its international relations helps build initial relationships with the Chinese.

5.2 Strategy 1: Instill a Global Growth Mindset

Core competencies based on individual traits alone, however, have limitations. Relying on a pool of likeable but small minded people might not take a company far in China.

SIFs need to have a global mindset from the outset, before even leaving their local shores. It is a realisation that the SIF is interdependent on the global economy, "... even when the firm's activities are seemingly confined to the domestic environment".²⁴ This global mindset is aptly described by Rhinesmith as "a way of being rather than a set of skills. It is an orientation of the world that allows one to see certain things that others do not".²⁵ SIFs that originate from market bases that are small, like New Zealand or Singapore, need to visualise the large China market and have the confidence that this is within their capabilities, although the size of their potential operation may be several times the size they are used to at home. We could explain this visualisation as a vivid description of "a vibrant, engaging, and specific description of what it will be like when the mission is achieved".²⁶

New Zealanders, who are successful in China, even when they are small businesses in the service industry, have this distinct growth mindset. They are able to think of their small firms as growing into a multiple of what it was, and would always have been, in New Zealand, like in the case of one of our Beijing focus group discussants:

²⁴ B.L.Kedia and A. Mukherji (1999), 'Global Managers: Developing a mindset for global competitiveness', *Journal of World Business*, 34: 3, p. 235.

²⁵ S.H.Rhinesmith (1993), *A manager's guide to globalization: Six keys to success in a changing world*, New York: Irvin, p.24

²⁶ J.C.Collins and J.I.Porras (1991), 'Organizational vision and visionary organization', *California Management Review*, Fall, p. 47.

[In my Timaru coffee shop] I had ten people there, or three, or sometimes twenty. In Zhenjiang, I have 3,500 customers every lunch.

5.3 Strategy 2: Position in the Supply Chain

The large and growing market in China has attracted billions of investment dollars. At an estimated 0.87 percent growth annually, China's population grows by about 11.2 million people a year – 2.7 times the size of New Zealand's population. It is not surprising that rapid economic growth and penetration into the China market have been listed as important motivations for investing in China.²⁷ Based on our headquarters survey, market related factors are also an important motivation for the China expansion (Figure 22). However, the size of the market may prove to be elusive for SIFs. Studwell for instance describes the limited success experienced by firms attracted to China's billion customers.²⁸ China has in recent years become a hotbed for fast moving consumer goods (FMCGs), attracting world renowned brand names. At the same time, the number of local enterprises competing in markets ranging from beer to computers has increased competition.²⁹

Our findings suggest that in order to survive and profit in China, SIFs must move away from the large mass market of China to small niche markets. Sheth and Sisodia discovered that in mature markets, three big firms dominate, with the remaining players concentrated in niche markets.³⁰ Niche markets may be small - but the scope of being small in China is relative. One focus group discussant in the carpet industry stated that,

... in New Zealand, 1000 square meters is a big order, but in China this might involve two million square meters per order for a new hotel in 2002, we sold nearly 700,000 square meters.

²⁷ PriceWaterhouseCoopers (2004), *Doing Business in China*, Hong Kong; K.C.Fung, H.Iizaka and A. Siu (2002), *Japanese Direct Investment in China and other countries*, Working Paper 1052, Hong Kong Institute of Economics and Business Strategy; Accenture (2003), *Investing in China*; T.Mann and A.Ziirsen (2005), The high stakes of investing in China, *Chemical Market Reporter*, 10 January.

²⁸ J.Studwell (2003), *The China Dream: The Quest for the Last Great Untapped Market on Earth*, NY: Grove Pres.

²⁹ M. Zeng and P.J. Williamson (2003), 'The hidden dragons', *Harvard Business Review*, 81: 10.

³⁰ J. Sheth and R. Sisodia (2002), *The Rule of Three: Surviving and thriving in competitive markets*, NY: Free Press.

Targeting niche markets has been recommended when markets are globalised or when competition becomes excessive. In a business roundtable discussion organised by the International Trade Council in Brussels in May 2001, successful exporters from least developed countries were those able to find “niche products for niche markets, moving up the value chain through processing and design, responding to the ever rising demand from consumers for higher quality standards; entering brand new markets like services or shortening the distribution chain to capture a greater share of the value”.³¹

Identifying and/or creating niche markets in China requires skills that can only be embedded within people who understand China and the Chinese. It is here that the tangible core competency of New Zealanders, particularly Asian New Zealanders, is critical. The flexibility and support provided by a headquarters to its people on the ground to develop niche markets is important. Allowing a China subsidiary to adapt strategies to meet the demands of the market and allocating a longer timeframe for the China business to bear fruits is necessary for the people on the ground to use their interpersonal relationships to grow and develop these niche markets.

Dalgic and Leeuw characterise niche markets as those that have: 1) sufficient size and are potentially profitable 2) no real competitors or have been overlooked by other players 3) growth potential 4) the necessary purchasing ability 5) a need for special treatment 6) customer goodwill and 7) opportunities for a company to exercise its superior competence.³² Craig and Douglas advise smaller MNCs to identify niches that are not large enough to attract other western firms or those which require customisation of product or services.³³ They highlight the ability of a firm to leverage its core competency within the niche market through a positive association with the country of origin.

³¹ (2001), ‘A new generation of LDC exporters emerges’, *International Trade Forum*, Issue 2, p. 34.

³² T.Dalgic and M. Leeuw (1994), ‘Niche marketing revisited: Concept, applications and some European cases’, *European Journal of Marketing*, 28:4, pp. 39 – 55.

³³ C.S. Craig and C.P. Douglas (1997), ‘Managing the transnational value chain – Strategies for firms from emerging markets’, *Journal of International Marketing*, 5:3, pp. 71-84.

Our focus group discussants in the wool carpet and fitness industries are evidence that niche markets can be secured using the country of origin as an advantage (in our case, New Zealand). Niche markets also exist in the manufacturing sector. A focus group discussant in Shanghai represented Scott Technology, a Dunedin based firm which specialises exclusively in the design and manufacture of large scale automation systems for the major domestic appliance industries of the world. Scott Technologies is one of only four firms producing such systems worldwide.

Niche markets, however, may not last forever. Markides and Geroski found that large firms are not good at innovating but rather time their market entry in such a way that they can “take an early market out of the hands of the pioneers and (scale) it up into a mass market”.³⁴ Under such a situation, the advice of the first foreign pub owner in Shanghai is to sell the business and find other opportunities.

5.4 Strategy 3: Focus on B2B relationships

A consumer market which is overzealous about brand names and international recognition might not be a conducive place for a SIF. The China market is a demanding market where brand names of international repute not only compete with their global competitors, but also with local brand names and counterfeiters. Further to the niche market strategy explained earlier, this study suggests focusing on industrial/commercial clients, for the following reasons:

- 1) A smaller number of potential buyers who buy in bulk. This could reduce the amount of resource required for marketing, e.g. advertising.
- 2) Less price competition as industrial buyers may be willing to pay for quality. Industrial buyers are professionals who are paid to make the right buying decision. Hence, quality and after sales service are considered more seriously than the impulse buying behaviour of consumers.³⁵
- 3) Smaller quantity purchase but an emphasis on custom made product/service. Note, however, that in China “small” is relative.

³⁴ C. Markides and P. Geroski (2003), ‘Teaching elephants how to dance and other silly ideas’, *Business Strategy Review*, 14: 3, p. 52.

³⁵ R. Bell and L. Zacharilla (2003), *B2B Without the BS: The Business to Business Sales and Marketing Manual*, NY: Alan Anthony.

- 4) Personal relationships are critical in industrial/commercial transactions and SIFs may excel in their relationship compared to their larger counterparts.

The fourth item listed above requires further elaboration as it ties in well with the other strategies. Bell and Zacharilla state that B2B buying decisions are influenced by three factors: reputation, referrals and references. Faced with scarce resources allocated by the head office, SIFs need to work on their relationships with Chinese businesses and through them acquire greater contacts, i.e. develop guanxi with a few businesses and expand the network base over time. In a study of industrial buyer behaviour among the ethnic Chinese in Malaysia, Armstrong and Yee concluded that "... in addition to technical competency, sellers should be prepared to acquire additional expertise, such as better interpersonal skills and other relationship-building techniques to gain trust of industrial buyers."³⁶

In the context of the present study on New Zealand businesses, the importance of personal relationships cannot be over emphasised. Comparing the factors that affect the decision making process of industrial buyers, Dzever *et. al.* find some major differences between New Zealand and China.³⁷ Negotiation with suppliers is the most important factor among New Zealand industrial buyers whereas in China this is the least important factor. In China, evaluation of the product and/or the supplier is considered most important. The Dzever *et. al.* study, which analyses the buying decisions of engineering products, also finds major differences in the role of different divisions in the decision process. In New Zealand the most important division is the division using the product/service, but in China, it's the engineering division that has the most important say. The implication is the need to develop relationships in order to understand the inner workings of businesses in China for the success of B2B relationships.

A discussant in the Beijing focus group provided us with the following example:

³⁶ R.W. Armstrong and S.M. Yee (2001), 'Do Chinese trust Chinese? A study of Chinese buyers and sellers in Malaysia', *Journal of International Marketing*, 9:3, p. 77.

³⁷ S. Dzever, P.G. Quester and S. Chetty (2001), 'Factors affecting industrial procurement decisions in the Asia Pacific region: A comparative study of Australia, New Zealand, Thailand and China', *Journal of the Asia Pacific Economy*, 6:2, pp. 194-211.

... there are two ways of doing business in China. First, if you are selling FMCGs like toothpaste or toothbrush or products that everyone use – especially those large American companies – you give it free for about two years and then you use large billboards and spend a lot on advertisements. This is the American way, the big guys in the business can do this. But for small companies, the best way is to join the relevant associations. For example, we are a member of the tourism and hotels association, the American Chamber of Commerce in China, the Australian Chamber of Commerce (but they were too small) and you know people and they know the product that you deal with ... and they will contact you if they need anything. I have had business with seven embassies in Beijing

5.5 Strategy 4: Use G2G relationships to open doors and opportunities in China

Even after a quarter of a century of reforms, the role, authority and influence of government and government officials continue to be important in China. Gordon and Li state that as a result of economic reforms, the decentralisation of decision-making has moved to the level of the local or provincial government.³⁸ The government's role is not expected to diminish either; most developing countries that have long adhered to market economy principles continue to place senior government officials on a pedestal. Media reports of ministers and mayors opening business premises, cutting ribbons, digging the first dirt and other photo opportunities are common in many developing Asian economies. Foreign firms need to cooperate with local officials and party cadres.³⁹ SIFs in China, in particular, need to take heed of the governmental relationships in business. A company like GM or Toyota might have a direct route into the mayor's office of a Chinese city, but this may not be the case for the SIF. Guanxi is helpful but for new MNCs the right guanxi may not be forthcoming. It is in this context that the assistance of home governments is useful.

Based on our headquarters survey, respondents are primarily looking for information assistance regarding the workings of business in China. Among the list of options

³⁸ R.H. Gordon and W. Li (1991), 'Chinese enterprise behavior under the reform', *American Economic Review*, 81, pp. 202-206.

³⁹ H.W. Yeung (2000), 'Local politics and foreign ventures in China's transitional economy: the political economy of Singaporean investments in China', *Political Geography*, 19, pp. 809-840.

provided, they ranked advice on legal matters and information on local business partners at the top of their priority list. This is probably due to the size of their businesses in China which tend to be small. Within the context of our study, the role of the New Zealand government in providing such information becomes imperative if it seeks to strengthen the economic relationship with China. Similarly, informal discussion with experienced people in China-related affairs is also considered important. The list of assistance, as shown in Figure 27 clearly shows the need for the provision of a range of information. More specific information such as accounting and M&A advice are less important. Their views again, and consistent with the core competency in interpersonal skills, confirm the importance of direct, personal contact.

Discussants of our focus groups were more pragmatic. They wanted physical government presence in China. For example, a discussant in Shanghai explained,

... for small businesses in China, if the government officials could assist you to meet the Vice Mayor or other officials, it helps. In my case, our single biggest problem is getting natural gas connected to the houses we're building. I really need to get this done. ... if some one like [the Trade Commissioner] invites me for lunch and I get to sit next to the head of the Gas Bureau, well

Compared to China, access to senior government officials like ministers, ambassadors or trade officials is much easier for SIFs of smaller countries like New Zealand. However, the position of government officials of home countries is equivalent to those of the host country. For instance, the Mayor of Ashburton (population: 15,800) might have a better chance of meeting the Mayor of Xiamen (population: 1.24 million) than a senior executive based in China. The senior officials of embassies in Beijing, Shanghai and Guangzhou have a critical role to play as facilitators of business in China. It is well worth the investment for governments to allocate more resources to these embassies if they wish to see more businesses engaging China.

5.6 Strategy 5: Capitalise on tourists and foreign students to build guanxi

An important factor that contributes to the success of business in China is guanxi, or connections.⁴⁰ It has been seen as a potential solution to the obstacles faced when entering and operating in this country where individuals can be more powerful than the legal system.⁴¹ It is considered to be the lifeblood of the Chinese community, without which nothing gets done.⁴² In a survey carried out by PriceWaterhouseCoopers, building guanxi with local and provincial governments was ranked as the second greatest legal challenge faced by MNCs operating in China. Similarly, in our survey of New Zealand businesses, guanxi also appeared to be an important challenge (see Figure 23).

Arriving in China without having the relevant contacts or guanxi can be nightmare. However, SIFs might have overlooked an important resource in their own home country – the thousands of Chinese tourists and students who visit every year. As overseas education and travel is still a luxury good, those who afford such travels are likely to be someone important in China, or know someone in China's business or political hierarchy. In New Zealand, for example, 56.8 percent of foreign students for 2003/4 were from China. There were also more than 84,000 tourists from China who visited New Zealand in the year ending March 2005.

Chinese students in particular are excellent resources as they could help businesses by sharing the guanxi that they and their family might have. Additionally, these foreign trained students could also make up the managerial talent that China lacks.

As explained earlier, the image of the country serves as a comparative advantage for SIFs. In this regard, it is beneficial for policy makers to provide the right impression to the Chinese tourists who visit. While the physical environment of New Zealand

⁴⁰ N.R. Ambramson and J.X. Ai (1999), 'Canadian companies doing business in China: Key success factors', *Management International Review*, 39, pp. 17-27; I.Y.M. Yeung and R.L. Tung (1996), 'Achieving business success in Confucian societies: The importance of guanxi', *Organizational Dynamics*, 25:2, pp. 54-65.

⁴¹ Yan (2002), 'Questioning guanxi: definition, classification and implications', *International Business Review*, 11, pp. 543-561.

⁴² H. Davies, T.K.P. Leung, S.T.K. Luk and Y. Wong (1995), 'The benefits of guanxi: The value of relationships in developing the Chinese market', *Industrial Marketing Management*, 24, pp. 207-214.

speaks for itself, the human touch exemplified through good manners, due diligence, patience and goodwill – virtues important in the Chinese culture – could be instrumental in building the foundations needed to support the complex web of relationships required to be successful in China.

For businesses from smaller economies that may lack the political and economic clout, relationships with selected cities in China might also be worthwhile. Ramasamy and Cremer for example find that “well- managed sister-city relationships can play an important role in international trade and investment, which in turn can provide the development of cultural and social ties with a lasting economically viable foundation”.⁴³

5.7 Strategy 6: Initiate and/or Support a Reverse Colombo Plan

The Colombo Plan was initiated by the developed countries of the British Commonwealth in 1950 with a view to highlight the needs and requirements of the poorer members of the organisation. The primary purpose of the plan was to develop human resources in the region. The Plan’s most successful activity was the aid given to bright young scholars of developing countries to pursue their studies in institutions of higher learning in more developed nations like the UK, Australia and New Zealand. For instance, an estimated 18,000 to 20,000 Colombo Scholars from Malaysia ventured to Australian universities between 1950 and the mid-1980s.⁴⁴

The reverse Colombo Plan refers to the idea of sending open minded young executives to China with the intention of studying in some of the good universities there. China boasts several universities with an international reputation, including Beijing University and Fudan University. These universities have joint programmes with top business schools from the US and Europe. Living in China for a period of one to two years, learning with equally bright Chinese scholars, picking up the language – all contribute to both the understanding and appreciation of the Chinese culture as well as developing guanxi among future business leaders of China. While this may

⁴³ B. Ramasamy and R.D. Cremer (1998), ‘Cities, Commerce and Culture: The Economic Role of International Sister City Relationships’, *Journal of the Asia Pacific Economy*, 3:3, pp. 451.

⁴⁴ www.monash.edu.au/pubs/monmag/issue8-2001/colombooct2001.html [accessed 6 October 2005].

prove to be a long term strategy, such is the nature of guanxi and the learning of culture. Given the opportunities in China, this long term investment may provide the SIFs with the competitive edge to succeed in China.

6.0 Final Word

In this report, we have discussed the economic and business relationship between New Zealand and China. Our guiding thoughts were those of partnership and comparison.

However, this discussion fails, perhaps inevitably, to grasp the fundamental difference between New Zealand and China. This fundamental difference is a difference of economic, political and cultural weight in the world. To put it bluntly: New Zealand is a very small country, and its fortunes, as important as they are in New Zealand, have no impact on the rest of the world, and not on China either. China, by contrast, is the largest country in the world, and since the beginning of the economic reforms the source of the most important changes in the world. This is the key to understanding today's changes and tomorrow's world.

The last century has been America's century. The world has been "Americanized" far beyond the economic realm. The influence of America can, for example, be seen in technology, education, high and low culture, sports, food and entertainment. This "Americanization" is the result of the demographic and economic weight – not the moral or innate superiority – of the US. To use an analogy from the world of physics: energy equals mass times acceleration. It is the energy of the US, i.e. the combined result of its demographic size and its economic dynamics, that have transformed the rest of the world.

There is every reason and evidence to predict that the next energy injection will come from China. After the wave of "Americanization", the world is already seeing a wave of "Sinoisation" – of becoming "more Chinese". In the past decade, thirty to forty percent of the entire economic growth of the world has been generated in China, not only by Chinese enterprises, but to a large extent also by foreign multinationals through their investments in China.

The economic changes that are taking place are only the most visible parts of this process. Such changes will be accompanied by people and by values. New Zealand businesses cannot escape from these changes, and, indeed, they have, albeit still on

a very small scale, begun to engage China. This research project traces the engagement of New Zealand businesses in China.

But New Zealand as a people will not escape from “Sinoisation” either. Several years ago, there was discussion in the media in New Zealand about the “danger of the Asianisation of New Zealand”. This discussion is based on a misunderstanding. “Asianisation”, like “Globalisation”, is not a path that a country may or may not choose to follow. They are rather imperfect concepts used to describe the changes in the environment in which New Zealand, like all other countries, are living in.

Engaging China, abroad through visible and invisible trade and through outward and inward investment, and at home through an enlightened immigration and integration policy is a survival strategy for a small country like New Zealand.

Sir Neil Waters, former Vice-Chancellor of Massey University, returning from a visit to China, once put this succinctly: “The Chinese are happy and keen to work with us, anytime, on anything. But they will not wait for us – not one day”.

The relationship between New Zealand and China is asymmetrical. China does not need New Zealand, but New Zealand needs China. This is nothing new for New Zealand. New Zealand had always depended on overseas markets for its economic fortunes, and on overseas countries for immigration. The only thing that is new is that the market and the source of immigration have changed.