Acknowledgements

The authors are grateful to the companies that participated in the research for this report, providing material for the case studies. We thank them for their willingness to share their experience and insights. We also thank Sally Chen and Annabelle O’Donnell for research assistance and the Overseas Investment Office for making aggregate data available.

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Preface

The Asia New Zealand Foundation supports informed discussions about New Zealand’s relationship with Asia. Investment is a significant thread of this relationship, yet it is often seen through a fairly limited prism. Coverage of Asian investment in New Zealand is usually disproportionate that of investment from other sources, such as North America, Europe and Australia: however, while investment from Asian countries remains a relatively small part of foreign direct investment in New Zealand, it is growing.

One of the reasons for our commissioning this research was our feeling that the public discourse on Asian investment in New Zealand needed more reference points. We wanted to discuss what the data on investment from Asia did - and didn’t - show us. We wanted to generate other examples of Asian investment, beyond the Auckland housing market and sensitive land sales that have tended to dominate media coverage of Asian investment in New Zealand. The case studies in this research feature a diverse range of businesses, with varying degrees of ‘value-add’ to the businesses, wider economy and local communities.

It is important that our public discussion on an issue as important as foreign investment be robust. The quality and tenor of this debate say a great deal about the maturity and balance of New Zealand’s relationship with Asia. This research is intended as a prompt for further exchange and analysis. We look forward to contributing to the conversation that follows.
Investment from Asia to New Zealand is on the rise. This provides an opportunity to increase economic growth and improve socio-economic wellbeing in New Zealand. Foreign investment is, however, politically sensitive and some actors in New Zealand have expressed concerns that investment will lead to foreign control over land and natural resources rather than add value for New Zealanders. This report identifies the main source countries of Asian investment in New Zealand and the receiving regions and sectors. It includes case studies of eight New Zealand-based companies in which investors originally from Asian countries hold significant shares. These case studies showcase potential opportunities arising from Asian investment for value-added activities. The report takes stock of the nature of the Asian inward investment flows in New Zealand, their potential for value-added activities and the conditions under which these benefits might be realised.

The report explores the following topics:
- Who invests in New Zealand?
- Where in New Zealand are their investments located?
- In what activities and business sectors do they invest?
- What are the pathways to success demonstrated by specific cases of Asian investment in New Zealand?

The report shows that the cumulative value of all investment from Asia in New Zealand is still comparatively small, accounting for less than 10% of total inward investment as of April 2016. However, the picture is changing rapidly and Asia has accounted for about 25% of recent high-value or land-based foreign investment inflows (2011-2015). Only data from the Overseas Investment Office (OIO) captures information on both investor origin and industrial sector, but this data source only covers a restricted subset of investment inflows: that is, sensitive New Zealand assets such as land, high-value businesses (worth over $100 million) and fishing quota. It does not include most foreign investments in small and medium manufacturing and service-related industries. Of the OIO data, about 75% of the investments from Asian countries occurred in primary industries (including animal product processing) and the property sector; only about 25% was in the service and manufacturing sectors.

The aim of the case studies is to showcase pathways to success. They show how the benefits of foreign investment can go well beyond the capital transfers involved. In addition to capital, investors often provide knowledge and expertise to better connect New Zealand businesses to Asian markets and to upgrade facilities. A long-term time horizon, a willingness to reinvest and a commitment to providing employment opportunities in New Zealand are all important factors if an investment is to generate such benefits. It is equally important that the investor understands the business and its strengths and weaknesses and offers complementary knowledge in terms of how the business might succeed in reaching Asian consumers. It is the complementarity of the knowledge of the investor and their ability to bring that knowledge to the business that augments opportunities for long-term success.

In some cases the knowledge of an investor about how a New Zealand business can connect to Asian markets reaches even further. That is, the business becomes a bridge between New Zealand and Asian markets by offering supporting activities, such as payment platforms or access to ideas, knowledge and resources that were previously inaccessible to its business partners. Overall, there is great potential to enhance the flow of ideas, goods and services as well as people through Asian inward investment, but whether this potential is fully activated depends on the commitment and capacities of both parties.
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Introduction

New Zealand has for decades been a net importer of capital from the rest of the world. Rather than increasing steadily, foreign inward investment has fluctuated over time. Recently there has also been a change in the composition of foreign investment inflows. This report focuses on the rise of investment links with Asia, both through Asia-based investors acquiring (or establishing) New Zealand companies and through the business activities of Asian migrants in New Zealand.

The importance of foreign investment goes beyond its role in financing New Zealand’s persistent current account deficit with the rest of the world. Foreign investment inflows take a variety of forms, including debt raised by our banks and companies on offshore markets, foreign purchases of stocks and bonds, and foreign direct investment (FDI). FDI is defined as a foreign acquisition of a ‘substantial’ interest in a local company, with ‘substantial’ generally set at ownership of 10% or more of the company’s equity, sufficient to exercise influence over the company. It can occur through a foreign investor either buying into an existing company or establishing a wholly or partly owned new company. FDI is a particularly important category of investment. A recent large-scale econometric study that investigated the relationship between openness to foreign investment flows and economic growth concluded that FDI was the only type of foreign capital inflow associated with significant positive effects on growth. At first glance, the idea that FDI has positive effects might be surprising. A core tenet of scholarship in international business is that foreign-owned companies face ‘liabilities of foreignness’ – the costs and risks that come simply from being an outsider, and thus less familiar with local customs, laws and regulatory practices than local firms. Add to this the potential for a backlash against foreign-owned companies (think of all the ‘100% Kiwi-owned’ signs around the country), and you might wonder how foreign ownership could bring long-term benefits. The potential for such benefits arises not so much from the financial inflow associated with FDI (after all, if it were just about the money, FDI would not be much different from debt), but from the other things that some foreign investors bring: access to technology, management expertise, knowledge of foreign markets and links to partnerships and collaborations abroad. It is these things that create the potential for FDI to raise productivity, increase exports and yield other positive spill-overs for the host country.

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1 The deficit occurs because the combined total of what we pay for imports of goods and services, together with other ‘current’ international payments (which include interest payments on money we have borrowed internationally and returns on investments here by non-residents), exceeds what we earn from exports and profits on our investments abroad. The gap between our international investments and our international liabilities is already very large in comparison with those of other developed countries, and foreign investment inflows do not address the underlying reasons for the investment imbalance.


Foreign investment, like migration, often generates political controversy and can trigger a range of concerns in the host country. Recent high-profile sales (and attempted sales that failed to go through) of New Zealand companies to investors from Asian countries have attracted criticism. Apparently in response, the government has laid out a case for welcoming foreign investment. According to a government survey, 3816 firms in New Zealand were foreign-investment controlled as of February 2016. This was only 0.7% of all firms, but these firms accounted for around 13% of the total national employee count. In an earlier survey of 515 New Zealand-based firms with significant foreign ownership, over half stated that they had provided advice or help to local partners, such as help with technology, skill development, export market knowledge or information on suppliers and contacts.

This report does not attempt to arbitrate among contending views or arrive at generalisable conclusions about the effects of FDI. Instead, the first part of this report provides some answers to three questions:

- Who invests in New Zealand?
- Where in New Zealand are their investments located?
- In what activities and business sectors do they invest?

We focus on the role of investors from Asian countries because their investments have been very much in the limelight in recent years. The aim of our report is to provide a better understanding of the potential benefits of investment in New Zealand from Asian sources. This is important, as investment from Asia provides an opportunity to improve our trading and cultural ties with a region where economic growth has been higher than in our traditional export markets of Europe and North America. These trends are set to continue, with economic growth in ‘emerging and developing Asia’ projected to be more than twice as rapid in the next two years as growth in Europe and the United States.

These differential growth rates mean that New Zealand’s economic growth increasingly depends on the reorientation of our international connections towards increased exchanges with Asia. Six out of our top 10 trading partners are now in Asia. Asia also accounts for much inward migration to New Zealand, with China, India, the Philippines, South Korea and Pakistan in the top 10 countries of migrant origin. The terms on which we develop trade connections with Asia depend very much on the quality of the partnerships we forge through investment and personal interactions.

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The big picture

Key findings

Small

Investment from Asian countries remains a relatively small part of foreign investment in New Zealand - about 1.7% of the stock of FDI and less than 10% of the stock of all foreign-owned assets.

Growing

Investment inflows from Asia account for an increasing share of all inward FDI flows received by New Zealand - 25% of all investments approved by the OIO in the 2011-2015 period, up from 12% in the preceding five years.

Export

The relatively small proportion of FDI from Asian sources means that the region is still more important as an export market than as a source of investment.

Gaps

Gaps in the New Zealand statistical record (outside the OIO dataset) and the complexity of international investment flows mean there are no official figures on the sectoral composition of non-OIO-approved investments by particular source countries or regions. As a result, it is difficult to assess the quantum and geographical distribution of Asian investment in New Zealand’s small and medium manufacturing and service-related industries.

Auckland & Canterbury

Investments approved by the OIO (i.e. investments in ‘sensitive’ New Zealand assets) are distributed across New Zealand, but Auckland and Canterbury received the highest number of approvals in the 2006-2015 period.

75%

75% of the investments by investors from Asian countries approved by the OIO between 2006 and 2015 fell into broadly defined primary industry and property-related sectors: farming, animal product processing, horticulture, forestry and hotels and property, including property management. ‘Plants and animals’ accounted for half of all OIO-approved investments from Asia.
Answering this question is not straightforward due to gaps in the New Zealand statistical record and the increasing complexity of international investment flows. A central caveat is that our most detailed source of information on foreign investment is the OIO, but the OIO only screens certain types of inward investment, creating a systematic industry bias in the OIO data.

The OIO only collects data on foreign investments that require OIO consent under the terms of the Overseas Investment Act 2005 or the Fisheries Act 1996. These Acts require the OIO to screen applications from non-citizens and those not ordinarily resident in New Zealand to acquire ‘sensitive land’, business assets worth more than $100 million or fishing quota. What ‘sensitive land’ refers to is complex, but as a rough indication it includes non-urban land of over five hectares.\(^\text{12}\) This means that not all investments by investors from Asian countries are screened by the OIO, and thus not all investments appear in its reporting.

The role of offshore intermediating centres and the increasing complexity of company ownership also create difficulties in determining who is investing in New Zealand.\(^\text{13}\) A 2015 study of investment from China, for example, found that most Chinese investment was made through companies registered in Hong Kong, Singapore, the Cayman Islands, the British Virgin Islands and similar locations.\(^\text{14}\) A prominent instance of this funnelling through intermediary centres occurred when Haier, a Chinese appliance manufacturer, bought a substantial stake in Fisher & Paykel Appliances in 2012. The OIO reported the transaction (one of the largest purchases of a New Zealand company, involving a sum of $742 million) as having been made through Haier (Singapore) Management Holding Co Pte Ltd, a 100%-owned subsidiary of the Haier Group Corporation.\(^\text{15}\)

An additional complexity involves the increasing number of foreign investments made by companies that are themselves owned by investors from multiple jurisdictions. Although these ownership shares are partially identified by the OIO, it is not uncommon for the largest investor origin to be simply ‘various’. The complexity of ownership and the role of offshore intermediating centres in clouding the ultimate source of foreign investment are not unique to New Zealand – they are very much features of foreign investment flows worldwide.\(^\text{16}\)

Despite these uncertainties, the different sources of information are reasonably consistent in terms of the sources of direct investment in New Zealand. The overall conclusion is that investment from Asian countries remains a relatively small part of the total investment. As shown in Chart 1, Australia, the United Kingdom and the US remain our largest sources of foreign investment. Investment identified as coming from Asia makes up a small proportion – less than 10% – of the total foreign-owned assets in New Zealand.

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13 Statistics New Zealand reports on both flows (how much investment occurred in a particular year) and stocks (the total accumulated current value) of foreign investment in New Zealand. The data for flows from any particular country is not complete, however. First, Statistics New Zealand withholds data for some countries for some years for confidentiality reasons. Second, and much more significantly, the balance of payments data looks at transactions “at the border”. This means that the source country identified is the immediate source, which is not necessarily the same as the ultimate source of the investment. A large part of investment flows are thus reported as coming from offshore financial centres such as the Cayman Islands, although the ultimate ownership of these assets will be mostly elsewhere.


Chart 1 shows the sources of all forms of foreign investment in New Zealand as a percentage of the total ($386.36 billion as of 31 March 2016). The large portion attributed to ‘other’ reflects the role of offshore intermediation and complex ownership in investment flows. If we look just at the stock of direct investment, the share reported by Statistics New Zealand as coming from Asian source countries (but excluding Malaysia and the Philippines) is higher, at 17% of the total stock of FDI of $98.4 billion, but still a small share of the total.
If we examine the composition of inward investment approved by the OIO, Asian source countries accounted for 25% of all approvals in 2011-2015. This is a significant increase from the 12% of OIO-approved investments accounted for by Asian investors in the 2006-2010 period. Investment from Asian sources is thus becoming relatively more important, but they are far from being our largest sources of investment.

Chart 2
Where do New Zealand’s large, ‘sensitive’ foreign investments come from?

Percentage of OIO-approved investments 2011-2015

Source: OIO
Another change in OIO-approved investments is the relative shift away from Japan to China and Singapore as Asian source countries, as shown in Chart 3. This rise in the share of investments coming from Asian source countries occurred at a time when the total amount of foreign investment approved by the OIO dropped considerably: from a total of $56,385.48 million in 2006-2010 to $36,730.36 million in 2011-2015.
Where in New Zealand are OIO-approved investments from Asia located?

The OIO is the only source of information we have on the geographic distribution of foreign investment within New Zealand. (As noted above, the OIO only screens for investments in ‘sensitive’ New Zealand assets, as per the legislation.) Between 2006 and 2015 (inclusive) it approved 1392 consents in total. Of this total, we counted 228 as being issued to investors from Asia, on the basis that investors identified as coming from Asian countries owned at least 10% of the ventures. Chart 4 shows the geographic distribution of these 228 investments from Asia. The number of consents does not necessarily align with the value of the investments in dollar terms. Nonetheless, the distribution of consents gives us some indication of the geography of investment from Asia. The single largest group shown in Chart 4 was for consents covering multiple regions. In many cases this category was made up of consents that covered just a few specified areas (for example, a consent that covered activities in Ashburton and Gisborne), while some consents covered operations that were distributed more widely. When it came to investments in a single region, our largest population centre, Auckland, received the most investment – it accounted for most of the consents shown in Chart 4 as covering Auckland and Waikato. Canterbury received the next highest number of approvals (shown in Chart 4 as Canterbury and the West Coast of the South Island, but most approvals related to ventures in Canterbury).
Looking at the same 228 consents issued for projects in which investors from Asia held at least a 10% ownership share (a subset of the 1392 total OIO consents issued from 2006 to 2015), we can make some observations about the broad business sectors to which the investments relate.

Chart 5 shows the distribution of investments from Asia by broad industry category. We have simplified the much longer list of categories used by the OIO to reduce them to just six. Three broad sectors clearly dominate, together accounting for 75% of all investments from Asia: investment in forestry and horticulture (with a small number of mining investments also included in this category); investment in livestock broadly defined, largely meat and dairy; and investment in property-related ventures. We have included meat and dairy processing in the livestock sector, even though strictly this falls into the food manufacturing sector. We have included it in the livestock sector because several investments cover both production and processing and because meat and dairy processing tends to rely on local production.

The broad property category shown here includes investments in hotels, land development and property management, as well as those listed simply as being the acquisition of property. These other activities should on some definitions be put into the services category. However, because of the generally tight connection with land-based property (and to leave the services category for what are, intuitively, quite different industries), we have put these ventures into a broad property category.
A few generalisations emerge from combining the data on sector with the data on geographic region:

- Most consents for Northland relate to forestry or property ventures.
- For Auckland and Waikato, 60% of consents are for ventures in the broad property sector.
- In the Bay of Plenty and Hawke’s Bay, the largest number of consents are for forestry-related ventures, including wood and paper products.
- Forestry and livestock projects predominate in the central and lower North Island, although two electricity ventures in the Taupō area are significant exceptions.
- In the upper South Island – mostly Marlborough – horticulture and forestry are the main types of investment.
- Dairy accounts for the largest share of investments in Canterbury and the West Coast, followed by property.
- Investments in Otago are mostly a mix of livestock, horticulture and property.

Investments from Asia fall in line with the established areas of economic activity in these regions, or have followed trends such as the expansion of dairying in Canterbury. The concentration of investment in the broad primary sector is noticeable: crudely put, plants and animals together account for half of all OIO-approved investments from Asia. Even the 4% going into non-food manufacturing is dominated by wood processing and related industries. This concentration in the primary sector could well be due to the systematic bias in OIO-screened investments: because of the scope of the law, investments that do not involve ‘sensitive’ New Zealand assets (e.g. those below $100 million that do not involve rural or sensitive land) are not screened by the OIO. The OIO figures thus likely miss most foreign investments in small and medium manufacturing and service-related industries.

Certainly, a very different picture of the sectoral composition of direct investment in New Zealand comes from the Statistics New Zealand balance of payments data covering investments from all countries, shown in simplified form in Chart 6. As well as reporting on different scopes of investment, Charts 5 and 6 cannot be directly compared for other reasons: they use different measurement units (number of approvals for the OIO, dollar value for Statistics New Zealand); the OIO data shows combined annual approvals in the 10-year period, while Statistics New Zealand data shows the total outstanding value; and the two sources use very different sectoral categorisation systems.
An opinion
Are we getting it right?

It is worth asking whether New Zealand is achieving what it could in terms of investment from Asian countries. Collectively these countries account for a rising share of world economic output, and therefore New Zealand's trading opportunities. Given environmental limits, simply growing our current primary production and commodity export profile is not a strategy for high-quality growth. This judgement depends, of course, on the regulatory framework, technology and the farming practices adopted in the primary sector. The conclusion remains that in order to grow sustainably in a way that produces overall public benefits, New Zealand needs to up-skill, improve its use of technology, increase productivity and gain access to global and regional value chains on better terms.

Ideally, investments from Asian sources should be well placed to foster increased access to regional markets and value-added processes, given their potential to foster links with a particularly dynamic region. The criteria for approval of foreign investments requiring screening, as set out in sections 16 and 17 of the Overseas Investment Act, include a requirement that investment by non-citizens or non-residents "will, or is likely to, benefit New Zealand", with a further requirement that investment in non-urban land of more than five hectares provide a “benefit [that] will be, or is likely to be, substantial and identifiable”. The Act then sets out the factors to consider when assessing that benefit, including the effects on job creation or retention, new technology and skills, exports, productivity gains and further investments, including the processing of primary products.

Any investment that meets these criteria should be helpful to New Zealand’s aim of developing a higher-skilled, more productive economy capable of capturing greater value from its primary sector. The problem lies in determining whether any particular proposed investment will deliver these kinds of benefit. Unlike the provisions of the Overseas Investment Act relating to good character and business experience, assessing the benefits arising from a proposed investment requires an estimate of future effects. This is a very difficult task, and some OIO decisions appear to rest on ‘benefit’ factors that can be more readily imposed and monitored, such as a requirement to support a particular local heritage or ecological asset in the area surrounding an investment site. Imposing this kind of requirement on a case-by-case basis ends up producing something like a tax or entry fee on inward investment. It does not provide us with a strategic basis for attracting the kinds of investment that best serve the country.

Do we need a more strategic approach to attracting inward investment? The question is contentious. There is a view that New Zealand cannot afford to pick and choose and that policymakers are unlikely to make better choices than private investors. The Treasury notes that New Zealand’s regulatory framework for FDI is already categorised as relatively restrictive on paper and argues that OIO screening deters some investors. In our view, given that the New Zealand government invests finite resources in attracting investment, it makes sense to ration these resources according to some strategic rationale.

Such a strategy should be mindful of the potential for excessive resource extraction or degradation, and be based on an appreciation of the strengths that many New Zealand firms already demonstrate. The question of what additional expertise or resources a foreign investor brings to the table needs to be asked on a case-by-case basis. The following section describes some of the benefits associated with specific investments, the mechanisms by which win-win exchanges have formed, and the conditions for successful investment partnerships.
Investors who bring complementary skills and resources can improve the growth performance of New Zealand companies.

Key findings

Long term
Long-term, patient investment is associated with sustainable benefits in the form of employment, skills’ upgrading and export growth.

Ability to leverage
New Zealand’s ability to leverage the resources, skills and outlook brought by investors from Asia depends on underlying capacities in education, government organisation and social attitudes.

Skills & resources
Investors who bring complementary skills and resources can improve the growth performance of New Zealand companies.

Market
New Zealand companies entering partnerships with foreign investors need to have the capacity to absorb both the technical and the market-development knowledge brought by those investors.

Skills
Migrants from Asia can bring significant skills, in terms of language, cultural fluency, business knowledge and contacts, that help to expand their business ventures in New Zealand into international markets.
The following case studies of investment from Asian source countries and Asian migrants in New Zealand cover a range of industries and types of investor.

Our findings showcase the potential for positive outcomes for the investor, the local partner (in the case of FDI joint ventures), employees and skills’ development in New Zealand. We look at each investor’s motives for investing here and present some snapshots of how the investment has worked, with a particular view to looking at areas where collaboration, expertise, access to international networks and other benefits have been associated with the investor. A common theme in the case studies is that successful investments that yield spin-off benefits in terms of employment, skills and value-added investments are long-term ventures undertaken by what we describe as patient investors. There are few quick wins to be had in developing sustainable business growth trajectories, and thus a long-term outlook is essential. Other aspects of sustainability, including the environmental impacts of firms’ operations, are not covered in this report. Although critically important, such impacts have more to do with the regulatory context in New Zealand than the nationality of a company’s owners.

The case studies include some very large, established companies, such as meat producer ANZCO Foods, and some relatively small and new companies, such as financial services’ provider LatiPay and pet food manufacturer Addiction Foods. Some, such as appliance manufacturer Rinnai New Zealand, and food manufacturer Griffin’s Food Company, will be well known to New Zealanders. Often a foreign investor brings the resources of a much larger company network to its New Zealand investment (as is the case, for example, with ANZCO, Rinnai and Griffin’s).

Some of the company case studies fall into the FDI category, being cases where Asia-based investors have taken substantial ownership shares either in established local companies or in companies created by the investors. Other case studies look at companies established here by New Zealand residents who migrated from Asian countries. We believe it is important to include case studies of investments by immigrants to illustrate the ways in which people from Asia have contributed to local business growth, employment and international economic exchange. Such migrant investors are, even if they remain citizens of their countries of origin, also New Zealanders. But, as we show in the cases that follow, their countries of origin have been significant in the business stories they have built here. Augen Software Group, for example, is very much Kiwi grown, but its operations in Vietnam that now figure prominently in Augen’s business growth depend on one of the company’s founder’s personal connection to his country of origin. In other cases, companies founded by more recent migrants from Asia have gone on to attract further investment from Asia-based investors. Our case studies of LatiPay and internet media company Skykiwi both demonstrate this crossover potential, from migrant Asian investment to Asia-source FDI.

The case studies cover sectors from livestock production and processing to industrial manufacturing and services, and include companies with investors from China, Japan, the Philippines, Malaysia and Singapore. They are not a representative sample of all investments here from Asian source countries. We do not, for example, include any property- or tourism-related ventures. We were unable to include a case study involving investors from Asia in New Zealand’s substantial Māori economy, which includes the large portfolio of business assets owned by iwi holding companies and trusts.
Asian partnerships in the Māori economy

Sources: Company and trust websites, Companies Office and press reporting

<table>
<thead>
<tr>
<th>Iwi, holding company or trust</th>
<th>Company or venture</th>
<th>Investor or partner</th>
<th>Country of foreign investor</th>
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<tr>
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<td>15,484-hectare pine forest</td>
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<tr>
<td>Te Roroa Whatu Ora Trust</td>
<td>Family of Ancient Trees partnership</td>
<td>Yakushima Island</td>
<td>Japan</td>
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For most of our case studies, information on the companies was kindly provided by company representatives in interviews with the research team. In these cases we largely allow the companies to speak for themselves in identifying the benefits arising from the foreign investment partnerships, the mechanisms through which such benefits arose, and the challenges they experienced. We also used, as indicated in the text that follows, open-source information such as published company reports, the companies’ own websites and third-party information from media reports and other analyses.
Addiction Foods NZ Ltd is a premium producer of dog and cat food, making its presence felt in New Zealand’s thriving pet food industry. The company describes itself as being “founded on innovation and driven by a love of animals and a respect for our planet”. The ethos has driven not only a stream of product and manufacturing innovations, but also the company’s decision to locate its manufacturing in New Zealand, where it is able to take advantage of its high product safety and biosecurity regulations. This means that it gains access to a supply of high-quality, grass-fed and disease-free meat, including organic and free-range meat, and is able to incorporate New Zealand’s natural imagery in its marketing and promotional materials. As it is a premium brand of pet food that avoids the use of by-products, fillers and preservatives, it is important for the company to be able to demonstrate strong credentials in terms of food safety and country-of-origin branding. According to Addiction’s CEO, its mission is to “nourish the bonds between the pets and their owners. We are more than just about producing good food… Really it is about helping and nourishing those bonds”.

The Addiction story started in Singapore in 2002, when it was co-founded by a Singapore-based veterinary surgeon and a youthful entrepreneur, Jerel Kwek. Mr Kwek is the CEO, connecting the New Zealand manufacturing facility with the company’s Asia-Pacific headquarters in Singapore and its North America headquarters in Washington state in the US. Addiction’s wholly owned New Zealand manufacturing plant in Te Puke, in the Bay of Plenty, was set up in 2006 and has expanded significantly since then. It greatly expanded production capacity and invested in automation in 2012 and it is now New Zealand’s largest dry pet food plant, employing around 40 full-time staff.

Why Te Puke? Jerel Kwek reflected on that choice in conversation, saying that the decision to locate there was not driven by a great deal of research, but rather the plant manager had recommended the area. Although it means being based at a distance from the commercial centre in Auckland, Mr Kwek has found that the Bay of Plenty location offers several advantages: access to a high-quality port in Tauranga and support from
New Zealand Trade and Enterprise (NZTE), as well as support from the local community, including other exporters. With few large companies in Te Puke, Addiction is one of the larger employers there and is thus a larger company relative to other players than it would be in Auckland.

With the company’s growth and strong export sales, Addiction has expanded its local employment. Mr Kwek says the team in Te Puke places a lot of emphasis on staff training and also contributes to the local business environment and community.

The decision to open a plant of its own was driven by a lack of suitable contract manufacturers for the high-quality pet food. “The plants that manufactured for us kept closing down, so in the eight years they closed down six times and it was just very, very difficult because there was disruption to supply; so despite the demand, we kept having all these supply disruptions.” Mr Kwek realised that to succeed in the business, they needed their own production facility. The benefits run both ways. With the company’s growth and strong export sales, Addiction has expanded its local employment. Mr Kwek says the team in Te Puke places a lot of emphasis on staff training and also contributes to the local business environment and community. In his words, a great thing about New Zealand companies is that “they are quite willing to share and collaborate”, making it possible for knowledge to circulate within the local business community. For example, Addiction was willing to offer market advice about entering a foreign market when approached by a local export business, sharing its knowledge based on its own export experience.

Addiction not only offers its employees opportunities to engage in training; it also adopts a slice of the New Zealand culture by organising family events for staff, such as barbecues. Mr Kwek also enjoys involving the local community in some initiatives. For example, the company is working on a school programme for students to produce their own pet food at Addiction’s facilities, and sell it at a local market. This initiative is designed to help students raise money for their enrichment activities and also give children an opportunity to be entrepreneurs for one day – teaching them an important lesson in an engaging and fun way. The company’s marketing also promotes New Zealand as a destination. In 2016, the company ran a competition for its US customers, with the prize being a trip to New Zealand.

Addiction’s ability to grow is based on its export sales. Virtually all product is exported (although its pet food is available for local purchase via retailers in New Zealand), and export sales are concentrated in the US and Asia. Asia accounts for around half of all exports and China is the company’s fastest-growing market. Jerel Kwek believes that there is a good product-market fit in Asia: “Asia is big for us – Taiwan, Malaysia, Hong Kong and Japan are big markets for us. Asia has grown faster than the US. I think in Asia, our brand immediately resonates more with the New Zealand story – resonates more than in the US where people don’t know New Zealand”.

Total sales grew by 50% in 2015 and the company achieved a further 40% growth in 2016. Global market demand in the pet food area has been an important factor behind this growth, but Addiction’s ability to carve out a niche for itself as a premium producer has also been driven by its ability to innovate in terms of product and marketing strategies, while also retaining stringent quality control and capitalising on New Zealand’s locational advantages.

A key product innovation was the pioneering development in 2007 of low-temperature processing techniques, which ensures minimum nutrient loss during the production process. The benefits for the pets and their owners are explained by Mr Kwek: “We have lots of customers who talk about our foods because we have saved their dogs’ lives – with bad food allergies, bad sensitivities – we really helped them. We get stories like that often”.

Another important strategy is ensuring that the Addiction team includes people able to speak the languages of specific export markets. Thus in China, Taiwan and Hong Kong, Chinese-speaking staff handle all marketing and sales, while the company employs a Japanese-speaking person to help with communication in that market. Jerel Kwek’s entrepreneurial energy is also evident – he shuttles regularly between Singapore, Te Puke and the US and is able to draw on Singapore’s longstanding attributes as a gateway to both Asian and Western markets, drawing on a bilingual population and strong international business ties. Singapore also serves as the firm’s
financial hub, taking advantage of Singapore’s established advantages as a financial centre.

Addiction’s growth, innovation and contribution to local employment make it a success story, where firm strategy has meshed well with New Zealand’s particular country characteristics and reputation, leveraging natural advantages in an innovative way and producing smart nutrition. There have of course been challenges, chief among them difficulties in recruiting skilled workers, making the human resources side of things one of Mr Kwek’s most difficult challenges in New Zealand. He also reflects that, with hindsight, the company should have done more market research and invested earlier in e-commerce. Nonetheless, the company is growing strongly and its investment in expanding local production facilities demonstrates its commitment to developing strong roots in the Bay of Plenty.
ANZCO Foods is one of New Zealand’s largest exporters. Its activities are based on beef and lamb production in New Zealand, including slaughter and processing facilities, food manufacturing sites, the country’s only large-scale cattle feedlot, plus a network of sales and marketing offices around the world. The company’s head office is in Christchurch, with five production sites in the North Island and six in the South Island, along with one in Australia. It sources livestock supplies over much of New Zealand and operates a 20,000-head-capacity cattle feedlot in Mid Canterbury. Offshore sales and marketing operations are located in Japan, Taiwan, Singapore, North America, Britain, Belgium and Australia. The company exports to more than 80 countries.

ANZCO began life in North Asia, specifically in Japan but with contract processing plants in Korea. Initially it was a sheep meat sales and marketing company established by its current chairman, Sir Graeme Harrison, and owned by the New Zealand Meat Producers’ Board in 1984. Sir Graeme explains the growth orientation of the company: “I’ve always been motivated by the dream of seeing an internationally owned New Zealand meat marketing company, owned by the farmers of New Zealand.” When the cooperative producer boards came under political pressure due to New Zealand’s dramatic economic reforms of the 1980s, ANZCO was pressured to offer shareholder stakes to New Zealand meat companies, which resulted in an attempted takeover. But Sir Graeme describes how ANZCO managed this challenge: “We did a reverse takeover and this is where foreign investment came in… so through the Japanese relationships that had all been built up over time, both with Itoham Foods and later Nippon Suisan Kaisha Ltd (Nissui), they became shareholders for ANZCO”. While some New Zealand stakeholders, as Sir Graeme describes it, were sceptical about Japan investment and “didn’t want to understand how Japan worked”, he believed partnerships with Japanese investors would provide stability and growth opportunities. “I predicted prior to beef import liberalisation that Japan would become the world’s largest net importer of beef – it did.” Two of Japan’s largest listed food companies, Itoham Foods Inc and Nissui, purchased major shareholdings in the company and have remained substantial owners alongside the company’s New Zealand-based management and directors through a number of restructuring exercises that commenced in the mid-1990s and became settled from 2001.

Sir Graeme describes the relationship with ANZCO’s Japanese customers and shareholders as pivotal, based on long-term commitment and trust: “You can’t wander in and out. You can’t flog off something and go to the beach. This is a long-term commitment, a marriage”. The connections have even run across the generations. The

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**Case study**

**ANZCO Foods**

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<th>Head office</th>
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<td>Christchurch, New Zealand</td>
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founder of ANZCO’s largest shareholder, Itoham Foods, commenced purchasing New Zealand mutton for manufactured food items such as pressed ham and sausages way back in 1958 – and his grandson, Kouchi Ito, currently serves as Strategy and Business Development Manager in the ANZCO head office in Christchurch. Although the management and strategic leadership of the business remain firmly in the hands of the New Zealand team, the two Japanese investors have played vital roles. Not only did they bring dependable shareholdings and financial resources at times when the company had limited alternatives, their size and influence in the Japanese market gave ANZCO an important set of connections that enabled it to manage the challenges of gaining access to the Japanese market, which has traditionally been difficult to penetrate due to trade restrictions and a variety of non-tariff barriers. Through Itoham Foods, ANZCO is now also linked to the Mitsubishi Corporation, one of Japan’s major corporate groups, since it became a cornerstone investor in Itoham in 2009.

Stable relationships with the Japanese investors and customers have resulted in sustainable business for ANZCO, as Sir Graeme explains:

“So we have consistently supplied over the last 25 years around 90% of New Zealand’s chilled beef exports to Japan and Japan is New Zealand’s number one chilled export beef market”.

But perhaps the most important contribution made by the Japanese shareholders has been assistance with product standards, quality control procedures and a mind-set fixed on quality at every step in the production process. This, according to Sir Graeme, is the single greatest factor that has allowed the company to produce premium products that meet the exacting standards of the Japanese market: while other customers might, for example, tolerate small bone chips in their meat, the Japanese customer will not. A Japanese technician helped ANZCO to adopt quality control procedures and encouraged the firm to develop its own innovative technology for detecting bone fragments and foreign objects – which ANZCO has since shared with other meat producers locally and sold internationally. Success in meeting the standards of the Japanese market has in turn positioned the company to develop high-end markets elsewhere. As Sir Graeme puts it, “If you can successfully supply Japan, you can...”
supply anywhere." Carving out a niche through constant renewal of market knowledge, direct contact with customers and attention to detail and quality is vital to expanding into new markets as well as maintaining exports to Japan.

The company began exporting its feedlot-finished beef to Europe and the Middle East three years ago, positioning itself as a niche player in competitive markets. Sir Graeme summarises, "So there is a good example of niche markets – all made possible by learnings in Japan and taking them elsewhere. So if you want to have one good story on foreign investment, that’s the one straight out." As one of the company’s executives put it then, while it is difficult for it to compete internationally on price, it can compete on quality. This makes a commitment to product quality a constant challenge for ANZCO. Sir Graeme notes that although quality protocols are formalised, implementation boils down to a mind-set, a company-wide culture of paying attention to details and fine-turning the organisation that has allowed ANZCO to achieve a higher proportion of premium chilled-meat sales than any other player in the New Zealand meat industry.

ANZCO’s growth as a company has bolstered New Zealand’s export earnings, but more tangibly its production and processing plants located in rural and regional areas of New Zealand have created jobs in communities that in some cases were under stress from a general decline. The manufactured food factories built by ANZCO in Waitara, for example, were the first major new businesses to come to that town in many years. ANZCO has also been involved in the Red Meat Profit Partnership (RMPP), a knowledge-sharing initiative funded by government and industry. An example of how this initiative can catalyse productive change comes from the Canterbury farm owned by the McLauchlan family, which supplies meat to ANZCO and was invited by ANZCO to join RMPP in 2015. As reported on NZFarmer.co.nz, joining RMPP gave them access to expert help to identify new business opportunities and learn about new techniques and seed mixes demonstrated on other farms, giving them the confidence to change their own pasture mix. "Being part of the RMPP programme has given the McLauchlans access to new ideas and innovations as well as a support network, including ANZCO staff and a farm systems scientist." To generate more value, ANZCO actively fosters innovation. For example, ANZCO has opened an innovation centre at Lincoln University, working closely with its science faculty to develop new food products. The company also continually improves its processes to save energy, which recently has been recognised by an EECA award for energy management. According to the judges: "ANZCO ticks all the boxes – theirs is a textbook case of what an energy management plan should look like. Everyone’s on board, they show consistency across multiple sites and they’re eager to seek out further energy savings." International market access remains a concern for ANZCO: the company is reliant on global, regional or bilateral trade agreements to place its meat on foreign supermarket shelves. While relationships with customers and partners are important, ultimately it is governments around the world – responding to their own political constituencies – who set the rules of access. While we can’t control political forces outside New Zealand, Sir Graeme calls for a bipartisan approach within this country, to develop a consistent policy approach.

But perhaps the most important contribution made by the Japanese shareholders has been assistance with product standards, quality control procedures and a mind-set fixed on quality at every step in the production process.

Augen Software Group provides a range of software services to New Zealand businesses. Now a thriving set of related companies that spans New Zealand and Vietnam, the group has weathered many industry ups and downs since it was founded in 1993 by current executives and owners Mitchell Pham and Peter Vile, along with three of their friends and fellow students from the University of Auckland. Although Augen retains the energy and agility of an IT sector start-up, it has also developed into an established player within local networks of industry bodies and business-government collaborations. Augen showcases NZ Inc. at its best: an entrepreneurial business that sees success as a long-term, collaborative mission.

It has been a long pathway for co-founder Mitchell Pham, who arrived in New Zealand as a teenage refugee from Vietnam. The term ‘migrant entrepreneur’ would, at the time, have seemed an odd description of those who fled the conflict and upheaval in much of Southeast Asia. Yet Mr Pham traces key elements of the Augen story to the particular blend of migrant entrepreneurship and local Kiwi can-do enthusiasm in the business.

Most obviously, there was the decision to expand into Vietnam, which became operational when Augen opened its first venture there in 2005. It was Mr Pham’s connection to the country that sealed the decision to locate in Vietnam rather than other locations popular for IT outsourcing, such as China and India. Augen saw the opportunity in
“If any business wants to succeed in Asia today, we have to show that we are not there to extract value; rather, we are there to build value – together.”

- Mitchell Pham

This is where Augen, offering an approach specific to the New Zealand business landscape, stepped in. Given local supply constraints, “not accessing offshore resources was not an option, but there had to be a better way. So we then got together with a few of our customers – we looked at how we might be able to address the risks, the barriers, the cost and the challenges and some of the failures they had experienced by doing things in a different way. We then came up with a new and different model”. They chose Vietnam, Mr Pham says, “because I am originally from Vietnam. I understand the culture and some of the key things around what we saw as the critical success factors. One of those was cultural integration. So we thought, ‘Well, at least with Vietnam we have a head start because we already have a very strong and deep cultural understanding of that market’”. This needed to be brought together with Augen’s close engagement with its New Zealand customers, to develop “practices that are well suited specifically to New Zealand businesses. It took us a long time to weave that into our Vietnam operation through trial and error”. It took about five years to mature the model from concept to robust delivery mechanism. The benefits go beyond cost savings: “What is more important than cost is true resource scalability when it is needed and, ultimately, the business benefit to these companies is speed to market. The more our tech companies sell into international markets and grow globally, the more they will face global demands and need access to global resources”.

The Vietnam venture has proved itself as a way of enabling Augen’s New Zealand business clients to meet these global challenges and grow in the process, developing the New Zealand technology industry. ‘Silicon Hill’ is Mitchell Pham’s term for the cluster of IT and related companies surrounding the Augen offices in central Auckland. And just as Silicon Valley’s dynamism rests on the clustering of know-how and sharing of ideas and people, Augen sees a key role for collaboration in developing the local industry. This mind-set is very much behind Augen’s latest Vietnam initiative, the Kiwi Connection tech hub. Set up by Augen together with a long list of partners, including NZTE and the Ministry of Foreign Affairs and Trade as well as many companies, the Kiwi Connection is based in Vietnam’s largest software park, Quang Trung Software City in Ho Chi Minh City. Its mission is to help New Zealand technology companies to accelerate their presence and engagement in Vietnam and the Southeast Asian region. It’s an ingenious institutional solution to New Zealand’s perennial problems associated with a business landscape made up predominantly of small and medium enterprises that lack the deep pockets necessary to set up a permanent presence and build high profiles abroad. The Kiwi Connection tech hub offers a pathway for these companies that avoids each one having to set out and re-invent the wheel for itself in a very foreign and different part of the world. It also enables the companies to have the credibility bestowed by Augen’s visible commitment to and recognition in Vietnam. As Mr Pham puts it, to be successful there you need to be “very present, very engaged, very committed and very permanent” in order to establish long-term relationships with business partners and attract the best people from the local market. The benefits of that commitment were recognised when Augen received the Vietnam IT Excellence Award in October 2015, marking its leadership role in the local IT industry – which is known to be dominated in size by many local and international giants.
It’s impossible to have a conversation with Mitchell Pham without being struck by how often the story revolves around the collaborative partnerships that Augen has forged: the long-term relationships with clients, government agencies and organised groups focused on something bigger than short-term profits for the firm itself. He doesn’t use the phrase ‘win-win’ but it is clear that his whole mind-set is focused on shared development on a pathway to mutual growth. In some ways this runs against what Mr Pham calls the ‘DIY culture’ that is typical of many traditional Kiwi businesses. This mentality “helped us extremely well when we first discovered, populated and founded this country. It literally gave us that ‘can-do’ attitude – as in we haven’t done it before but who cares, we are going to do it and we will figure out how to do it. It is a really great tool for a country that wants to innovate a lot”. But the culture comes with drawbacks too, especially when the challenges change. When it comes to the challenge of commercialising innovation and growing on a global platform, thinking you can do everything by yourself is a handicap.

Augen also saw the need to adjust its own start-up ethos. While agility and energy remain important, growing in an Asian market such as Vietnam requires engagement “in a way that looks solid and permanent” rather than dropping in with a fleeting visit. It fits with the emphasis on collaboration and shared value recognised by Mr Pham. “If any business wants to succeed in Asia today, we have to show that we are not there to extract value; rather, we are there to build value – together.”
Fitzroy Engineering is a multi-disciplined engineering company and one of New Zealand’s largest heavy fabrication businesses. Established in the late 1950s by Peter White-Robinson in New Plymouth, the company has built core capabilities in the oil and gas, petrochemical and energy sectors. Today it employs about 400 staff in its locations in New Plymouth, Taupō, Wellington, Auckland and Brisbane. The company’s multi-disciplined engineering expertise allows it to attract important maintenance and engineering contracts with major oil and gas companies, such as Z Energy, Caltex Australia and Shell Refining Australia. It has also been able to succeed in new markets, such as the Maldives and Papua New Guinea. More recent projects include working at the Methanex NZ distillation plant and the Z Energy biodiesel project in Wiri.

In 2011 Fitzroy Engineering was acquired by the Malaysian Dialog Group after it had been in the sole ownership of Peter White-Robinson since the early 1990s. The Dialog Group now owns 90% of Fitzroy Engineering and the current Managing Director, Richard Ellis, owns the remaining 10%. The Dialog Group is the leading Malaysian technical service provider to the oil and gas industry. The Executive Chairman of the Dialog Group, Tan Sri Dr Ngau Boon Keat, was no stranger to New Zealand and to New Zealand engineering. He had originally studied in New Zealand under the Colombo Plan and now holds a degree in Mechanical Engineering and an honorary Doctorate of Engineering from the University of Canterbury. This ensured a good fit between the companies in terms of both technological capabilities and an understanding of management practices and the local business culture. The Dialog Group is publicly listed on the Malaysian stock exchange and has about 2200 employees in nine international locations and reaches customers globally. The Dialog Group acquired Fitzroy Engineering because of its technological capabilities in fabrication, which allows it to offer more comprehensive solutions to its clients.

The Dialog Group had substantial growth objectives for Fitzroy Engineering, but falling oil and gas prices have made the industry
environment more challenging. However, it is precisely these changes to the business environment that have brought the advantages of the investor to the forefront. The Dialog Group has a strong commitment to and a long-term vision for Fitzroy Engineering. As Mr Ellis puts it: “We have gone back to Dialog to say we want to diversify, and to diversify we need to actually get more skills and we need to buy more equipment and things like that – and they have allowed us to do that.” This is representative of the management approach of the Dialog Group. Fitzroy is managed by objectives and supported in achieving those. As a result, the management of Fitzroy feels empowered and able to be in charge of their own destiny in growing the business.

The investment also brought new opportunities within Fitzroy’s reach. The capabilities of Fitzroy can now be used within the Dialog Group. This contribution builds trust and an appreciation for New Zealand’s vocational education and training. The technical capabilities of Fitzroy are now featured in the annual report of the Dialog Group, which shows that Fitzroy has become an important part of the Dialog Group. Being part of the group has enabled Fitzroy to pursue new, larger opportunities. As Mr Ellis says: “Dialog has given us strength, which means our customers see us as having the liquidity and the support required to take on some of the scope of work that we actually need to undertake.” Securing these opportunities through additional investments was critical for Fitzroy to overcome the difficult time during the downturn in the oil and gas industry. Mr Ellis points out that it would otherwise have been difficult to maintain the full workforce during this downturn, which would have limited the ability of Fitzroy to take on new orders as industry conditions improved.

Because of its highly skilled workforce, Fitzroy has also become an important source of innovation in the Dialog Group, allowing it to continue to develop new products and solutions. Mr Ellis describes the interaction between the Dialog Group and Fitzroy in terms of innovation: “They see New Zealanders as being very, very resourceful because of the value of labour. So when we come up with a whole lot of innovation to reduce labour input they get higher productivity. They like to see Fitzroy utilising those innovations and then they try to leverage off that and replicate or utilise the same innovations that we develop. They are prepared to fund it. That’s good”.

“We have gone back to Dialog to say we want to diversify, and to diversify we need to actually get more skills and we need to buy more equipment and things like that – and they have allowed us to do that.”

– Richard Ellis

The Executive Chairman of the Dialog Group, Tan Sri Dr Ngau Boon Keat, has also demonstrated a personal commitment to New Zealand and in particular to Christchurch. He is a donor to the University of Canterbury College of Engineering26 and has also made a significant personal financial contribution to the Christchurch rebuild. Overall, the Dialog Group has shown a strong commitment to Fitzroy and New Zealand. It has shown that it is willing to accept the company’s management culture and that it places a high value on New Zealand tradespeople and innovation. The Dialog Group has invested in making Fitzroy stronger during difficult times in the industry while accepting its culture, values and strategic direction. As Mr Ellis summarises: “Dialog has not taken any money out of this organisation. We have made money every single year. We have been profitable every single year – every dollar has been reinvested – every single dollar.”

The Griffin’s Food Company is one of New Zealand’s most well known companies. Its brands, which span the range of sweet and savoury snack foods, include Griffin’s, Nice & Natural, Huntley & Palmers and ETA. Griffin’s is also one of the country’s oldest companies, having been established in 1864 by John Griffin in Nelson as a flour and cocoa miller. It was publicly listed early – in 1895. Since leaving the public arena in 1962 it has had a series of private owners and is now owned by the Philippines-based Universal Robina Corporation (URC). The sale of Griffin’s to URC was approved by the OIO in 2014 and finalised the following year. The company had previously been owned by an Australasian private equity firm.

Griffin’s has two factories in Auckland, New Zealand (Wiri and Papakura) and also produces a small percentage of its products in Asia. It employs around 750 people in New Zealand. While anchored here, the firm has expansion plans to increase its sales and presence in Asia, particularly Southeast Asia, and Australia.

The drive to expand the number of product lines and tailor products for the Southeast Asian market is very much a consequence of the company’s new ownership. Griffin’s has now set up a business unit in the Philippines to steer the regional expansion strategy. This is led by a senior manager from Griffin’s whose role is to liaise with different URC business units in Southeast Asia and work with them to launch products in different markets across the region. This is a major step up, given that Griffin’s previously had only a small export team based in New Zealand, which relied on distributors in Asia. James Clark, Asia Business Manager for Griffin’s, explains that the company used to “simply offer our New Zealand product catalogue to the distributors. There was no marketing support. There was no trade activation support”. That is all changing, as the company is now developing products with the Asian consumer in mind, which means adapting recipes, packaging, design and brand strategy.

The challenge is a big one. As Mr Clark explains, Griffin’s may be an iconic Kiwi brand, but in Asia there was no awareness of it: “It had no meaning, no history... so we needed to think about what is aspirational for consumers in Asia and tap into those sorts of associations”. One of its innovations is a milk powder-added biscuit, profiled as made from pure New Zealand milk. While the biggest section of the consumer market in Southeast Asia does not have much cash to spare, for the region’s wealthy and the emerging middle class, “brands are very important in terms of the image they portray – and that is where imported brands can play a big role.”
The task of innovating and adapting to local market conditions in Asia is greatly helped by Griffin’s new owner. Being part of the wider URC corporate group gives the company access to teams across the region whose expertise is critical in providing insights into local tastes and buying habits. The partnership is one that is intended to bring growth to both sides: Griffin’s brings expertise and quality products that command a price premium, while URC brings an established network, a wealth of business history and a long-term growth focus.

From the perspective of Mr Clark, URC remains a very nimble and flexible company, maintaining the values of a family company despite its size. URC is also “very much an innovation-driven business” in the process of transforming from “a fast follower to a leader”. For Griffin’s, this means that the learning runs two ways and the strategy for expansion has been very much a shared endeavour. The growth that the company projects includes expansion in New Zealand, Australia and Southeast Asia. Local production will serve markets such as Indonesia that restrict imports, reduce logistical complexity and avoid problems of limited shelf life for some goods.

In the New Zealand operations, the company has adopted an employee training scheme, introducing a cadet programme in 2016 to get talented employees into management regardless of their backgrounds. The company places great value on training, from New Zealand Qualifications Authority training programmes for shop floor workers to leadership training for future managers. The enhanced career opportunities for New Zealand staff also include the potential to expand their own experience and skills by working in a larger organisation with multinational operations.

There is also a new financial ethos. Under private equity ownership Griffin’s had a primary focus on the bottom line; URC’s controlling shareholders remain members of the Gokongwei family, led by John Gokongwei, who founded the company in a rags-to-riches story that is legendary in the Philippines. Mr Gokongwei built the business from a roadside peanut seller to the large corporate group it is now. As put by Mr Clark, “It’s a very inspiring story and the values that underpin the business are very much synergistic to his values, from his upbringing. The really interesting thing is they align very closely to the values that Griffin’s has.”27 The company purpose, as displayed on its website, emphasises “growing and supporting our Kiwi communities”.

Among the many social responsibility initiatives supported by Griffin’s is the firm’s partnership with Te Whakaora Tangata, a community foundation committed to assisting disadvantaged families hit by poverty, abuse and other challenges. Te Whakaora Tangata aims to support the restoration of safe and stable home environments and facilitate development opportunities for the future.28 Some of those assisted by the foundation have been employed by Griffin’s.

Griffin’s also has introduced several waste reduction and recycling programmes at its factories, including the separation and recycling of food waste and the use of waste oil for biodiesel. With concern about the adverse environmental effects of palm oil at high levels in New Zealand, the company has also moved to ensure its palm oil purchases are being certified by the Round Table on Sustainable Palm Oil.

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27 The values of Griffin’s, as listed on its website, are to Be Passionate, Connected (with each other and our communities), Creative and Brave. URC’s values are to have a Passion to Win, Dynamism, Integrity and Courage.

How does a New Zealand business sell directly to Chinese consumers who don’t have credit cards? It’s a major issue, given that only about a quarter of Chinese have credit cards, and even if they do, they don’t use cards for most online purchases – cards are used for only about 12% of such transactions in China. Add to that the problem of Chinese government restrictions on foreign exchange dealings and high fees charged by banks, and it becomes apparent that many New Zealand businesses, from major online vendors to sole traders to education providers, face a real hurdle in developing their direct sales to Chinese customers through cross-border e-commerce.

This is the gap in the market that LatiPay meets: it allows Chinese customers to pay in yuan for their purchases of New Zealand goods and services, while the New Zealand sellers receive the funds in New Zealand dollars, all without the need for credit cards. As put by CEO Leigh Flounders, “It’s critical for New Zealand businesses to understand there is no point offering a credit card facility to pay for your goods and services for Chinese consumers who want to interact with you but aren’t carrying that credit card.”

Speaking on another occasion, Mr Flounders described LatiPay “like PayPal, but we are PayPal for Chinese e-wallets and banks”. In this way LatiPay helps New Zealand exporters, education providers and tourism businesses to engage more productively with China.
LatiPay was founded at the end of 2014 by Peter Qiang Wei, Alistair Nicholson and Jim Rogers. Chinese New Zealander Mr Wei graduated with a degree in IT from Auckland’s AUT in 2004. He serves on the board of Latitude Technologies Ltd, part of the corporate group, and brings experience in the financial services industry, particularly currency exchange and cross-border trading. Mr Nicholson, Executive Chairman of VALIC and an investor in several New Zealand agricultural businesses, brings a strong knowledge of exporting, farming and finance. Mr Rogers, a Singapore-based American businessman and also co-founder of the Quantum Fund, combines entrepreneurial experience with a strong knowledge of investment and doing business in the Asia-Pacific region.

LatiPay is a New Zealand-registered Financial Service Provider, offering customers on both sides of the deals it brokers assurance of legal compliance and security of payment. It has arrangements with 19 major Chinese banks that offer e-payment services to their Chinese customers, and in a major breakthrough in 2016, signed an agreement with the two Chinese online platform giants, Alibaba and WeChat, and JDPAY, providers of e-wallet services that are used for 40% of Chinese online payments.

Although a newcomer, LatiPay already employs 22 people and offers an internship programme to students at local universities. The team is diverse, as Mr Flounders explains: “We are Chinese faces and Western faces. I mean most of our team is bilingual. We speak Māori, Mandarin and English”. Founding employees are also part of an employee share scheme, and the 10% employee ownership is a critical part of LatiPay’s success, as it “brings the team together” and benefits “all founders of the start-up”. While until recently LatiPay only dealt in Chinese-New Zealand currency trades, on 9 January 2017 it went live on Chinese-Australian currency settlement. It is aiming to expand into other currency markets, to provide the same services to businesses in Singapore and the US, which all face the same challenges in interacting directly with Chinese customers. This expansion will likely increase the number of employees to 40 by the end of the year.

Another major step in developing the business came in 2016, when LatiPay won the Tech StartUp Award at the 2016 Australia and New Zealand Internet Awards (ANZIAs) in August in Melbourne. LatiPay was up against prominent competition including innovations from large, established players such as ANZ, Australia Post and Disney. LatiPay’s achievement was recognised by event co-organiser InternetNZ’s Megan Baker, who stated, “Winning an ANZIA award is testament to showing real innovation and being ahead of the game in today’s technological era”.

“It was important that the VC funds provided not only the financial resources needed to grow the business faster, but also access to new channels to the market. The funding will be mainly used to grow internationally.”

– Leigh Flounders

After this success LatiPay was approached by venture capital (VC) funds, and the company has just raised US$3 million to fund its growth. Most of the funding comes from Singapore-based VC fund Jubilee Capital Management, which has a strong foothold in Southeast Asia and China. Other investors include Zino Ventures and New Zealand-based Tuhua Ventures.

Mr Flounders explains that it was important that the VC funds provided not only the financial resources needed to grow the business faster, but also access to new channels to the market. The funding will be mainly used to grow internationally: “We are going to invest that money as follows. Firstly, in IT resources – so having a much more robust in-house IT team – and also having our IP [intellectual property] protected internationally… The bulk of the funding is going to be for effective launch in the US and Singapore markets and really dominating the Australian


market”. The launch in Singapore will give LatiPay better access to Southeast Asia and provide an opportunity to develop institutional partnerships, such as with telecommunications companies and payment gateways. For example, LatiPay has just announced a partnership with the Australian Stock Exchange-listed Novatti Group – one of the payment gateways in Australia that will help it to achieve scale.

The company’s progress has not been all smooth sailing. The finance sector can be a difficult place for a new technology company, as incumbents are not particularly warm to newcomers. This may be an inevitable challenge for new businesses that challenge the comfortable position of entrenched players that enjoy comfortable margins. It is also hard for LatiPay to find highly skilled IT experts in New Zealand. However, Leigh Flounders says the company has received “huge support” from NZTE and its partner PwC, especially in assisting the company to meet compliance requirements, and also describes Education New Zealand and Tourism New Zealand as “amazing”.

LatiPay is increasing its connections with universities and private education providers (a sector that is one of New Zealand’s largest sources of export earnings) and hopes to work more with students here. Not only does it offer internships in Auckland to students from the University of Auckland, AUT and Massey University, its services aim to solve what can be a major, and costly, problem for Chinese students in getting their fees paid in a way that meets legal requirements at both ends.

It is almost certain that cross-border trade with China will increase, and e-commerce offers an important mechanism for New Zealand businesses, many of which are small and medium enterprises, to deal directly with Chinese consumers. Not only does this cut the costs associated with marketing and distributing through Chinese agents, it also offers Chinese buyers – alert to the potential for fake products – a highly valued direct connection with the producers.

LatiPay also has strong engagement with Māori businesses and iwi, and the tech team has just integrated Māori in the platform for customers to select it as their language. “They will see everything in Māori. They can invoice a Chinese consumer. The Chinese consumer will see everything in Mandarin. So it is a true Māori to Mandarin service.”

LatiPay’s achievements have been recognised not only by investors and their many partners in the Asia-Pacific region, but also by the global tech community in the US. LatiPay has just been nominated as a finalist for South by Southwest – a tech festival in Austin, Texas that features emerging technologies. LatiPay is the only New Zealand company in the final and will be presenting to the heads of Google and Johnson & Johnson, who are going to be the judges for the competition.
Many New Zealanders will know Rinnai as the company behind popular gas heaters and fireplaces used to heat homes and provide hot water. Rinnai New Zealand is a subsidiary of Rinnai Corporation, a Japan-based company with subsidiaries in 25 countries. Rinnai New Zealand was established in 1974 as a distributor of Japanese-made gas heating appliances. And, says Managing Director Ray Ferner, it could have quite comfortably remained a distributor of products produced by its parent company. Rinnai New Zealand, however, took a more enterprising approach from the beginning and began to produce its own products to complement its role as a distributorship. In 1978, two years after being approached by what was then the Department of Trade and Industry to make mobile LPG heaters, the company began exporting gas heaters to Australia. It was an important step for the company and the country, giving Rinnai New Zealand the opportunity to develop an own product category with the support of the parent company and marking New Zealand’s first-ever exports of gas appliances. Mr Ferner explains the philosophy of the parent behind this strategy: “They will help us to do anything that they can see will be successful. In Japan, there are no houses that have fireplaces so they
just didn’t have that knowledge in developing fireplaces. They recognised that and so they said, “OK, we see that that is a valid category in your market; we will help you with the technology to deliver that”. Today, Rinnai employs 109 people and continues to design and manufacture its own gas fireplaces in New Zealand, and there is a real sense of achievement for the team. Had it remained a distributor only, Mr Ferner reckons it would employ only around 30 staff.

Rinnai remains an innovative company on the lookout for sustainable growth opportunities. In 2012 it acquired another New Zealand company, HJ Cooper, and added its hot-water cylinder capacity to Rinnai’s product range. The decision to grow through an acquisition rather than organic growth marked a change in the company’s strategy and reflected changing market conditions in New Zealand and abroad, given that Rinnai had reached a point where it was already the leading seller in most of its product range. Rinnai is continuing to explore new opportunities, both potentially through acquisitions and through developing new product technologies in new sectors that remain consistent with the Rinnai ‘home comfort’ focus.

This approach is supported by the company’s Japanese owner, which has given the New Zealand management much autonomy while standing ready to provide support when required. As Mr Ferner puts it, “They want us to develop a strategy to take the business forward” and while the parent company naturally needs to approve major investments or changes in strategy, it has allowed the New Zealand subsidiary the flexibility it needs to operate successfully in New Zealand conditions. Rinnai as a whole appears to demonstrate the principle of ‘flexible globalisation’: tailoring products and operations to suit local conditions, rather than imposing organisation-wide uniformity in all units.

Support from Rinnai Corporation in Japan comes in several forms. One is ongoing access to technological and manufacturing expertise on an as-needed, project basis. Thus, for example, when Rinnai New Zealand proposed developing a new capacity to carry out its own painting requirements, Rinnai Corporation sent its own experts to assist with set-up, plant architecture and layout. The value of being able to access Rinnai Corporation’s 5000-employee resource base in Japan, says Mr Ferner, is “incredible because Rinnai Japan is essentially a manufacturing expert – that’s their real forte – so there is a lot we can always learn from them”.

The Japanese connection also serves to keep the company on its toes in terms of quality, which it takes as a defining characteristic of the brand. Not only have New Zealand staff been sent to Japan for short-term training and observation, but Rinnai New Zealand sells its own New Zealand-designed and manufactured fireplaces to Japan. The sales volumes are low due to different consumer preferences in Japan, but an important consequence is that the parent company has “a lens on our manufacturing quality and that’s very, very important to them because one of the essential characteristics of Rinnai, as a brand, is to deliver fantastic quality. That gives them an easy way to understand the quality level that we are delivering”.

Rinnai Japan’s long-term, patient approach to investment also yields benefits for Rinnai New Zealand’s strategy of local innovation and...
growth. Having access to an investor with deep pockets and a willingness to hold capital assets makes a crucial difference to the ability of the local operation to innovate. Mr Ferner describes the attitude in these terms: “They want us to succeed and they leave us capital to be able to grow the business or acquire other businesses. Whereas an American company would take any free cash straight away, the Japanese are (in this company anyway) keener to allow us to be able to use that to grow the business.” The management team does take a rigorous approach to spending this money wisely, and is held to account by the company’s owner in Japan.

Rinnai New Zealand also gains advantages from being able to tap in to the resources of the wider Rinnai group of companies, benefiting from informal information exchanges with Rinnai subsidiaries in Australia, the US and elsewhere. Mr Ferner gives as an example a recent telephone call with Rinnai America to discuss market intelligence, collection of data and analysis systems. “They are a bigger company than us of course... So there is an opportunity for us to understand how they go about things and see if we can learn from that and collaborate. That sort of thing happens a reasonable amount. It’s not formal.”

Rinnai New Zealand takes a broad view of its role in the local community and as an employer. It was involved for several years in a charitable trust run by players in the local plumbing industry that raised over $2 million for local children’s charities, and Rinnai continues to support one of these charities. The company also invests in its employees, with a comprehensive induction and training programme for new employees. While some of the training is company specific, Rinnai also provides assistance to many of its employees to develop their literacy and numeracy skills. Mr Ferner observes that this commitment is win-win: “It helps them in work and also it helps them at home, and they are so appreciative of that sort of input because that is adding value that they struggle to get anywhere else”. This also raises the productivity and quality of employees on the job, and almost certainly helps Rinnai to maintain its low employee turnover rate of less than 6%.

Rinnai New Zealand is here for the long term and will continue its approach of growth through innovation while protecting value. Mr Ferner sees this approach as inherently compatible with that of its Japanese owner, noting that “a really important thing for Japan is about long-term sustainability. They don’t want to bet the house if the risk is too high, even if there could be a huge payoff”. Patient innovation and a sustainable growth strategy mark a distinct culture that often prevails in countries such as Germany and Japan, known for quality, high-technology manufacturing and productivity growth.
Skykiwi.com was founded as an online discussion forum for Chinese people in New Zealand in 2001 and began commercialising its operations in 2005. Today, under the leadership of director Ally Zhang, the company employs more than 50 staff and interns in its Auckland office, and has 230,000 registered users. While the majority of these users are based in New Zealand, about 20% are based in China. It has 150,000 followers across its three WeChat accounts. WeChat is the most widely used Chinese social media platform, and each of Skykiwi’s three accounts targets a different user segment.32 Largely, the company focuses its operations on its online presence, providing a news service as well as a discussion forum for users. Its main clients are Auckland-based Chinese companies that wish to reach out to an important customer base.

Skykiwi produces and circulates a variety of news types. Its motivation is to serve the Chinese community better than traditional media and, to do so, it relies on a variety of sources for news. First, its team translates and edits news from the mainstream New Zealand media, such as RNZ, Stuff.co.nz and The New Zealand Herald. It also employs a team of journalists who generate both written and video coverage of community events and social, political and business news. Common topics include news related to the Chinese community, immigration, students and China-New Zealand relations. Finally, Skykiwi has partnerships with the major Chinese news agencies both in China and elsewhere, which provide for content swaps. Drawing on diverse sources allows Skykiwi to provide a balanced perspective to its readers on issues that are both relevant to the New Zealand context and of interest in China and the world.

Skykiwi was set up by some Chinese students, including Ally Zhang. Originally from Beijing, she invested in Skykiwi when she was a new migrant in Auckland, along with a successful businessman from China. At first the motivation was “to have a social platform where people can engage and to monetise it through advertisements”. The management of the company today continues to include several of these migrants to New Zealand, now mostly in their 30s.

The move to commercialise operations arose when Ms Zhang realised that there were business opportunities through the website. She saw that “there is some business value for this particular forum, because it generates a lot of attention and a lot of users will get online every single day to publish their opinions or discuss with the other people or to find some useful information to help them to settle down in New Zealand – or study or travelling or whenever you come to New Zealand. So I thought that was a very useful website. That’s why I think we probably can add on some business sense to actually monetise this kind of social society”.

Since then the company’s growth has led to a diversification of operations as well as increases in users and revenue. It has ventured out from its online operations into the area of event and function management. It has also turned its attention to markets overseas, developing relationships with clients in China, Australia, Singapore and Canada, for example, who wish to connect with Skykiwi’s user base. The team has also set up an export subsidiary, wellcome.co.nz, which exports New Zealand health products to China. The company’s international connections and capacity have recently been further strengthened by a major shareholding restructure in 2016, which saw an injection of capital by a Beijing-based company owned by a long-term friend of Ms Zhang. The investor, Feng Zhou, is now a substantial owner of the company group.
that also includes Skykiwi mobile and Skymall Ltd. He graduated from Tsinghua University and also from Yale University. Ms Zhang notes the advantages offered by his background and experience with international companies. One of their goals is to list on the stock exchange within five years, with the new shareholding by Mr Zhou intended to give an impetus to international expansion, as well as a move further into the mainstream New Zealand media market. With Mr Zhou's international experience and contacts, Skykiwi can secure better access to overseas markets, with China, Australia, Singapore, the US and Canada all areas of particular interest. As Ms Zhang explains: “We attract attention from Chinese people living in China because they want to migrate and those four countries are the most popular migrant countries in the world. We use our business model in different countries because Chinese may live or want to live in a different country, but their mind-set and behaviours are the same. So that’s why we have strong confidence in cloning our business model.”

Ms Zhang describes the relationship with Mr Zhou as one based on prior experience of cooperation and personal trust, which allowed the company to leverage the new investor’s expertise while allowing continuity in management style. In many respects this type of relationship is typical of the person-to-person connection known in China as guanxi. The term is frequently misunderstood, but at its heart it describes a relationship that allows for extended cooperation without the need for high-cost monitoring processes: the legal contract (which there generally still is) serves more as a statement of aspiration than an instrument that one party uses to hold the other to account. Ms Zhang and Mr Zhou communicate daily through channels such as WeChat, on QQ or in person to discuss how to further expand the business.

Although it has developed as a business, Skykiwi sees itself as still playing a social, not purely commercial, role. Its online discussion groups foster a lively community of young migrants and students in particular and, perhaps paradoxically, this becomes a pathway to greater local engagement: a local forum anchors them to New Zealand events, conditions and connections, when the alternative would be for recent migrants to exist in an online world oriented entirely to their countries of origin. Similarly, despite some of the criticism directed at foreign language signage and non-English-speaking migrants, the free news service that Skykiwi provides for local Chinese migrants arguably does more to integrate new migrants than perpetuate an enclave community. Given that many older migrants do not speak or read English, a locally based news service provides them with an opportunity to learn about what is happening in New Zealand – far more than if they had to rely for news on overseas-based foreign news providers. Ally Zhang describes Skykiwi as an “old-fashioned social network”, providing many benefits for its users including help with everyday tasks and settling in to New Zealand.

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Skykiwi is ready to foster more connections between the local Chinese-speaking community and other groups in New Zealand, saying it has at times assisted New Zealand government departments as well as the Chinese embassy in New Zealand. To reach out to more New Zealand clients, including businesses wanting to engage with the Chinese community, Skykiwi also plans to hire New Zealand employees. As Ms Zhang explains: “The board is asking us – as a company running in New Zealand, you don’t have any Kiwis – how would you expand the local business? We were having all the Chinese staff here just because we were focused on the Chinese group, but now we are expanding our business… Going forward, we would hire more Kiwi sales people to reach the Kiwi clients.” Skykiwi also supports Heart Kids NZ, a local charity. The company has, inadvertently, become something of an incubator for other businesses: many of its former employees who started their careers with Skykiwi have gone on to establish successful businesses in the media and related industries. For example, one former journalist with Skykiwi now plays an important role in developing Chinese social media in Australia. Another former employee who was a marketing manager with Skykiwi is now a director of a rapidly growing, trans-border, e-commerce start-up company in China.
Conclusion

The first part of this report provided information that addressed three questions: ‘Who invests in New Zealand?’, ‘Where in New Zealand are their investments located?’ and ‘In what activities and business sectors do they invest?’

Our analysis of data provided by Statistics New Zealand and the OIO suggests that investment from Asia accounts for a relatively small share of all foreign investment in New Zealand. Over half of all OIO-approved investments originate from Australia (29%) and the US and Canada (26%), while the largest sources of inward investment from Asian countries are China (9%), Japan (7%) and Singapore (4%). However, looking at recent trends, investment from Asia is growing, and the share of OIO-approved investments from Asian countries doubled from 12% in the 2006-2010 period to 25% in the 2011-2015 period.

In response to the second question, the report shows that Auckland and Waikato are the most popular destinations for OIO-approved FDI from Asian investors (together accounting for 21% of such investments), suggesting that Asian investors prefer to invest in regions that already do well economically. Finally, looking at the business sectors in which Asian investors invest, our analysis revealed that about 75% of the OIO-approved investments from Asia (2006-2015) occurred in three broad business sectors, namely ‘livestock including meat and dairy production’ (26%), ‘property-related ventures’ (25%), and ‘forestry and horticulture including mining’ (24%). This apparent concentration of investments from Asia in the primary sector could simply reflect the nature of the OIO screening regime. The only firm conclusion to be drawn here is that there is a gap in the available statistical data: there are no official figures on the sectoral composition of non-OIO-approved investments by particular source countries or regions. To the extent that inward investment from Asia is concentrated in the primary sector, there is an opportunity to attract more investment in the manufacturing and services sectors in the future.

To better understand the potential of investment to lead to value-added activities in New Zealand, we chose to investigate in more depth companies that involve Asian investors and that have a focus on value-added manufacturing and services. Our eight case studies of Asian-invested businesses – both FDI companies and companies co-founded by migrants from Asia – give a partial picture of the dynamics at work. The cases are not necessarily representative and some sectors are noticeably missing. We do not, for example, profile any businesses in the broad property sector, although this is an important area for incoming investment. Nonetheless, on the basis of the firms that we have profiled, some conclusions emerge about the factors that drive successful businesses.
In successful businesses, Asian investors demonstrate a commitment to business growth and provide knowledge and capital to improve the competitiveness of the businesses. This is usually achieved through upgrading facilities, supporting product innovation, as evident in Rinnai New Zealand, and augmenting marketing capabilities. This commitment of the investors to the businesses tends to strengthen over time if they provide, or facilitate, access to further growth capital. Access to funding is sometimes complemented by increased market access for New Zealand businesses to Asian markets. In fact, leveraging the market knowledge, connections and cultural savvy to grow in Asian markets is often a key driver for successful investment outcomes. The successful cases investigated show the importance of a mutual commitment to a growth strategy as well as the benefits of finding an investor that can contribute important market knowledge and contacts to execute this strategy.

Successful businesses are also able to use knowledge gained from the investors and from international markets to refine their products or service offerings and processes. Growing internationally and building technological expertise often go hand in hand in successful businesses, and the investments facilitate this complementarity in pursuing growth in Asian markets. This is, for example, evident in the case of ANZCO. Our cases also show that the potential for such fruitful relationships is heightened if a business aligns with the New Zealand national brand image, which has been done very successfully by Addiction Foods, which shows how foreign investment can be a catalyst in refining the business model to shape an alignment with the New Zealand story.

Finally, successful businesses can also increase the connectedness between New Zealand and Asia. Our cases show two pathways through which connectedness can be enhanced. First, businesses may find new partners as they grow in Asian markets, and their business networks at home, as well as in Asia, strengthen and expand. Second, such successful businesses can enable other businesses to connect to business partners or customers in Asia. We see this capacity in the cases of LatiPay, Skykiwi and Augen – all established or co-founded by migrants from Asian countries. This second pathway for increasing connectedness is perhaps a less appreciated driver of successful investment that also promises great benefits for New Zealand.

Overall, the successful cases featured here demonstrate a wide range of benefits that Asian investment has the potential to bring to businesses in New Zealand. Beyond growth in profits for a company, such benefits include contributions to the New Zealand economy, such as providing employment in regional centres, providing training and up-skilling, and contributing to local communities. The companies featured in this report have made deliberate efforts to make positive contributions to the New Zealand economy and society. Successful investment requires a fit between the investors (their commitment, knowledge and networks), the businesses (their capabilities and resources) and their surroundings (the community and business ecosystem). By pursuing this fit the cases featured here have enhanced the connectedness between New Zealand and Asia.