

Building New Zealanders
knowledge and understanding of Asia.

Foreign Direct Investment:

New Zealand and Asia

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*"Building New Zealanders'
knowledge and
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EXECUTIVE SUMMARY

This report is the result of a research project, commissioned by the Asia New Zealand Foundation, which aimed to:

- identify the available information on foreign direct investment (FDI) from New Zealand into Asia and Asia into New Zealand¹
- compare this with available information on New Zealand's FDI with other countries worldwide
- use the information to provide a picture of the current magnitude, importance and potential growth of FDI from New Zealand into Asia.

THE AVAILABLE INFORMATION

The information was obtained from three main sources: Statistics New Zealand, the United Nations Conference on Trade and Development (UNCTAD) and the Organisation for Economic Co-operation and Development (OECD).

Statistics New Zealand collects information on the value of New Zealand's FDI in Asia. While data on many individual countries in Asia is confidential and therefore not publicly available, the department was able to provide:

- a customised dataset that identified FDI in Asia as a whole
- publicly available datasets covering:
 - the group of ten countries that comprise the Association of Southeast Asian Nations (ASEAN)
 - the few Asian countries for which FDI information is publicly available, such as Japan, Hong Kong and Singapore.

UNCTAD and the OECD gather international data on FDI. While the researchers accessed and used this information for this report, its value was limited because much of it is either now dated or aggregated at too high a level to enable meaningful analysis. For example:

- UNCTAD's 'country profile' reports identify the destinations of outward FDI, but were last published in 2006
- UNCTAD and the OECD have more recent online data on total FDI by country and regional groupings. However, it shows outward and inward FDI at an aggregate level and does not identify where the FDI goes or comes from.

These limitations had a significant effect on the research project, especially given the recent upheaval in the world's economies, the marked changes in New Zealand's trade patterns (with Asia now dominating merchandise exports and imports) and the signing of Free Trade Agreements (FTAs) with China and ASEAN.

As a result, the researchers were able to take only a high-level look at how New Zealand is investing in Asia. This restriction on their ability to reach meaningful conclusions has highlighted the need for more research and a greater investment in knowledge acquisition from local and international sources.

¹ 'Asia' includes Bangladesh, Bhutan, Brunei, Cambodia, China, East Timor, Hong Kong (Special Administrative Region), India, Indonesia, Japan, South Korea, Laos, Malaysia, Mongolia, Myanmar, Nepal, Pakistan, the Philippines, the Republic of China (Taiwan), Singapore, Sri Lanka, Thailand and Vietnam. Appendix 2 has a map of these countries.

KEY OBSERVATIONS

The review of the identified data revealed that:

- in the year to 31 March 2011, the flow of outward investment from New Zealand to Asia was estimated at NZ\$62 million
- on 31 March 2011, New Zealand's total investment stocks in Asia were valued at NZ\$2.37 billion
- Twenty-nine New Zealand businesses invested in Asia in 2011
- in 2003 New Zealand's FDI stocks in Asia represented 6.4 percent of its total FDI stocks worldwide. This proportion was higher than Australia's (3.8 percent) and the UK's (4.6 percent), but well behind the US's (13.9 percent)
- New Zealand businesses' investments in Asia, as a proportion of their worldwide FDI, have been steadily increasing. In 2001 they invested NZ\$563 million in Asia, just 2.7 percent of a total NZ\$21.2 billion worldwide. In comparison, the NZ\$2.37 billion invested in Asia in 2011 represented 10.5 percent of their total worldwide FDI
- in 2011 Asian investment in New Zealand was 2.5 times greater than New Zealand's investment in Asia. All countries worldwide had 4.1 times more invested in New Zealand than New Zealand had invested in the rest of the world
- in 2011 Asia accounted for 41 percent of New Zealand's merchandise exports and imports. China was New Zealand's largest trading partner behind Australia.

Overall, the figures suggest that Asia is more important to New Zealand than New Zealand is to Asia – but given that Asia's consumer market is about 3.8 billion people and New Zealand's is about 4.4 million, it is easy to see why.

OPPORTUNITIES FOR FURTHER RESEARCH

In order to make more meaningful conclusions, such as whether New Zealand is investing 'enough' into Asia, detailed data is needed on New Zealand's FDI in countries within Asia and the rest of the world.

To improve the data on New Zealand's FDI into Asia, BERL (Business and Economic Research Limited) recommends that:

- Statistics New Zealand's Balance of Payments Unit be approached to develop customised datasets that provide more detailed data on FDI both into and out of New Zealand
- organisations such as NZTE be approached to gain information on individual New Zealand businesses undertaking offshore investment. These businesses could provide valuable information on why, where and how much they invest in Asia and other export markets
- Statistics New Zealand's Longitudinal Business Frame be used to identify and monitor individual New Zealand businesses undertaking FDI.

To improve the level of information needed to compare New Zealand's FDI in Asia with that of other countries BERL recommends that:

- UNCTAD and OECD, and other international sources, be contacted about the availability of more up-to-date and/or detailed information, which could include identifying specific countries of interest and contacting their national statistics-focused agencies
- the UNCTAD database be monitored for updates of its FDI country profiles
- UNCTAD be encouraged to update its FDI country profile reports
- an FDI benchmarking framework be developed and comparable countries approached to determine their FDI into Asia.

Further research on New Zealand's investment into Asia would complement this report and previous work on foreign direct investment coming into New Zealand from Asia, completed by NZIER in 2008.²

² NZIER (2008) *Asian Investment in New Zealand. Report to Asia:NZ.*

INTRODUCTION

This report is the result of a research project, commissioned by the Asia New Zealand Foundation, which aimed to:

- *identify the available information on foreign direct investment (FDI) from New Zealand into Asia and Asia into New Zealand³*
- *compare this with available information on New Zealand's FDI with other countries worldwide*
- *use the information to provide a picture of the current magnitude, importance and potential growth of FDI from New Zealand into Asia.*

WHAT IS FDI?

FDI is a mechanism by which a resident entity in one country obtains a lasting interest (i.e. invests) in an entity resident in another country, with the purpose of gaining an 'effective voice'⁴ in the management of that entity.⁵

It involves:

- the initial transaction establishing the relationship between the investor and the enterprise
- all subsequent capital transactions between the two parties and among affiliated enterprises.

HOW IS IT MEASURED?

FDI activity can be measured in two ways: investment flows (outflows and inflows) and investment stocks:

1. Investment flows:
 - a. A country's annual net investment outflow is the value of all direct investments made by that country's businesses in other countries during the year, minus the value of all direct investments they have withdrawn from other countries. The outflow is negative if more funds are withdrawn than are invested.
 - b. A country's annual net investment inflow is the value of all direct investments made by overseas countries in that country during the year minus the value of all direct investments they have withdrawn from that country. The inflow is negative if more funds have been withdrawn from than invested in that country.
2. The net value of a country's investment stocks is the value of all direct investments in that country at the end of each year (or when they are measured), no matter when the investments were made.

Together, the net investment flows and investment stocks indicate FDI levels between countries.

3 'Asia' includes Bangladesh, Bhutan, Brunei, Cambodia, China, East Timor, Hong Kong (Special Administrative Region), India, Indonesia, Japan, South Korea, Laos, Malaysia, Mongolia, Myanmar, Nepal, Pakistan, the Philippines, the Republic of China (Taiwan), Singapore, Sri Lanka, Thailand and Vietnam. Appendix 2 has a map of these countries.

4 Statistics New Zealand defines an 'effective voice' as when the direct investor acquires at least 10 percent of the voting shares.

5 OECD (Organisation for Economic Cooperation and Development) *Benchmark definition of foreign direct investment*, 3rd Edition, Paris, 1996.

THE IMPORTANCE OF UNDERSTANDING FDI

FDI is linked with trade. While economists have yet to agree on whether increased FDI leads to increased trade or increased trade leads to increased FDI, it remains an important source of economic growth for both the country receiving it and the country providing it.

Outward FDI enables businesses to access additional finance, new markets, cheaper production facilities, advanced technology, and new skills and revenue channels. For example, New Zealand businesses might choose to invest in supply chains or manufacturing firms in Asia, and Asian businesses the same in New Zealand.

Understanding the dynamics of FDI and the value that it offers both countries is important for investment decisions and the strategic directions of investors, businesses and governments.

WHY IS ASIA SO IMPORTANT?

Asia is becoming increasingly influential as a driver of global economic growth. While most Western economies remain fiscally weak with rising debt levels, most Asian economies are continuing to grow – and with further liberalisation and increasing wealth, they will be more important than ever to New Zealand's own prospects for growth.

A reflection of the growing importance of trade relationships with Asia has been the signing of Free Trade Agreements (FTAs) with China and the Association of South East Asian Nations (ASEAN). An FTA with India is also currently under negotiation. The reduction of trade barriers as a result of these FTAs has made it easier for New Zealand businesses to export goods and services to these countries. FDI offers other avenues for enhancing our economic relationships with the countries of Asia. FDI enables investors to establish long-term relationships with businesses in one of the world's fastest growing markets. As well as providing opportunities for potentially significant commercial returns, building strategic partnerships opens the door to the development of sustainable, long-term trade and business ventures with Asian enterprise.

Many New Zealand businesses have already made major investments in Asia, and the region clearly offers the potential for more. This report quantifies this situation by:

- identifying and analysing existing sources of data on FDI between New Zealand and Asia, and internationally
- measuring New Zealand's investment flows to and stocks in Asia
- measuring the value of Asia's investment stocks in New Zealand
- comparing these figures with those relating to FDI worldwide, to assess the importance of Asia to other Western countries.

It also:

- investigates New Zealand's current trade with Asia
- explores Asia's potential growth for future trade and investment opportunities
- identifies opportunities to improve the quantity and quality of information on New Zealand's FDI in Asia.

However, it is important to note that some of the international data sourced for this report was published several years ago, and therefore is out of date. The world's economies have since gone through significant upheaval, New Zealand's trade patterns have changed markedly (Asia now dominates merchandise exports and imports) and FTAs are now in place with China and ASEAN.

This lack of current data has hindered researchers' ability to reach meaningful conclusions – and highlighted the need for more research and a greater investment in knowledge acquisition from local and international sources.

DATA SOURCES

This section describes the data sourced on FDI between New Zealand, Asia and the rest of the world, and assesses that data's advantages and limitations.

THE AVAILABLE FDI DATA SOURCES

The research identified four organisations with datasets that were potentially useful for identifying FDI flows and stocks:

- Statistics New Zealand
- the United Nations Conference on Trade and Development (UNCTAD)⁶
- the Organisation for Economic Co-operation and Development (OECD)
- New Zealand Trade and Enterprise (NZTE), although only as a source to be considered in future.

The following is a summary of the data available from these sources. Appendix 1 has more comprehensive information on each dataset reviewed.

STATISTICS NEW ZEALAND

Statistics New Zealand's Balance of Payments database provides current and detailed data on New Zealand's FDI overseas and New Zealand's investment overseas.

The data are presented for individual countries, but in Asia's case much of it is not publicly accessible because the number of businesses investing there (except in Singapore and Hong Kong, although occasionally including them) is too low to ensure commercial confidentiality.⁷

Discussions with the Balance of Payments Unit at Statistics New Zealand helped to address this issue. They provided the researchers with aggregated data on Asia, which enabled them to calculate an FDI total for Asia, and aggregated the countries in the Association of Southeast Asian Nations (ASEAN)⁸ into a single entity. The latter was particularly useful because New Zealand has significant dealings with these countries as a group, and in 2008 signed the ASEAN-Australian-New Zealand Free Trade Agreement, which came into force on 1 January 2010.

Statistics New Zealand also provides the 'Longitudinal Business Frame', a dataset established in 2003 that provides longitudinally linked data for "live" New Zealand businesses in a three-year period. The data covers businesses' names, locations, ownership links with other businesses, number of employees, industry, institutional sector, type of business, and the nature of overseas transactions. It appears to contain data on outward investment, although only for those businesses about which information has been collected.

⁶ UNCTAD is the principal organ of the United Nations General Assembly dealing with trade, investment and development issues.

⁷ Statistics New Zealand's rules mean that no data are published that would allow an individual person or business to be identified.

⁸ The members of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

UNCTAD AND OECD

UNCTAD has produced FDI profiles for 142 individual countries, including New Zealand, which identify the destinations and sources of outward and inward FDI. However, these profiles cover investments made between 1994 and 2006,⁹ so are somewhat out of date. In this report they have been used simply to compare New Zealand's FDI in Asia with that of similar developed economies. In particular the researchers have made comparisons with Australia, the United States and the United Kingdom, whose FDI profiles were last published in 2004.

Both UNCTAD and OECD have online, up-to-date datasets that present information on inward and outward FDI by country and regional groupings. These datasets are accessible to the public and enable useful FDI comparisons across countries. However, there is no specific information on the activities, sectors or businesses in which the investments have been made.

APPLYING THE RESEARCH

Using the data available from Statistics New Zealand, UNCTAD and OECD, the researchers were able to:

- measure the investment flows between and stocks in New Zealand and Asia
- identify the number of New Zealand businesses investing in Asia
- identify the number of Asian businesses investing in New Zealand
- compare New Zealand's FDI in Asia with its total FDI in other countries and with other countries' FDI in Asia
- measure the level of trade between Asia and New Zealand.

⁹ Depending upon when the profile was published. For New Zealand, FDI was identified from 1994 to 2004.

NEW ZEALAND'S FDI IN ASIA

This section uses the available data to measure New Zealand's FDI in Asia in terms of investment flows and stocks.

NEW ZEALAND BUSINESSES' INVESTMENTS IN ASIA

According to Statistics New Zealand data, New Zealand businesses invested an estimated NZ\$62 million in Asia in the year to 31 March 2011.

On 31 March 2011 New Zealand's total investment stocks in Asia were valued at NZ\$2.37 billion. Two-thirds, or 67 percent, of this was invested in ASEAN countries, 24 percent in Hong Kong and 9 percent in other Asian countries. However, it is important to note that stocks are the total amount of investment in a country regardless of when the investments were made, so the high levels invested in Hong Kong and ASEAN countries could be the result of large investments made in previous years.

Figure 1, below, shows the investment flows between 2001 and 2011 from New Zealand to ASEAN countries, Hong Kong and Japan (i.e., the countries in which New Zealand appears to have the most significant current investments). Note that Japan only has data available for 2003 and 2006 (showing negative investment flows) and Hong Kong has no data for three of the previous 11 years. China is not included owing to issues of data confidentiality, but the data seem to indicate that significant investments in China go through Hong Kong.

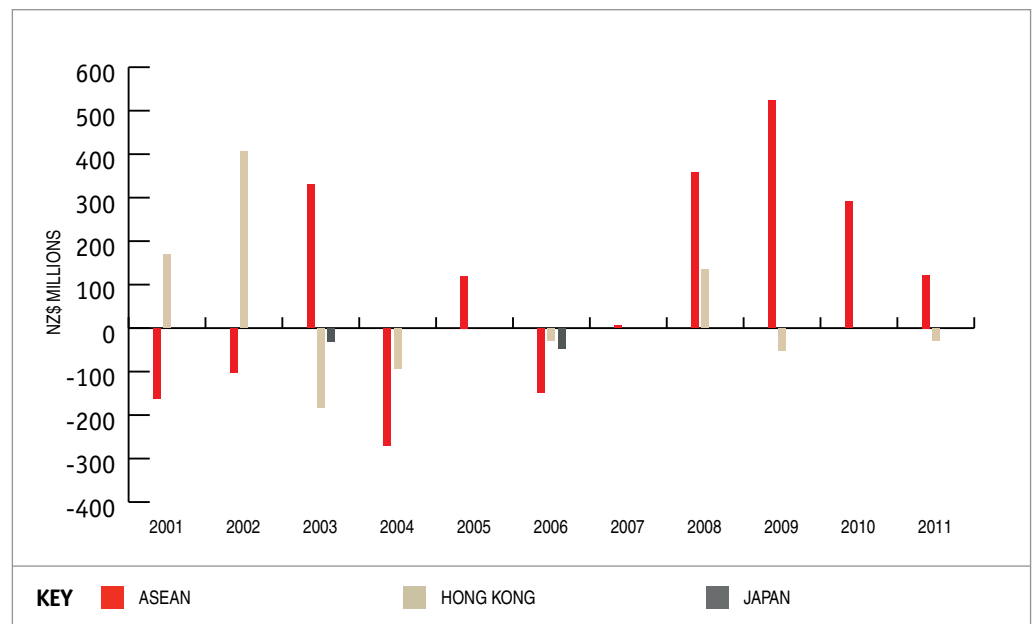


FIGURE 1 New Zealand FDI flows to ASEAN countries, Hong Kong and Japan, 2001-2011
Source: Statistics New Zealand

Despite its limitations, the data reveal some interesting patterns. As Figure 1 shows, investment flows were quite high in individual years, such as the net NZ\$523 million invested in ASEAN countries in 2009, and were often negative for Japan and Hong Kong.

NEW ZEALAND BUSINESSES INVESTING IN ASIA

Another way of measuring New Zealand businesses' FDI in Asia is to look at the number making investments each year.

Figure 2, below, shows the number of New Zealand businesses that invested in Asia between 2001 and 2011, and the number with investments in Asia in each of those years, regardless of when the original investments took place.

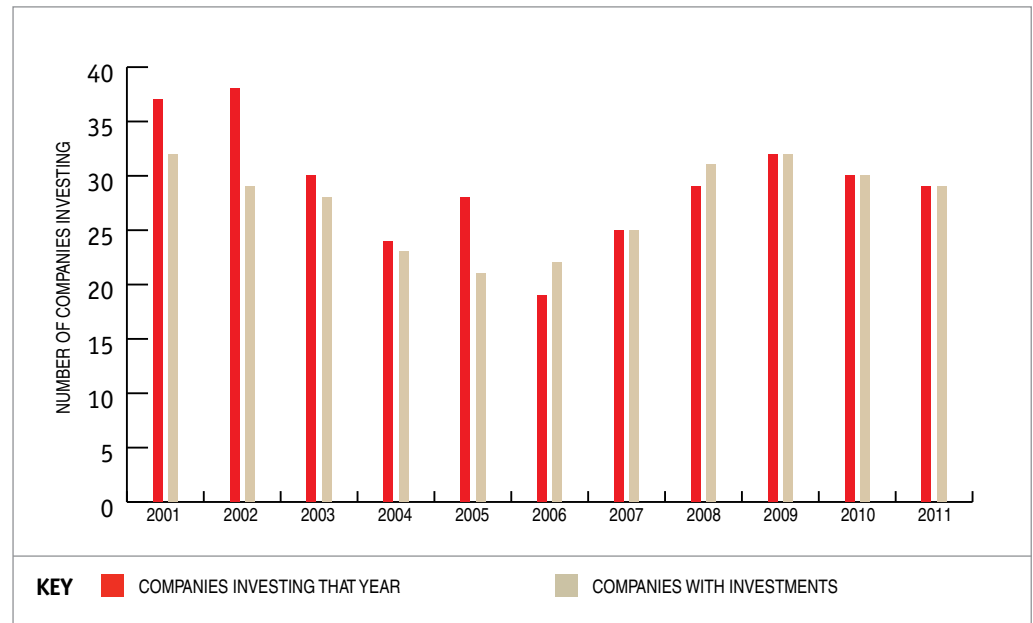


FIGURE 2 Number of New Zealand businesses investing in Asia, 2001-2011

Source: Statistics New Zealand

It shows that fewer than 40 New Zealand businesses invested in Asia each year. The peak was in 2002 when 38 businesses invested in Asia, and the lowest point was in 2006, with just 19. In 2011, 29 businesses were responsible for the net FDI flow into Asia of NZ\$62 million.

Interestingly, the total number of New Zealand businesses with investments in Asia was very similar to those investing each year – and between 2009 and 2011 these numbers were exactly the same. In 2011, when investment stocks in Asia were valued at NZ\$2.37 billion, the 29 businesses had an average NZ\$82 million invested there.

Note that while the Statistics New Zealand data enables a high-level picture of current FDI by New Zealand businesses into Asia, it does not provide detail on the specific countries in which they invest, let alone the sectors and industries. Acquiring this information would likely involve identifying the businesses and contacting them about their investments.

NEW ZEALAND'S FDI IN ASIA COMPARED WITH NEW ZEALAND'S WORLDWIDE FDI

New Zealand's total investment stocks in Asia are small compared with its total worldwide investments.

However, this appears to be changing. In 2001 New Zealand businesses invested NZ\$563 million in Asia, just 2.7 percent of a total NZ\$21.2 billion worldwide. In 2011 they invested \$2.37 billion, 10.5 percent of a total \$22.9 billion in outward investment. This represents an average annual increase of 14 percent in Asia, compared with 0.7 percent worldwide.

Figure 3, below, shows New Zealand's annual FDI flows worldwide and to Asia between 2001 and 2011. It includes four years of negative net flows between New Zealand and the rest of the world, with New Zealand businesses withdrawing more funds than they invested.

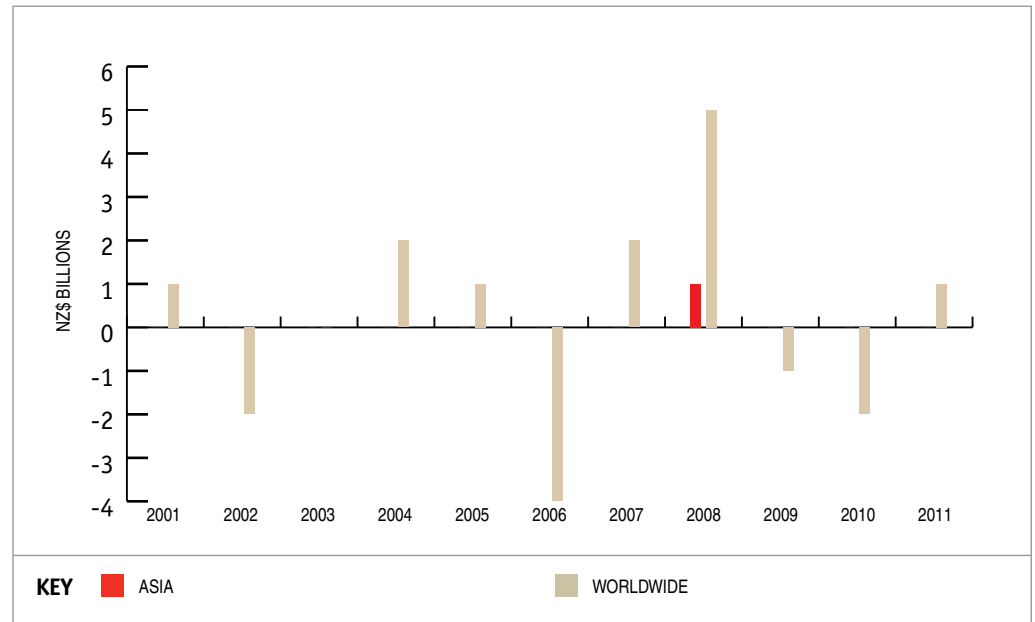


FIGURE 3 New Zealand FDI to Asia and worldwide, 2001-2011
Source: Statistics New Zealand

NEW ZEALAND'S INVESTMENTS IN ASIA COMPARED WITH OTHER COUNTRIES' INVESTMENTS IN ASIA

Data from the UNCTAD FDI country profiles enabled comparisons of other countries' outward FDI in Asia with their total outward investments – and in turn a comparison with New Zealand's investments.

Table 1, below, provides data on the years 1993 to 2003, showing the amounts invested by the UK, Australia, the US and New Zealand both worldwide and in Asia. Data after 2003 is currently not available in a form that enables individual countries' investments to be identified.

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
UK (£billions)	Investment in Asia	£13.4	£15.3	£17.3	£19.2	£18.5	£18.3	£23.1	£22.9	£27.7	£27.3	£31.7
	Total Investment	£165.8	£177.1	£196.7	£194.6	£218.2	£293.6	£424.7	£601.7	£599.6	£616.8	£692.5
	% share of total in Asia	8.1%	8.7%	8.8%	9.9%	8.5%	6.2%	5.4%	3.8%	4.6%	4.4%	4.6%
Australia (A\$billions)	Investment in Asia	\$8.95	\$6.42	\$7.00	\$7.84	\$10.08	\$9.87	\$7.43	\$9.96	\$10.17	\$6.01	\$6.39
	Total Investment	\$59.83	\$61.50	\$71.15	\$83.89	\$110.21	\$128.09	\$136.98	\$150.24	\$180.49	\$164.46	\$166.79
	% share of total in Asia	15.0%	10.4%	9.8%	9.3%	9.1%	7.7%	5.4%	6.6%	5.6%	3.7%	3.8%
US (US\$billions)	Investment in Asia	\$70.29	\$84.10	\$93.65	\$103.44	\$109.18	\$122.10	\$149.19	\$166.54	\$193.68	\$227.11	\$248.56
	Total Investment	\$564.28	\$612.89	\$699.02	\$795.20	\$871.32	\$1,000.70	\$1,215.96	\$1,316.25	\$1,460.35	\$1,601.41	\$1,788.91
	% share of total in Asia	12.5%	13.7%	13.4%	13.0%	12.5%	12.2%	12.3%	12.7%	13.3%	14.2%	13.9%
NZ (NZ\$billions)	Investment in Asia	-\$0.33	-\$0.52	\$0.39	\$0.15	-\$0.30	-\$0.60	-\$1.01	\$0.38	\$0.33	\$0.67	\$0.89
	Total Investment	\$7.93	\$9.18	\$11.75	\$13.16	\$9.71	\$10.42	\$13.46	\$13.78	\$18.31	\$14.24	\$13.84
	% share of total in Asia	n.a	n.a	3.4%	1.1%	n.a	n.a	n.a	2.8%	1.8%	4.7%	6.4%

TABLE 1 Selected countries' investment stocks in Asia and worldwide, 1993-2003¹⁰
Source: UNCTAD

A comparison of the percentage of each country's investment stocks in Asia with its total worldwide investment stocks reveals that, in 2003, 6.4 percent of New Zealand's worldwide investment stocks were in Asia. This is a higher percentage than Australia's (3.8 percent) and the UK's (4.6 percent), but behind the US's (13.9 percent).

¹⁰ New Zealand's investment stock in Asia was negative for a number of years. This was because borrowings by New Zealand parent companies from their Asian subsidiaries were higher than lending from New Zealand parent companies to Asian subsidiaries, and equity investment in Asia.

Figure 4, below, shows how these percentages changed in the 11-year timeframe, with the US's investment stocks in Asia increasing from 12.5 percent to 13.9 percent, and Australia's and the UK's investments declining.

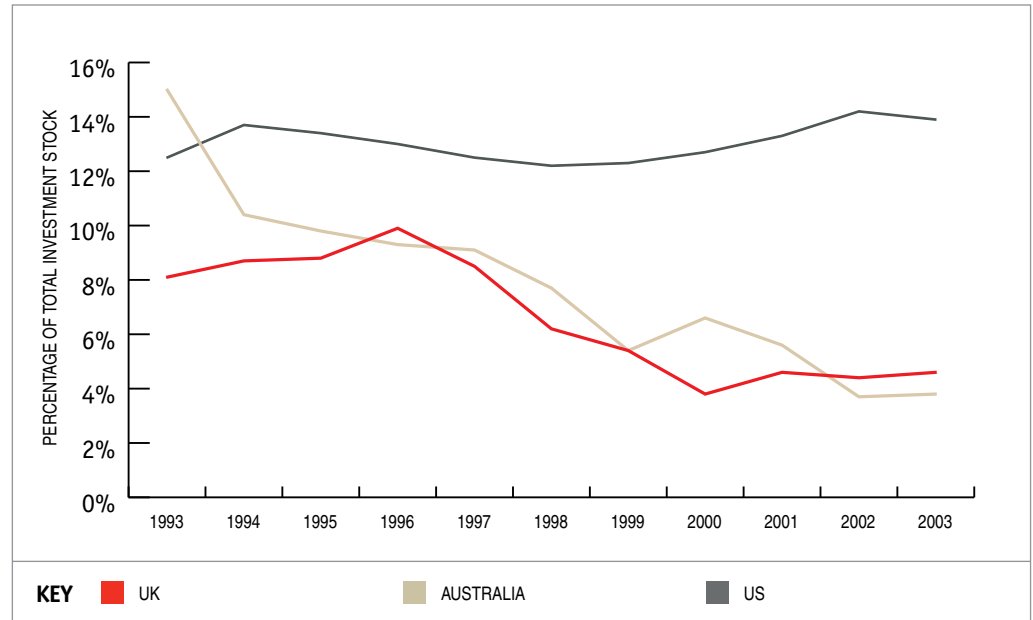


FIGURE 4 Selected countries' share of investment stock in Asia, 1993-2003
Source: UNCTAD

A CLOSER LOOK AT OTHER COUNTRIES' INVESTMENTS IN CHINA AND INDIA

Unfortunately there is no data available on New Zealand's direct investments in China and India.

However, it is possible to look at the investments of the UK, the US and Australia, which may have similar investment patterns to New Zealand's and are the three Western countries that New Zealand most often uses to compare its own performance.

This data reveals that between 1993 and 2003:

- the US, the UK and Australia invested less than 1 percent of their total investment stock in China (although there was no UK data available between 1994 and 2000)
- the US and the UK invested less than 0.35 percent of their total investment stock in India. In 2003, this figure stood at about 0.2 percent.

Assuming that New Zealand had similar investment patterns to the US, the UK and Australia, this suggests that our FDI in China and India was a very small proportion (less than half a percent) of our total outward FDI.

ASIA'S INVESTMENT IN NEW ZEALAND

This section measures Asia's investment in New Zealand in terms of its investment stocks. It also looks at Asia's share of New Zealand's investment stocks, which enables observations on the relative importance of investment between New Zealand and Asia.

FDI IN NEW ZEALAND

Between 2001 and 2011, the total stocks of other countries' investments in New Zealand increased from about NZ\$67 billion to NZ\$93.9 billion. Of this amount, Asia's investments increased from an estimated NZ\$4 billion to NZ\$6 billion; just 6.4 percent of the total.

Asia's investments in New Zealand in 2011 were 2.5 times greater than New Zealand's investments in Asia. On the larger scale, all countries combined had 4.1 times more invested in New Zealand than New Zealand businesses had invested in the rest of the world.

Reflecting New Zealand's investment in Asia, which is only a fraction of its total investment worldwide, Asia's investment in New Zealand is a small part of its investment in the rest of the world.¹¹

INVESTMENTS BY SELECTED ASIAN COUNTRIES

Figure 5, below, shows the stock of investments in New Zealand from Japan, ASEAN countries and Hong Kong – the three largest investors in New Zealand businesses – between 2001 and 2011.

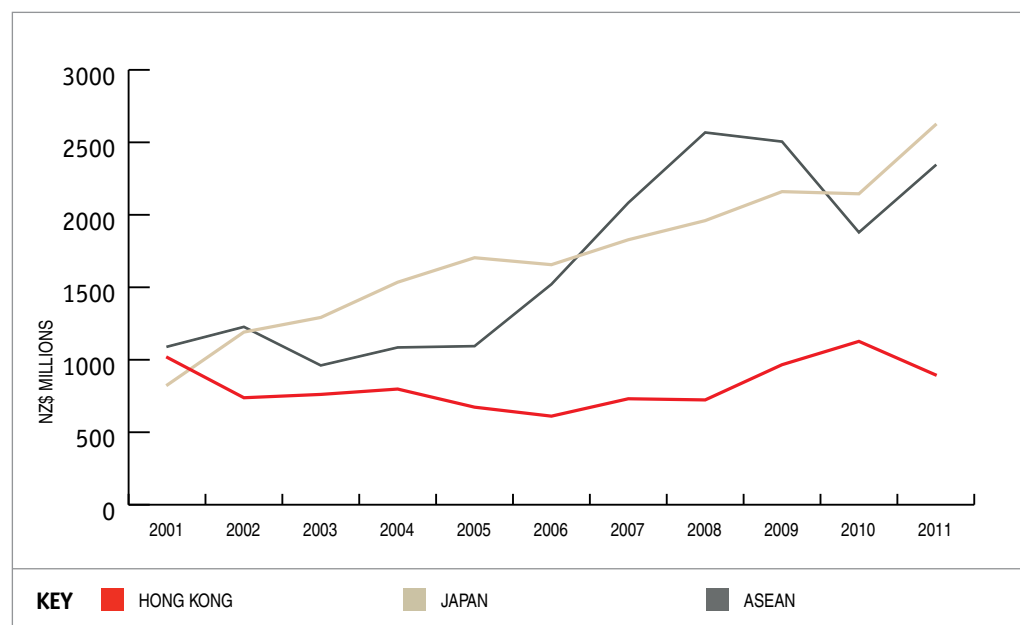


FIGURE 5 Total investment stock from Japan, ASEAN countries and Hong Kong, 2001-2011
Source: Statistics New Zealand

The value of Japan's and the ASEAN countries' stocks rose between 2001 and 2011, owing to either increased investments or the returns they received. On the other hand, Hong Kong's investment stocks in New Zealand reduced.

¹¹ OECD data indicate that the stock of FDI by Asian countries in 2010 totalled US\$3.1 trillion.

In 2011, Asia's investment stocks in New Zealand totalled NZ\$6 billion, with Japan's comprising 43.5 percent, ASEAN countries' 38.8 percent and Hong Kong's 14.8 percent. This was a significant change from 2001 when Asia had NZ\$3.1 billion invested in New Zealand, of which the ASEAN countries' share was 34.7 percent, Hong Kong's 32.4 percent and Japan's 26.3 percent.

ASIAN BUSINESSES INVESTING IN NEW ZEALAND

Figure 6, below, shows the number of Asian businesses that invested in New Zealand between 2001 and 2011, and the number holding investments in New Zealand each year, regardless of when the investments took place.

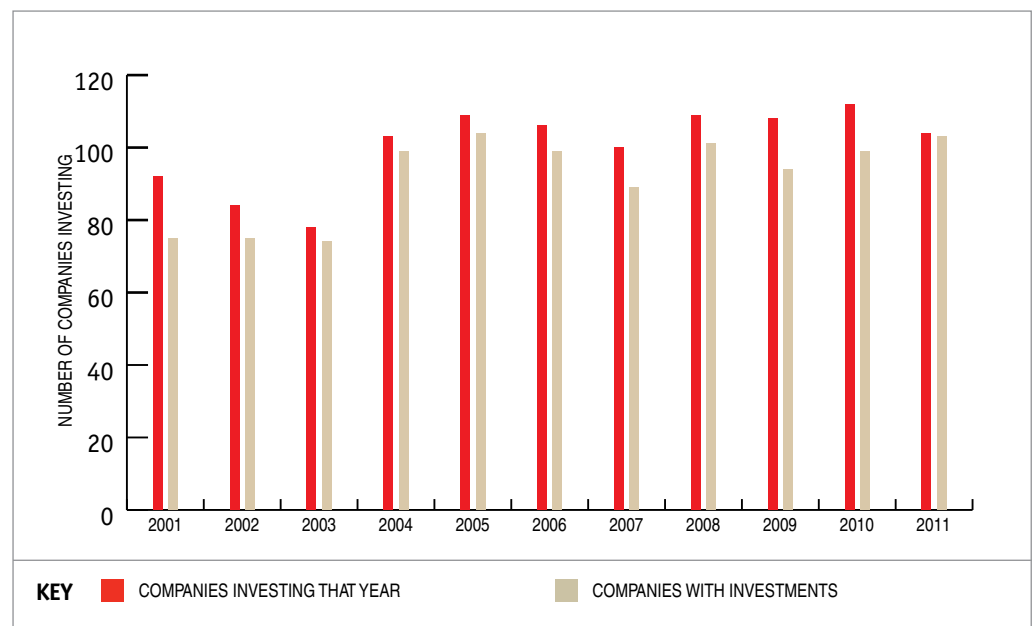


FIGURE 6 Asian businesses investing in New Zealand, 2001-2011
Source: Statistics New Zealand

In that timeframe, an average of 100 Asian businesses invested in New Zealand each year with a peak of 112 (2010) and a low of 78 (2003). In 2011, 104 Asian businesses had a net investment flow into New Zealand of NZ\$456 million – or about NZ\$4.4 million per enterprise.

In 2011 the total Asian investment stock in New Zealand was NZ\$6 billion; an average of NZ\$59 million per business.

NEW ZEALAND'S TRADE WITH ASIA

Given the relationship between FDI and trade, this section looks at New Zealand's trade with Asia and Asia's relative importance to New Zealand as a trading partner.

Figure 7, below, shows that Asia is New Zealand's largest trading partner, accounting for 41 percent of all merchandise imported into and exported out of New Zealand in 2011.

In that year, the value of all merchandise trade for New Zealand was NZ\$94.6 billion. Of this, Asia's trade was worth NZ\$38.6 billion and Australia's NZ\$18.2 billion, making Australia our largest individual trading partner and second-largest trading region. China's NZ\$13.3 billion made that country our second largest individual trading partner. In terms of exports only, Australia is New Zealand's largest market, followed by Asia.

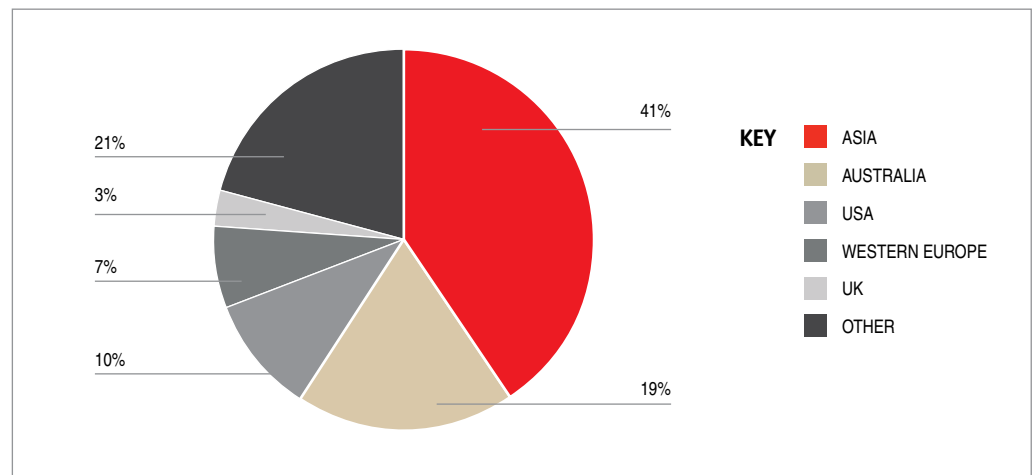


FIGURE 7 Share of total merchandise trade by country/region, 2011
Source: Statistics New Zealand

Figure 8, below, breaks down New Zealand's merchandise trade relationship with Asia into imports to New Zealand and exports from New Zealand between 2001 and 2011.

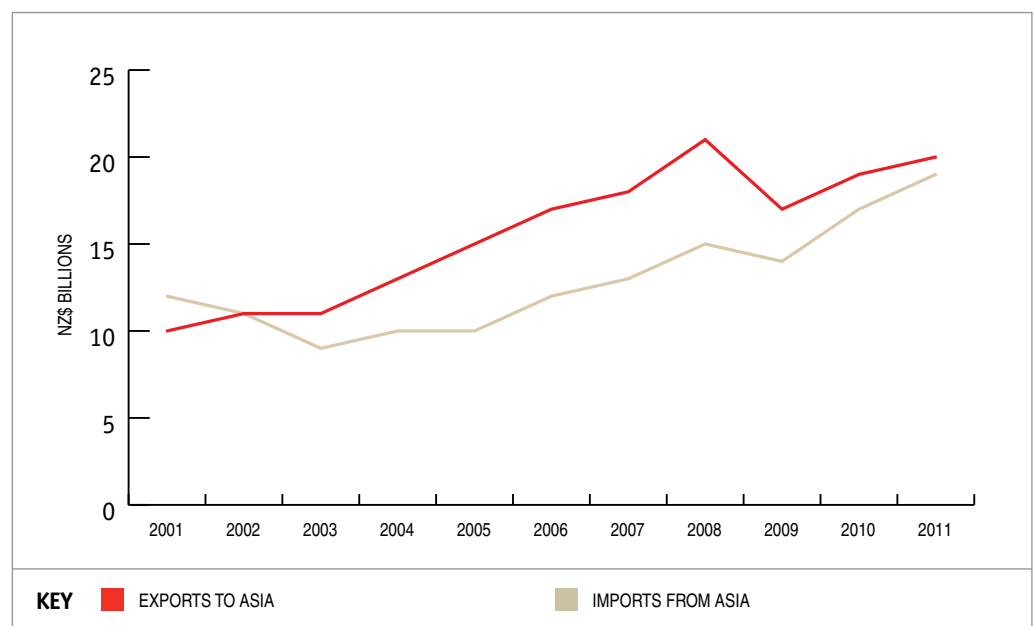


FIGURE 8 Merchandise trade with Asia, 2001-2011
Source: Statistics New Zealand

It shows substantial growth in both directions, with a significant leap in the value of imports over exports in the mid-2000s. However, in the past few years that gap has been all but erased, mainly owing to New Zealand's slow economic growth, which has limited the demand for imports.

2001 was the last year in which New Zealand exported more to Asia than it imported. By 2011, its imports from Asia were worth just under NZ\$20 billion and its exports NZ\$19 billion. Imports from Asia grew at an average 6.1 percent per annum in the 11-year timeframe, and New Zealand's exports to Asia grew at 4.4 percent.

Individual country data enables a view of where this trade is coming from.¹² Table 2, below, shows New Zealand's trade with selected Asian nations between 2001 and 2011. It highlights China's place as New Zealand's second-largest individual trading partner, as well as the importance of ASEAN countries (at NZ\$11 billion), Japan and South Korea.

	<i>NZ\$ millions</i>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ASEAN	exports to Asia	\$3,020	\$2,407	\$2,226	\$2,310	\$2,364	\$2,954	\$3,722	\$4,676	\$4,128	\$4,387	\$4,491
	imports from Asia	\$2,743	\$2,743	\$2,693	\$3,378	\$4,086	\$5,476	\$5,671	\$7,565	\$5,289	\$6,153	\$6,558
China	exports to Asia	\$1,349	\$1,430	\$1,376	\$1,745	\$1,566	\$1,875	\$1,953	\$2,534	\$3,628	\$4,826	\$5,887
	imports from Asia	\$2,207	\$2,591	\$2,848	\$3,376	\$4,033	\$4,964	\$5,587	\$6,444	\$6,066	\$6,762	\$7,439
Hong Kong	exports to Asia	\$786	\$629	\$559	\$560	\$524	\$560	\$584	\$700	\$794	\$866	\$798
	imports from Asia	\$156	\$140	\$153	\$185	\$192	\$196	\$209	\$203	\$158	\$147	\$156
Japan	exports to Asia	\$4,083	\$3,569	\$3,123	\$3,443	\$3,260	\$3,556	\$3,364	\$3,613	\$2,821	\$3,375	\$3,441
	imports from Asia	\$3,493	\$3,875	\$3,718	\$3,895	\$4,082	\$3,709	\$3,945	\$3,956	\$2,981	\$3,107	\$2,921
South Korea	exports to Asia	\$1,440	\$1,376	\$993	\$1,165	\$1,081	\$1,358	\$1,328	\$1,358	\$1,240	\$1,414	\$1,675
	imports from Asia	\$726	\$786	\$849	\$993	\$1,024	\$1,191	\$1,189	\$1,318	\$1,357	\$1,387	\$1,454
Other Asian Nations	exports to Asia	\$1,135	\$1,110	\$1,019	\$1,181	\$1,337	\$1,513	\$1,621	\$1,899	\$1,877	\$2,383	\$2,599
	imports from Asia	\$962	\$954	\$980	\$1,101	\$1,267	\$1,091	\$1,293	\$1,420	\$1,091	\$1,230	\$1,216
Asia	exports to Asia	\$11,813	\$10,522	\$9,297	\$10,405	\$10,131	\$11,817	\$12,573	\$14,781	\$14,488	\$17,250	\$18,890
	imports from Asia	\$10,288	\$11,089	\$11,241	\$12,929	\$14,683	\$16,627	\$17,893	\$20,905	\$16,942	\$18,786	\$19,744

TABLE 2 Total merchandise trade with selected Asian countries, 2001-2011
Source: Statistics New Zealand

New Zealand's trade with China changed considerably in these 11 years, with a rapid increase in China's dominance after 2008. In 2001, Japan – the powerhouse of Asia – was New Zealand's largest Asian trading partner with NZ\$7.5 billion in merchandise trade, followed at the time by ASEAN countries and China. However, while Japan has lost its high place on the ladder, the ASEAN countries remain a significant and important trading partner for New Zealand, and the signing of FTAs with both ASEAN (in the AANZFTA) and China is likely to provide a significant boost to our trade with these nations.

¹² Individual country trade data on Asian nations is available from Statistics New Zealand's Harmonised Trade Database.

ASIA'S GROWTH POTENTIAL

This section looks at the current and forecast growth rates of a number of Asian economies, as growth in these countries is linked to FDI between Asia and New Zealand.

Asia's growth potential can be measured using GDP (gross domestic product)¹³ growth rates supplied by the International Monetary Fund (IMF), which regularly collects and publishes the growth rate of every country's constant prices GDP (or real GDP growth).

Table 3, below, shows the annual real GDP growth rates for every Asian country since 2001 and forecast to 2017. New Zealand's GDP growth rates are included for comparison. Note that the forecast figures start in 2011 or 2012 (and for Laos 2010), as 2010 was the last year in which these countries had recorded GDP growth figures.

COUNTRY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bangladesh	4.8	4.8	5.8	6.1	6.3	6.5	6.3	6.0	5.9	6.4	6.1	5.9	6.4	6.8	7.1	7.2	7.3
Bhutan	8.2	10.7	7.7	5.9	7.1	6.8	17.9	4.7	6.7	10.6	5.9	7.0	9.9	11.1	5.1	16.0	4.0
Brunei Darussalam	2.7	3.9	2.9	0.5	0.4	4.4	0.2	-1.9	-1.8	2.6	1.9	3.2	1.6	4.9	3.3	4.1	3.6
Cambodia	8.1	6.6	8.5	10.3	13.3	10.8	10.2	6.7	0.1	6.0	6.1	6.2	6.4	6.9	7.6	7.7	7.7
China	8.3	9.1	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2	8.2	8.8	8.7	8.7	8.6	8.5
Hong Kong SAR	0.5	1.8	3.0	8.5	7.1	7.0	6.4	2.3	-2.6	7.0	5.0	2.6	4.2	4.3	4.3	4.4	4.4
India	3.9	4.6	6.9	7.6	9.0	9.5	10.0	6.2	6.6	10.6	7.2	6.9	7.3	7.5	7.7	7.8	8.1
Indonesia	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.0	4.6	6.2	6.5	6.1	6.6	6.9	7.0	7.0	7.0
Japan	0.4	0.3	1.7	2.4	1.3	1.7	2.2	-1.0	-5.5	4.4	-0.7	2.0	1.7	1.5	1.3	1.1	1.1
Korea	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.3	0.3	6.3	3.6	3.5	4.0	4.0	4.0	4.0	4.0
Lao People's Democratic Republic	4.6	6.9	6.2	7.0	6.8	8.6	7.8	7.8	7.6	7.9	8.3	8.4	7.1	7.4	7.9	7.4	5.7
Malaysia	0.5	5.4	5.8	6.8	5.3	5.8	6.5	4.8	-1.6	7.2	5.1	4.4	4.7	5.0	5.0	5.0	5.0
Mongolia	3.0	4.7	7.0	10.6	7.3	8.6	10.2	8.9	-1.3	6.4	17.3	17.2	11.8	12.2	4.5	14.0	9.1
Myanmar	11.3	12.0	13.8	13.6	13.6	13.1	12.0	3.6	5.1	5.3	5.5	6.0	5.9	6.0	6.2	6.3	6.5
Nepal	5.6	0.1	3.9	4.7	3.5	3.4	3.4	6.1	4.4	4.6	3.5	4.2	3.8	3.8	3.8	3.9	3.9
Pakistan	2.0	3.1	4.7	7.5	9.0	5.8	6.8	3.7	1.7	3.8	2.4	3.4	3.5	3.5	3.5	3.5	3.5
Philippines	2.9	3.6	5.0	6.7	4.8	5.2	6.6	4.2	1.1	7.6	3.7	4.2	4.7	5.0	5.0	5.0	5.0
Singapore	-1.2	4.2	4.6	9.2	7.4	8.8	8.9	1.7	-1.0	14.8	4.9	2.7	3.9	4.1	4.0	4.0	4.0
Sri Lanka	-1.5	4.0	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.2	7.5	7.0	6.5	6.5	6.5	6.5
Taiwan Province of China	-1.7	5.3	3.7	6.2	4.7	5.4	6.0	0.7	-1.8	10.7	4.0	3.6	4.7	4.8	4.8	4.9	5.0
Thailand	2.2	5.3	7.1	6.3	4.6	5.1	5.0	2.6	-2.3	7.8	0.1	5.5	7.5	4.5	4.6	4.8	5.0
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.3	5.3	6.8	5.9	5.6	6.3	6.9	7.3	7.5	7.5
New Zealand	2.7	4.9	4.2	4.5	3.3	1.0	2.8	-0.1	-2.1	1.2	1.4	2.3	3.2	2.9	2.6	2.4	2.3

IMF estimates of future GDP growth

TABLE 3 Real and forecast GDP growth rates for Asian countries and New Zealand, 2001-2017

Source: International Monetary Fund, April 2012

As the table shows, the Asian economies grew strongly between 2001 and 2010 (at an average rate of 7 percent). In 2010 New Zealand's GDP grew by just 1.2 percent; compare this with the slowest-growing Asian country, Brunei, which recorded 2.6 percent, and the fastest-growing, Singapore, at 14.8 percent.¹⁴

China's GDP has consistently grown, at more than 9 percent per annum since 2001. In 2009, when most of the Western world (including New Zealand) was in the midst of a recession, most Asian countries continued to show positive GDP growth, with only a third dipping into recession.

According to the IMF forecasts of GDP growth to 2017, Asian countries will achieve an average 5 percent growth each year, with China at least 8 percent. This compares with New Zealand's forecast average GDP growth of 2.6 percent a year, peaking at 3.2 percent in 2013.

¹³ Gross domestic product is defined as the value of all goods and services produced by a country in a given year.

¹⁴ Laos is excluded in this estimated average GDP growth as, in 2010, its figure was forecast rather than actual.

OBSERVATIONS AND OPPORTUNITIES

Based on the FDI information available from Statistics New Zealand and UNCTAD, the researchers can report a number of key observations. They have also identified gaps in the data, and opportunities to improve information on New Zealand's outward FDI into Asia.

OBSERVATIONS

According to the source data:

- in the year to 31 March 2011, the flow of outward investment from New Zealand to Asia was estimated at NZ\$62 million
- on 31 March 2011, New Zealand's total investment stocks in Asia were valued at NZ\$2.37 billion
- Twenty-nine New Zealand businesses invested in Asia in 2011
- in 2003 New Zealand's FDI stocks in Asia represented 6.4 percent of its total FDI stocks worldwide. This proportion was higher than Australia's (3.8 percent) and the UK's (4.6 percent), but well behind the US's (13.9 percent)
- New Zealand businesses' investments in Asia, as a proportion of their worldwide FDI, have been steadily increasing. In 2001 they invested NZ\$563 million in Asia, just 2.7 percent of a total NZ\$21.2 billion worldwide. In comparison, the NZ\$2.37 billion invested in Asia in 2011 represented 10.5 percent of their total worldwide FDI
- in 2011 Asian investment in New Zealand was 2.5 times greater than New Zealand's investment in Asia. All countries worldwide had 4.1 times more invested in New Zealand than New Zealand had invested in the rest of the world
- in 2011 Asia accounted for 41 percent of New Zealand's merchandise exports and imports. China was New Zealand's largest trading partner behind Australia.

Overall, the figures suggest that Asia is more important to New Zealand than New Zealand is to Asia – but given that Asia's consumer market is about 3.8 billion people and New Zealand's is about 4.4 million, it is easy to see why.

GAPS AND OPPORTUNITIES

Information on New Zealand's investment in Asia is collated by Statistics New Zealand's Balance of Payments Unit. However, publicly available data on FDI in individual Asian countries is limited because of confidentiality rules.

Meanwhile, international comparisons of outward FDI are available through UNCTAD's FDI country profiles, but only until 2006. More recent information on FDI patterns in other countries is available only at the total investment level.

In order to make more meaningful conclusions, such as whether New Zealand is investing 'enough' in Asia, detailed data is needed on New Zealand's FDI in countries within Asia and the rest of the world.

To improve the data on New Zealand's FDI into Asia, BERL recommends that:

- Statistics New Zealand's Balance of Payments Unit be approached to develop customised datasets that provide more detailed data on FDI both into and out of New Zealand
- organisations such as NZTE be approached to gain information on individual New Zealand businesses undertaking offshore investment. These businesses could provide valuable information on why, where and how much they invest in Asia and other export markets
- Statistics New Zealand's Longitudinal Business Frame be used to identify and monitor individual New Zealand businesses undertaking FDI in Asia.

To improve the level of information needed to compare New Zealand's FDI in Asia with that of other countries, BERL recommends that:

- UNCTAD and OECD, and other international sources, be contacted about the availability of more up-to-date and/or detailed information, which could include identifying specific countries of interest and contacting their national statistics-focused agencies
- the UNCTAD database be monitored for updates of its FDI country profiles
- UNCTAD be encouraged to update its FDI country profile reports
- an FDI benchmarking framework be developed and comparable countries approached to determine their FDI in Asia.

Further research on New Zealand's investment into Asia would complement previous work on foreign direct investment coming into New Zealand from Asia, completed by NZIER in 2008.¹⁵

¹⁵ NZIER (2008) Asian Investment in New Zealand. Report to Asia New Zealand Foundation. Available at <http://www.asianz.org.nz/sites/asianz.org.nz/files/Asian%20FDI%20NZIER%20report08.pdf>.

APPENDIX 1: REVIEW OF DATASETS

STATISTICS NEW ZEALAND BALANCE OF PAYMENTS

NAME OF DATASET: BALANCE OF PAYMENTS.
SOURCE OF DATA: STATISTICS NEW ZEALAND.
TIME PERIOD COVERED: 2001 TO 2011.

INITIAL ANALYSIS OF DATA: Statistics New Zealand regularly releases balance of payments accounts on investment. The releases contain data on the flow and stocks of outward and inward investments between New Zealand and individual countries.

While this is a good source of FDI data at country level, much of it is suppressed as the number of businesses investing is too low to ensure confidentiality.¹⁶ The data on most Asian countries (except Singapore and Hong Kong, although occasionally including them) is suppressed.

MAIN USES OF THE DATA: This data are the best source of detailed investment information for Asian countries. It forms the backbone of available data on direct investment by New Zealand businesses abroad and other countries' direct investments in New Zealand.

STATISTICS NEW ZEALAND ASIAN DIRECT INVESTMENT

NAME OF DATASET: ASIAN DIRECT INVESTMENT (CUSTOMISED TABLE).
SOURCE OF DATA: STATISTICS NEW ZEALAND.
TIME PERIOD COVERED: 2001 TO 2011.

Initial analysis of data: This customised table was requested from Statistics New Zealand as a combined Asia FDI total was not available. It includes information on the number of New Zealand businesses undertaking direct investment in Asia (to address the confidentiality issues inherent in other Statistics New Zealand investment datasets).

Table 4, on page 20, identifies New Zealand's FDI in all Asian countries between 2011 and 2011, and provides an accurate assessment of the percentages that flow into countries such as Hong Kong and ASEAN countries. It also enables an estimate of the investment amount that is unavailable owing to data confidentiality for individual countries.

¹⁶ Statistics New Zealand's rules mean that no data is published that would allow an individual person or business to be identified.

STOCK AT 31 MARCH	ASSETS		LIABILITIES	
	NUMBER OF COMPANIES	NZ\$(MILLION)	NUMBER OF COMPANIES	NZ\$(MILLION)
2001	32	563	75	3,140
2002	29	1,034	75	3,275
2003	28	1,312	74	3,232
2004	23	640	99	3,617
2005	21	1,216	104	3,627
2006	22	945	99	3,903
2007	25	863	89	4,191
2008	31	1,392	101	4,780
2009	32	2,589	94	5,761
2010	30	2,408	99	5,313
2011	2	2,372	103	6,036

FLOWS YEAR ENDED 31 MARCH	ASSETS		LIABILITIES	
	NUMBER OF COMPANIES	NZ\$(MILLION)	NUMBER OF COMPANIES	NZ\$(MILLION)
2001	37	-156	92	479
2002	38	369	84	266
2003	30	127	78	280
2004	24	-415	103	-97
2005	28	324	109	77
2006	19	-303	106	-295
2007	25	C	100	142
2008	29	519	109	561
2009	32	C	108	404
2010	30	C	112	-237
2011	29	62	104	456

TABLE 4 Customised table for New Zealand's FDI in Asia
Source: Statistics New Zealand

MAIN USES OF THE DATA: This custom dataset is mainly used to identify the total amount of FDI in all Asian countries, and the number of businesses responsible for undertaking this FDI each year.

STATISTICS NEW ZEALAND INTERNATIONAL INVESTMENT POSITION

NAME OF DATASET: INTERNATIONAL INVESTMENT POSITION.

SOURCE OF DATA: STATISTICS NEW ZEALAND.

TIME PERIOD COVERED: 2001 TO 2011.

INITIAL ANALYSIS OF DATA: Statistics New Zealand's set of 27 international investment position tables was last released in 2011.

The tables provide recent data on the FDI of New Zealand businesses abroad and total overseas FDI in New Zealand. While they provide detailed breakdowns for only a small number of countries and groups of countries, they do provide data on a small number of nation groups, such as ASEAN, APEC (Asia-Pacific Economic Cooperation), the European Union and the OECD, that would be difficult to calculate accurately from other sources.

MAIN USES OF THE DATA: These tables provide investment groupings for areas such as ASEAN.

STATISTICS NEW ZEALAND HARMONISED TRADE DATABASE

NAME OF DATASET: HARMONISED TRADE DATABASE.

SOURCE OF DATA: STATISTICS NEW ZEALAND.

TIME PERIOD COVERED: 1988 TO 2011.

INITIAL ANALYSIS OF DATA: Statistics New Zealand's Harmonised Trade Database describes the value of all merchandise exports and imports for New Zealand and the countries of destination or origin.

As it shows patterns of trade between New Zealand and individual countries or country groupings, the database can provide information for ASEAN countries as well as all Asian countries. This enables a focus on specific countries of importance in Asia, as well as the region as a whole.

However, the database lacks broad groupings of traded items, which limits the ability to analyse what is being traded and whether structural changes are needed in these traded items over time.

MAIN USES OF THE DATA: This dataset is mainly used to obtain data on the levels of trade between New Zealand and its trading partners.

UNCTAD COUNTRY FDI PROFILES

NAME OF DATASET: UNCTAD COUNTRY FDI PROFILES.

SOURCE OF DATA: INDIVIDUAL COUNTRIES' STATISTICS AGENCIES. (STATISTICS NEW ZEALAND PROVIDED THE DATA FOR NEW ZEALAND'S FDI PROFILE.)

TIME PERIOD COVERED: 1990 TO 2004.

INITIAL ANALYSIS OF DATA: UNCTAD has FDI profiles for a large number of countries, which contain detailed information on inward and outward FDI. The UNCTAD New Zealand profile has information on:

- the countries that have invested in New Zealand
- the countries in which New Zealand has invested
- the largest foreign-owned businesses operating in New Zealand
- the largest New Zealand-owned businesses operating abroad.

This data enables a detailed analysis of FDI flows between New Zealand and specific other countries, but the outcome of any analysis is limited by the profiles being last published in 2004.

MAIN USES OF THE DATA: These profiles are mainly used to compare New Zealand's investments in Asia with those of other countries.

UNCTAD STATISTICS ONLINE

NAME OF DATASET: UNCTAD STATISTICS ONLINE.

SOURCE OF DATA: UNCTAD.

TIME PERIOD COVERED: 1970 TO 2011.

INITIAL ANALYSIS OF DATA: UNCTAD has two online datasets on inward and outward FDI flows and stocks. Users can drill down into 102 country groupings to examine the individual countries that comprise each grouping.

However, these datasets contain only the total amount of inward and outward FDI for each of the 238 individual country series. This limits their usefulness to comparisons of total FDI between countries and country groupings, and to analysing changes over time in the amount of inward and outward FDI.

MAIN USES OF THE DATA: These datasets are best used to examine the magnitude of investments into and out of New Zealand in comparison with other countries and country groupings, such as Australia, developed economies in Oceania, and Eastern Asia. They are more useful than the OECD dataset as they contain a greater number of individual countries and groupings.

As the datasets contain at least 40 years of information on outward and inward FDI, they would also be useful for a long-term analysis of the total amount of investment into and out of New Zealand.

ASIA NEW ZEALAND FOUNDATION

The Asia New Zealand Foundation (Asia:NZ) was founded in 1994 as a non-profit, apolitical organisation dedicated to building New Zealand's links with Asia. Through its activities in education, business, media, culture, research and policy, Asia:NZ aims to promote initiatives that deepen understanding and relationships between New Zealanders and the peoples of Asia.

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