

# SERIOUSLY ASIA REVISITED

TRADE, TOURISM AND  
INVESTMENT BETWEEN  
AOTEAROA NEW ZEALAND  
AND ASIA

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## ABOUT SERIOUSLY ASIA REVISITED

In 2003, at the request of the then Prime Minister Helen Clark, the Asia New Zealand Foundation — at the time known as Asia 2000 — ran the Seriously Asia initiative. It was a project designed to inject new ideas and energy into New Zealand's connections with Asia. The initiative canvassed views from across the country and in Asia; helped to grow New Zealanders' understanding of the region; and developed a set of recommendations to guide New Zealand's engagement with Asia in the years that followed.

In recognition of the far-reaching changes that had taken place in New Zealand and Asia over two decades, in 2022 the Asia New Zealand Foundation launched Seriously Asia Revisited. This project brought together a cross-section of informed voices to discuss how to best position New Zealand for success in Asia in the coming decades.

Seriously Asia Revisited is structured around the themes of the original Seriously Asia project. They are:

- Society and Culture
- Politics and Security
- Trade, Tourism and Investment
- Innovation and Sustainable Development

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## ABOUT THIS PAPER

The Asia New Zealand Foundation Te Whītau Tūhono commissioned this paper as one of four thematic reports that revisit the outcomes and recommendations of the 2003 Seriously Asia initiative. The papers reflect on how the context of New Zealand-Asia relationships have changed since 2003, what has been achieved and what could be done differently going forward. These papers informed a series of four hui held over the course of 2022. Hui participants shared their perspectives on the themes and contributed to recommendations on how New Zealand could best engage with Asia in the years ahead.

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Finlay Macdonald is an award-winning journalist, editor, publisher and broadcaster with 30 years' experience in the New Zealand media. He is senior editor at The Conversation NZ., and has been editor of the *NZ Listener* magazine, a publisher at Penguin Books and HarperCollins, a weekly columnist for the *Sunday Star-Times*, and has written and presented for television and radio.

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Shamubeel has been making economics interesting and easily understandable for over two decades. He has worked in various banks and consultancies in New Zealand and Australia. He is a partner at Sense Partners, a boutique economic consultancy. He holds various governance roles; and is a regular media contributor. He holds a Bachelor of Commerce (Hons) in Economics from Lincoln University, Te Whare Wānaka o Aoraki, and is also a Chartered Financial Analyst. He has authored several books; the most recent are *Generation Rent* and *Growing Apart*. Shamubeel lives in Auckland with his wife, Selena, and sons Haydn and Hugo.

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## INTRODUCTION

New Zealand's trade, tourism and investment ties with Asia have increased in absolute terms over the last two decades since the first Seriously Asia hui was held. It is also true, however, that New Zealand has underperformed overall in comparison with much of the rest of the world. Although it has benefitted from the economic relationships it has developed, the data shows it has not been able to realise significant potential gains in value-added activities or productivity growth. Ties are significantly concentrated, rather than diversified, across Asia.

This paper argues that government and business must continue to build and deepen relationships across Asia and expand knowledge and understanding of the region, as recommended in the original 2003 Seriously Asia project. More of the same will not, however, be enough. It argues that a clear Asia strategy is needed, and that extra effort must be made towards increasing business capacity and enhancing collaboration across the 'NZ Inc' ecosystem.



## NEW ZEALAND IS MORE EXPOSED TO ASIA

Over the past two decades, New Zealand has become more exposed to Asia as trade and economic links with the region have deepened. Today, more of New Zealand's exports, imports and investment are tied to Asia, and more New Zealanders are travelling to the region. This integration is consistent with trends globally, as Asia's importance in the international economy has risen. By 2020, Asia accounted for around 48 percent of the global economy.

Figure 1 summarises the key shifts in New Zealand's trade, tourism and direct investment relationships with Asia between 2000 and 2020, before the COVID-19 pandemic affected trade, travel and economic activity.

### Change in NZ's exposure to Asia

**Figure 1**

New Zealand's exposure to Asia has increased; Asia's exposure change to New Zealand is mixed

	2000 <sup>(b)</sup>	2020	Change		Comments
<b>Investment (FDI<sup>(a)</sup> stock)</b>					
Share of NZ FDI in Asia	4.90%	19.70%	14.70%	▲	NZ has invested more in Asia
Share of Asia's FDI in NZ	0.79%	0.41%	-0.38%	▼	NZ has lost share of FDI from Asia
<b>Exports</b>					
Share of NZ exports to Asia	36.90%	55.50%	18.60%	▲	More of NZ exports go to Asia
Share of Asia's imports from NZ	0.33%	0.38%	0.05%	▲	Share of Asian imports from NZ has increased marginally
<b>Imports</b>					
Share of NZ imports from Asia	32.60%	50.70%	18.00%	▲	NZ imports more from Asia
Share of Asia's exports to NZ	0.21%	0.25%	0.03%	▲	Asia's exports to NZ remain about the same
<b>Tourism</b>					
Share of NZ departures to Asia	12.90%	20.30%	7.40%	▲	NZ visited Asia more
Share of Asia's outbound travel to NZ <sup>(c)</sup>	0.50%	0.25%	-0.30%	▼	Tourism from Asia to NZ grew less than it did to other destinations

**NOTES:**

(a) Foreign Direct Investment

(b) Or nearest available year

(c) For selected Asian countries with data availability

**SOURCE:**

Collated from a range of sources including UCTAD, Comtrade, Statistics NZ, World Bank

New Zealand's presence in Asia is proportionately higher when taking into account the size of its economy. This suggests that New Zealand's economic relationship with Asia has outperformed the global average. For context, New Zealand is 0.25 percent of the global economy.

When comparing our importance to Asia, we should compare it against our global economic share and change over time:

- Asia's exports to New Zealand have risen slightly over the past 20 years (0.25 percent up 0.03 percentage points (pt)).
- Asia receives a slightly larger share of imports from New Zealand (0.38 percent up 0.05pt over the past 20 years).
- New Zealand accounted for 0.4 percent of Asia's stock of investment abroad, but this was down 0.4pt over the past 20 years.
- New Zealand received 0.25 percent of outbound visitors from Asia, but that was down 0.25pt over the past 20 years.

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## A SHIFTING LANDSCAPE

The geopolitical backdrop has changed considerably over the past two decades, but the economic rise of Asia, particularly China, remains a strong theme. While there are some notes of caution, including slowing population growth in China, combined with uncertainty from changes to global supply chains following COVID-19 and Russia's invasion of Ukraine, the economic opportunity in Asia remains attractive. A greater number of Asian countries are becoming more industrialised, educated and urbanised. A spreading web of supply chains and growing middle classes have increased trade (import and export), services like tourism and investment activity (both inwards and outwards).

The pace and nature of these changes vary by country, but the structural outlook remains positive. The OECD-FAO Agricultural Outlook for 2021-2030, for example, projects economic growth in the Asia-Pacific region will accelerate slightly from 4.1 percent a year in 2001-2020 to 4.2 percent annually in 2021-2030.



**Figure 2**

Economic size and demographic outlook, major markets

	GDP (US\$ thousand billion, current)		Population, million		Median age	Economically active population (%)
	2021	2027	2020	2030	2020	2030
<b>Southeast Asia</b>	3.36	5.22	669	727	30.2	66.7
<b>China</b>	17.46	29.13	1,439	1,460	38.4	67.4
<b>Korea</b>	1.80	2.30	51	51	43.7	64.8
<b>Taiwan</b>	0.79	1.10	24	24	42.5	63.9
<b>Japan</b>	4.94	6.26	126	121	48.4	59.7
<b>United States</b>	23.00	30.97	331	350	38.3	62.3
<b>Europe</b>	14.50	18.25	748*	743*	42.5*	61.1*
<b>Australia</b>	1.63	2.19	25	28	37.9	62.2
<b>New Zealand</b>	0.25	0.33	5	5	38.0	61.7

\*Europe (geographic)

NOTES:

Sources: IMF Datamapper <https://www.imf.org/external/datamapper/NGDPD@WEO/JPN/SEQ/CHN/EURO/USA/KOR/TWN/AUS/NZL>; UN Population Division, Department of Economic and Social Affairs, World Population Prospects 2019, Estimates, 1950-2020 and probabilistic estimates, <https://population.un.org/wpp/Download/Standard/Population/> Economically active = % 15-64. Our World in Data <https://ourworldindata.org/future-population-growth#population-growth-by-world-region>





**Figure 3**

### Market characteristics, major economies

	Consumption (% GDP)	GDP per capita (US\$, 1,000s)	Imports (% GDP)	Trade restrictiveness
<b>Indonesia</b>	68	4.36	16.00	5.08
<b>Vietnam</b>	75	3.72	102.70	4.53
<b>Singapore</b>	45	72.79	144.30	2.52
<b>Malaysia</b>	74	11.40	55.00	4.21
<b>China</b>	55	12.36	16.00	5.71
<b>Korea</b>	64	34.80	32.80	4.83
<b>Taiwan</b>	48	33.78	45.00	-
<b>Japan</b>	74	39.34	15.50	3.49
<b>United States</b>	82	69.23	13.20	4.16
<b>Australia</b>	74	63.53	20.10	3.13
<b>New Zealand</b>	78	48.42	22.50	2.71

**NOTES:**

Consumption - World Bank final consumption expenditure as a percentage of GDP, 2020; Taiwan <https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>; GDP per capita, current USD, 2021, IMF datamapper; Imports of goods and services as % of GDP, 2020, World Bank <https://data.worldbank.org/indicator/NE.IMP.GNFS.ZS>; Trade barrier index <https://tradebarrierindex.org/countries>



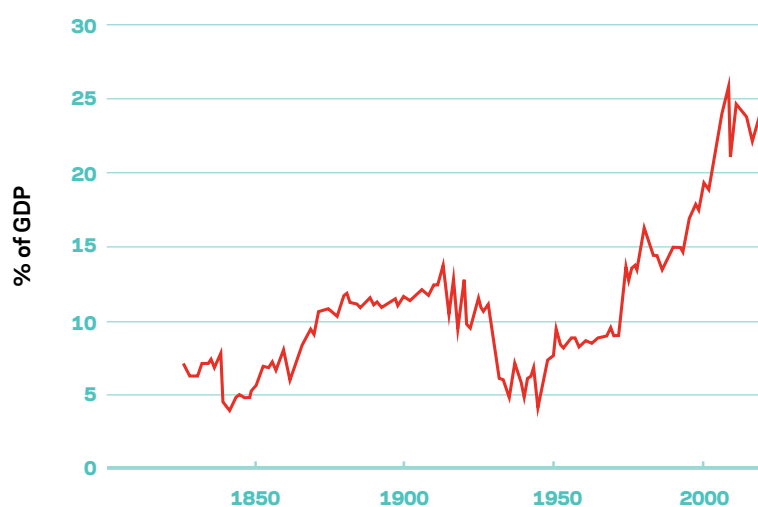
The COVID-19 pandemic and war in Ukraine have focused attention on the vulnerability of complex supply chains, the concentration of trading relationships, and the importance of geopolitical as well as economic alignment.

This is happening against a broader backdrop of slowing growth in globalisation since a peak in 2008 (see Figure 4 below). International trade fell during the Global Financial Crisis and has not yet resumed the previous upward trend. Talk of globalisation's death is overdone, but we may not see the same inexorable growth in coming decades. We might see more focused changes in countries that benefit from diversification of supply chains, and perhaps some political and economic alignment in trade relationships. The outlook is less certain.

## Global export share of GDP

**Figure 4**

Growth of globalisation may have peaked, but not globalisation itself



**SOURCES:**

Fouquin and Hugot; CEPII 2016; IMF; World Bank; Sense Partners

When projecting the next two decades of New Zealand's trade, tourism and investment relationships with Asia, it is important to bear in mind the changing economic and geopolitical landscape. The present loose consensus that there will be continued growing and deepening economic integration may change. This will affect New Zealand's approach to Asia, and the coordination and cohesion of its foreign, trade, investment and development policies. At present, these areas do not come under one umbrella.

## SERIOUSLY ASIA THEN AND NOW

The 2003 Seriously Asia initiative expressed some key aims relating to trade, tourism and investment. New Zealand's performance for merchandise trade, tourism and investment (FDI) has been plotted in Figure 1 (see page 4). It shows that a greater share of New Zealand's trade, investment and tourism is now going to Asia. But Asia's exposure to New Zealand has only changed slightly; some up and some down.

Performance is also mixed by country in each indicator; the following sections provide more detail. While it is useful to conceptualise the opportunities under a broad Asia banner, implementation has to be more country specific, as the economic and cultural settings vary considerably.

The following table summarises the 2003 aims and puts forward a high-level evaluation of whether they have been achieved or not.

## Summary of 2003 strategy aims and qualitative assessment statements

### 2003 aim

### Experience

Improve the quality of export to Asia, through greater 'value added', defined as more processed and more complex.

✗ This has not happened. Our exports have become less diversified, and more commodity-based over the past two decades.

Grow services exports, especially non-tourism services such as engineering, education, software.

✓ Commercial services exports have increased in the past two decades, from 2% of GDP in 2007 to 3% of GDP in 2019. The biggest growth has been in exports of services for related entities (e.g. fees for management services for a subsidiary).

Further free trade agreements (FTAs) with large and/or high-growth partners.

✓ New Zealand has negotiated further FTAs with Asia, with highlights being the China FTA, its upgrade, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Increase inward FDI from Asia, absolute and relative to Asia's investment abroad, and create closer economic ties in non-primary industries such as ICT, biotech, specialised manufacturing, and other specialised sectors with export capability.

✗ FDI has increased in absolute terms but has fallen as a share of outward investment. Partial data on investment by industry suggests they remain focused on primary and adjacent sectors.

Grow tourism by number of visitors and spend.

⚠ Tourist volumes and spend rose strongly, against a backdrop of strong global travel growth. Share of outbound travel from Asian countries remained very small, and performance was mixed across countries. There are growing concerns in New Zealand about the costs and benefits of tourism.

The aims in the 2003 strategy are inconsistently defined. Looking ahead, it might be more useful to define New Zealand's goals across some agreed and consistent dimensions, such as:

- volume, as a share of, say, the New Zealand economy, and the partner country's relevant metric (e.g. share of imports)
- variety, measured as the diversity of products and services, industries, or similar
- some measure of what success looks like; for example, share of global GDP and increase in share over time.

## LOOKING AT 2022 AND BEYOND

The following section puts forward a set of draft objectives for discussion.

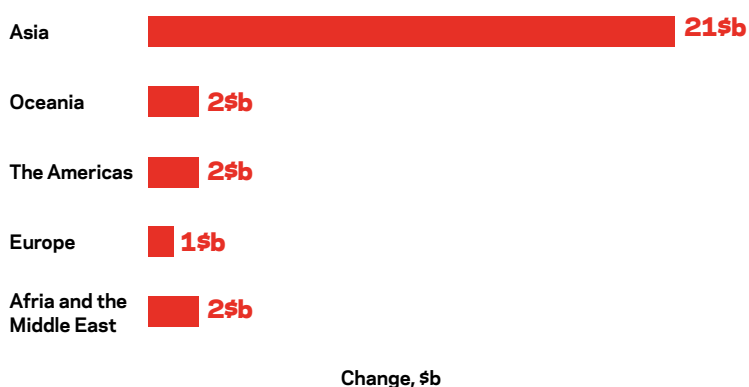
### Aim 1: Export more of more diverse products

#### Export growth by region, 2000-2020

New Zealand's exports grew by \$30 billion during 2000 and 2021; \$21 billion or 71 percent of the growth was to Asia, of which China accounted for \$16 billion (see Figure 5). In short, this export growth was largely a story of China, not an Asia story. Other Asian countries did, however, grow strongly over the past decade, suggesting New Zealand has unrealised opportunities in wider Asia. To seize these opportunities, a more granular, country-specific view will be necessary.

Figure 5

#### New Zealand exported more to Asia



SOURCE:

Statistics New Zealand

Asian economies grew rapidly over the past decade, increasing demand for New Zealand's products. In practice, however, New Zealand failed to capitalise on this, with imports from other countries into Asia growing more. Figure 6 (see page 11) summarises our export relationship with Asian countries. It includes:

- Asia's imports from New Zealand in 2020 (US\$ basis)
- change from 20 years ago (US\$ basis)
- share of each country's imports from New Zealand (country's reliance on New Zealand)
- change in import share over the past 20 years (how that reliance has changed).

New Zealand's share of Asia's imports (our exports) rose from 0.33 percent in 2000 to 0.38 percent in 2019, an increase of 0.05pt over nearly two decades.

While reliance on New Zealand's products rose in China, Chinese Taipei, Singapore, Sri Lanka and Bangladesh, it fell across most other Asian countries including the large economies of Japan and South Korea.

**Figure 6**

Many Asian countries are importing more from other countries

Country	Imports from NZ, US\$m		Share of all imports		
	2020 imports	Increase since 2000	Share of imports	Change since 2000	
China	12,063	11,425	0.6%	0.3%	▲
Japan	2,499	307	0.4%	-0.2%	▼
Rep. of Korea	1,181	480	0.3%	-0.2%	▼
Taiwan	799	447	0.3%	0.2%	▲
Indonesia	757	529	0.5%	-0.1%	▼
Singapore	755	563	0.2%	0.1%	▲
Malaysia	727	427	0.4%	0.0%	
Thailand	691	496	0.3%	0.0%	
China, Hong Kong SAR	620	218	0.1%	-0.1%	▼
Viet Nam	557	496	0.2%	-0.2%	▼
Philippines	434	250	0.5%	0.0%	
India	411	325	0.1%	-0.1%	▼
Sri Lanka	301	238	1.9%	0.9%	▲
Bangladesh	259	248	0.5%	0.3%	▲
Pakistan	47	35	0.1%	-0.1%	▼
Myanmar	42	37	0.2%	0.0%	
China, Macao SAR	37	31	0.3%	0.1%	▲
Maldives	31	25	1.1%	-0.4%	▼
Cambodia	15	14	0.1%	0.0%	
Mongolia	13	12	0.2%	0.1%	▲
Nepal	12	-9	0.1%	-1.2%	▼
Brunei Darussalam	6	4	0.1%	0.0%	
Timor-Leste	3	2	0.5%	-1.5%	▼
Lao People's Dem. Rep.	1	-	0.0%	-0.1%	▼
Bhutan	-	-	0.0%	0.0%	
<b>Asia</b>	<b>22,262</b>	<b>16,599</b>	<b>0.4%</b>	<b>0.0%</b>	

SOURCES:  
COMTRADE, UNCTAD

## Herfindahl-Hirschman Index (HHI) of export commodity concentration

Looking at 99 of New Zealand's export commodities, New Zealand exports to Asia have also become less diverse over time. In other words, New Zealand's exports are more concentrated in fewer commodities. Figure 7 summarises this concentration in selected countries between 2000 and 2019.

**Figure 7**

New Zealand's exports have mostly become more concentrated in a few commodities (dairy, meat and forestry)

	2000	2019	Change*
<b>China</b>	<b>0.08</b> Moderately diverse	<b>0.18</b> Moderate concentration	<b>0.10</b> ▲
<b>Japan</b>	<b>0.09</b> Moderately diverse	<b>0.11</b> Moderately diverse	<b>0.02</b> ▲
<b>Republic of Korea</b>	<b>0.14</b> Moderately diverse	<b>0.09</b> Moderately diverse	<b>0.05</b> ▼
<b>Hong Kong</b>	<b>0.10</b> Moderately diverse	<b>0.16</b> Moderate concentration	<b>0.06</b> ▲
<b>Indonesia</b>	<b>0.28</b> High concentration	<b>0.27</b> High concentration	<b>0.01</b> ▼
<b>Malaysia</b>	<b>0.31</b> High concentration	<b>0.34</b> High concentration	<b>0.03</b> ▲
<b>Singapore</b>	<b>0.12</b> Moderately diverse	<b>0.15</b> Moderate concentration	<b>0.03</b> ▲
<b>Thailand</b>	<b>0.21</b> Moderate concentration	<b>0.22</b> Moderate concentration	<b>0.01</b> ▲
<b>Viet Nam</b>	<b>0.53</b> High concentration	<b>0.33</b> High concentration	<b>0.20</b> ▼
<b>Philippines</b>	<b>0.38</b> High concentration	<b>0.52</b> High concentration	<b>0.14</b> ▲
<b>India</b>	<b>0.20</b> Moderate concentration	<b>0.18</b> Moderate concentration	<b>0.02</b> ▼
<b>Sri Lanka</b>	<b>0.85</b> High concentration	<b>0.96</b> High concentration	<b>0.11</b> ▲
<b>Rest of Asia</b>	<b>0.27</b> High concentration	<b>0.54</b> High concentration	<b>0.27</b> ▲
<b>Asia</b>	<b>0.09</b> Moderately diverse	<b>0.33</b> High concentration	<b>0.24</b> ▲

\*Change in concentration over time

SOURCES:

Statistics New Zealand, Sense Partners

Looking at the past two decades of exports to Asia, there are three broad conclusions:

1. New Zealand's Asia performance has been largely about China.
2. New Zealand has not made as much headway into other parts of Asia.
3. New Zealand export trade is becoming less diverse.

There are two key implications for New Zealand's future Asia engagement strategy:

1. New Zealand needs country-specific focus in market access and a way to prioritise and sequence its activities that are strategic and evidence-driven. For example, New Zealand may choose to focus on deepening its economic relationship with Malaysia first, followed by Indonesia – but there is little point trying to deepen all markets simultaneously.
2. Diversification of trade requires careful consideration about the types of complementary policies – such as trade agreements, investment connections, domestic economic development policies – needed to encourage businesses and industries to export a more diverse range of products.

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## **Aim 2: Grow commercial services exports**

Commercial services exports are a subset of services exports, excluding large items such as tourism and international education. New Zealand exports of commercial services have risen from two percent of GDP in 2007 to three percent in 2019.

1. The increase in commercial services exports has been led by the “other business services” category (which is mainly for management fees between related parties, typically charged by a parent company to its subsidiaries), followed by insurance and pension services and information and communications technology (ICT) (Figure 8). The breakdown by country shows Singapore is the most significant destination for other business services from New Zealand, but those statistics may be overinflated due to Singapore being a regional hub, rather than the final destination.

There has been progress in commercial services exports, but the increases do not yet appear large in areas of focus – ICT and construction services, for example.



**Figure 8**

Commercial services exports growth to Asia by service type (2007-2019)

NZD million \$ Change (2007-2019)	Travel services	Other personal travel services	Educational travel services	Other business services	Transportation services	Insurance and pension services	Telecommunications, computer and information services	Business travel services	Charges for the use of intellectual property	Government services	Financial services	Personal, cultural and recreational services	Maintenance and repair services	Construction services	Total services
<b>Brunei Darussalam</b>	7	1	8	-4	-82	0	0	0	0	0	0	0	0	0	-82
<b>People's Republic of China</b>	9,014	5,984	2,644	626	1,119	28	62	384	24	73	182	19	-63	-1	11,193
<b>Hong Kong SAR</b>	632	416	224	9	146	-3	43	-6	4	4	-3	-1	0	0	827
<b>India</b>	3,499	996	2,463	124	22	4	125	41	19	56	0	17	0	0	3,871
<b>Indonesia</b>	926	795	110	-7	-34	0	6	18	4	12	0	3	0	0	898
<b>Japan</b>	266	-240	466	234	-1,080	5	54	40	0	14	2	-16	-18	-226	-760
<b>Republic of Korea</b>	-461	-49	-394	37	33	11	4	-21	0	20	-1	0	0	0	-448
<b>Malaysia</b>	586	430	166	15	-175	-104	10	-7	1	8	2	-1	0	0	349
<b>Philippines</b>	938	508	401	177	137	0	42	28	3	32	0	0	0	-2	1,353
<b>Singapore</b>	579	508	44	2,426	1,905	1,053	237	28	223	12	32	8	66	-2	6,564
<b>Sri Lanka</b>	251	90	165	0	0	0	0	0	0	8	0	0	0	0	306
<b>Taiwan</b>	257	315	-67	130	175	4	2	7	1	8	-3	0	0	0	590
<b>Thailand</b>	598	263	336	13	-138	1	13	-3	1	12	0	0	0	0	492
<b>Viet Nam</b>	596	264	303	-3	0	0	1	30	0	20	0	0	0	0	661
<b>Total</b>	17,688	10,281	6,869	3,777	2,028	999	599	539	280	279	211	29	-15	-231	25,814

SOURCE:  
Statistics New Zealand



### Aim 3: Further free trade and economic cooperation agreements

New Zealand has successfully negotiated a range of bilateral and multilateral free trade and economic cooperation agreements over the past two decades, summarised below. This is consistent with the goals set out in the 2003 Seriously Asia report.

New Zealand has enhanced relationships through various mechanisms with 12 countries in Asia. These agreements, while relatively few in number, cover the largest economies, accounting for around 80 percent of Asia's GDP.

New Zealand has been negotiating a free trade agreement (FTA) with India since 2010, although progress has slowed. Future emphasis on FTAs needs to clearly define the potential benefit we are trying to unlock with new FTAs versus how we can create more economic opportunities for New Zealand from the existing agreements and, if necessary, enhancements to them.

#### New Zealand trade and economic agreements

<b>1983</b>	New Zealand-Australia: Closer Economic Relations (CER)
<b>2001</b>	New Zealand and Singapore Closer Economic Partnership (CEP)
<b>2005</b>	New Zealand and Thailand CEP Trans-Pacific Strategic Economic Partnership
<b>2008</b>	New Zealand-China Free Trade Agreement (FTA)
<b>2009</b>	New Zealand-Malaysia FTA ASEAN-Australia-New Zealand FTA (AANZFTA)
<b>2011</b>	New Zealand - Hong Kong, China CEP
<b>2013</b>	Agreement between New Zealand and the separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation
<b>2015</b>	Korea-New Zealand FTA
<b>2018</b>	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
<b>2020</b>	Digital Economic Partnership Agreement (DEPA)
<b>2021</b>	New Zealand-United Kingdom FTA
<b>2022</b>	Regional Comprehensive Economic Partnership (RCEP)

### Aim 4: Increase quality foreign direct investment from Asia

Foreign direct investment (FDI) by Asian countries has grown substantially over the past two decades, but the increase to New Zealand is generally smaller than the overall increase. Statistics New Zealand figures show that New Zealand's main sources of FDI remain the traditional partners of Australia, the US and UK.

Annual flows of FDI are volatile, so while the statistics are interesting, the stock (value of total investments, rather than the investment flow in a given year) of overseas investment is a more useful guide to New Zealand's share of investment from these countries. There are caveats here, too; data is not uniformly available, valuation methodologies differ, and the quality varies.

**Figure 9**

New Zealand has not fully benefitted from increased FDI by Asian countries

### FDI investment by selected Asian countries (\$USm)

Country	2001			2020			Change 2000-2020	
	Total	In NZ	Share in NZ	Total	In NZ	Share in NZ	US\$m	Share in NZ
China	34,654	436	1.3%	2,351,800	2,444	0.1%	2,008	-1.2%
Japan	300,115	1,963	0.7%	1,982,134	8,807	0.4%	6,844	-0.2%
Korea, Republic of	19,967	—	—	500,901	—	—	—	—
China, Hong Kong SAR	347,771	1,273	0.4%	1,953,924	15,174	0.8%	13,900	0.4%
Indonesia	6,940	2	0.0%	88,207	—	—	—	—
Malaysia	8,354	—	—	129,291	—	—	—	—
Singapore	90,122	2,796	3.1%	1,220,671	9,090	0.7%	6,294	-2.4%
Thailand	3,456	—	—	155,602	92	0.1%	—	—
Viet Nam	—	—	—	11,513	3	0.0%	—	—
Philippines	892	—	—	63,966	—	—	—	—
India	2,532	—	—	191,304	262	0.1%	—	—
Sri Lanka	60	—	—	1,511	—	—	—	—
Rest of Asia	1,326	—	—	12,688	—	—	—	—
Bangladesh	85	—	—	327	—	—	—	—
Myanmar	—	—	—	—	—	—	—	—
Pakistan	578	—	—	1,988	—	—	—	—
Maldives	—	—	—	—	—	—	—	—
Mongolia	5	—	—	697	—	—	—	—
Cambodia	211	—	—	1,187	—	—	—	—
Nepal	—	—	—	—	—	—	—	—
China, Macau SAR	420	—	—	7,459	—	—	—	—
Brunei Darussalam	—	—	—	—	—	—	—	—
Lao People's Dem. Rep	26	—	—	95	—	—	—	—
Timor-Leste	—	—	—	802	—	—	—	—
Bhutan	—	—	—	—	—	—	—	—

SOURCE:

Statistics New Zealand, UN

Inward FDI is dominated by acquisitions rather than greenfield new investment. However, some purchases are subsequently followed by further capital investment into the acquired company. Both types of FDI potentially contribute to capital deepening (an increase in capital investment) in New Zealand.

Figure 10 summarises the stock of overseas holdings (from all countries, not just Asia) by industry, and the change over the past 20 years.

**Figure 10**

### Overseas investment stock in New Zealand by industry, for all countries

Industry overseas direct investment in NZ, NZ\$m	2001	2020	Change	
<b>Financial and insurance services</b>	15,664	43,412	27,768	▲
<b>Unallocated to industry</b>	5,907	16,277	10,370	▲
<b>Agriculture, forestry and fishing</b>	710	10,127	9,417	▲
<b>Wholesale trade</b>	1,846	7,774	5,928	▲
<b>Manufacturing</b>	12,249	17,591	5,342	▲
<b>Retail trade</b>	2,221	6,520	4,299	▲
<b>Rental, hiring and real estate services</b>	786	3,871	3,085	▲
<b>Health care and social assistance</b>	—	2,156	2,156	▲
<b>Accommodation and food services</b>	582	2,198	1,616	▲
<b>Professional, scientific and technical services</b>	693	2,240	1,547	▲
<b>Transport, postal and warehousing</b>	671	846	175	▲
<b>Construction</b>	1,294	851	-443	▼
<b>Information media and telecommunications</b>	6,940	2,493	-4,447	▼
<b>Mining</b>	—	1,860	—	
<b>Utilities</b>	—	2,692	—	
<b>Administrative and support services</b>	—	514	—	
<b>Public administration and safety</b>	—	—	—	
<b>Education and recreation services</b>	—	—	—	
<b>Arts and recreation services</b>	—	—	—	
<b>Other services</b>	188	—	—	
<b>Total</b>	<b>55,324</b>	<b>121,570</b>	<b>66,246</b>	<b>▲</b>

SOURCE:  
Statistics New Zealand

Cumulatively, FDI attributed to investors from Asia in the Statistics New Zealand data accounts for around 20 percent of total FDI here, up from less than five percent in 2001. An alternative measure of the source of inward investment is to look at those investments that require approval by the Overseas Investment Office (OIO). Based on OIO approvals for commitments of new investment, Asia-origin investors accounted for 31 percent of total approvals between 2013 and 2015, but a smaller share in the 2016 to 2018 period, according to reports from KPMG.

Much of the growth in FDI holdings in New Zealand is accounted for by foreign investment in the financial sector, reflecting foreign ownership of our large financial institutions, in particular banks.

Elsewhere, the next biggest increase has been in resource-seeking investments in the primary and related manufacturing sectors. These investments potentially increase economic linkages and lead to spillover benefits, such as through increased exports or productivity gains from new investment.

There are market-seeking investments too, which target domestic sales by the foreign investor. This motive is apparent in increases in investments in the wholesale, retail and real estate sectors. These industries could potentially benefit from skill and knowledge spillovers.

Limited country-level data shows Asian investments are concentrated in the primary sector, food processing, and some services, including tourism, which have limited scope for positive spillover. At the level of individual companies, there is evidence that foreign investment can create positive spillovers in the form of enhanced product quality, skills and connections with overseas markets. However, we simply don't know how widespread or typical these gains are when New Zealand research on this is limited.

Positive spillovers depend on the absorptive capacity of host-country firms too. Absorptive capacity relates to size, human resources, level of technical skill and management capacity. New Zealand's small economy and often immature business processes may be an obstacle to this absorptive capacity, and similarly may be a barrier to internationalising.

Broader host-country conditions and institutions also matter for these spillovers (as opposed to attracting FDI); in particular, education, skills development and quality of government institutions.

This suggests that New Zealand's policy to not only think about attracting FDI, but how to improve the positive spillovers of that FDI as well. This will draw in wider policy areas of education, skills and the coordination and cohesion of government policies. Failing to do this will mean foreign ownership of New Zealand's assets simply adds to the liability side of our international investment position without conferring any dynamic benefits.



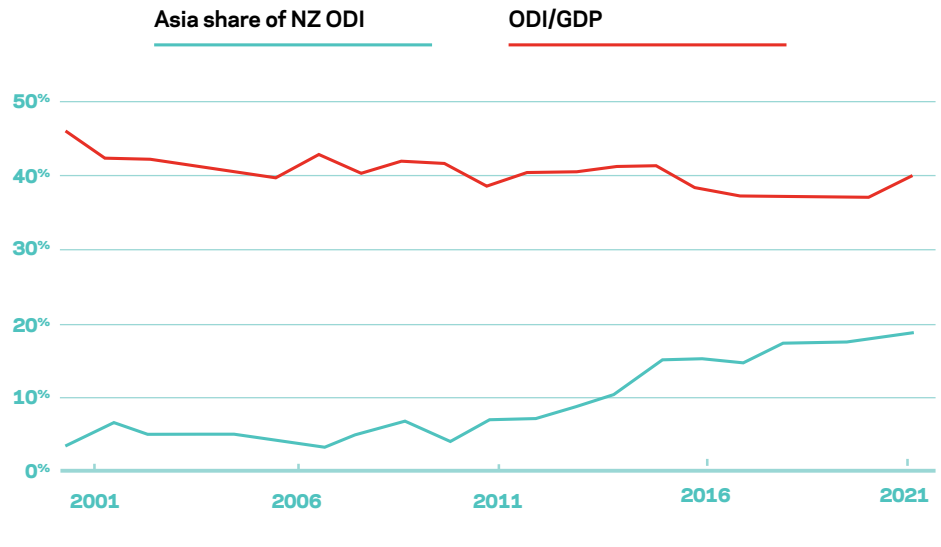
## Aim 5: Support targeted outward investment

### NZ's ODI and percentage share to Asia

New Zealand's overseas direct investment (ODI) performance is poor, having not grown as a share of the economy – even though New Zealand's share of investment to Asia has increased over time. Although there is no thematic story of successful and growing ODI, this may be an area of untapped opportunity for New Zealand given the close links between trade and investment. We are more likely to export our goods and services, rather than have stakes through the supply chain to the end consumer.

Figure 11

New Zealand ODI has not kept pace with our economy, but more has gone to Asia



SOURCE:  
Statistics New Zealand



## Aim 6: Grow tourism in volume and value

Global tourism grew rapidly over the two decades since 2000 but has been severely disrupted by COVID-19. Prior to the pandemic, there had also been growing discomfort with the potential negative effects of 'over-tourism'.

New Zealand's tourism sector has grown strongly since the Global Financial Crisis of 2008/2009. Tourists from Asia – China in particular – were a significant driver of this growth. Spending increased also. Figure 12 shows strong growth in tourist arrivals in the lead-up to COVID-19, and the sudden stop during the pandemic.

As pandemic restrictions ease, tourism will recover gradually over time. But high airfares, limited capacity on many routes and lingering pandemic risks may mean a return to 'normal' takes some years.

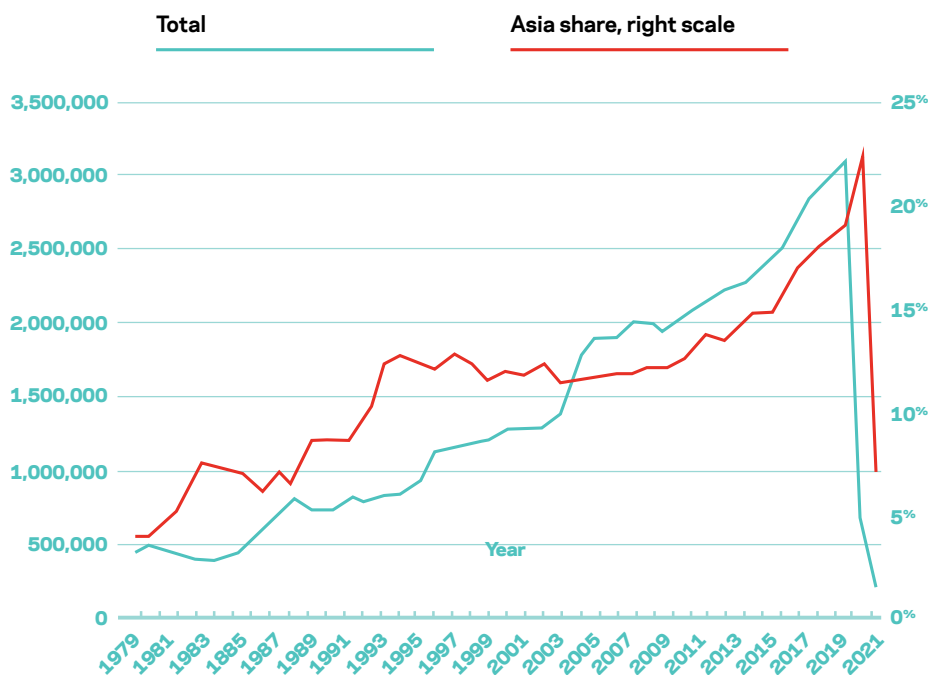
Our analysis of the pre-COVID-19 period in Figure 13 shows that New Zealand has benefitted from more visitors from Asia. However, the second panel shows that we also receive very small shares of their outbound travel, and the third panel shows that New Zealand's share of outbound travel from many Asian countries in fact fell over the past 20 years. In short, performance is mixed.

There were some increases, too, which provide good case studies to identify strategies New Zealand can apply to improve its share of outbound travel. Connectivity, ease of travel permits, and other factors can often be important drivers of destinations of choice.

## Tourist arrivals and Asia's share

**Figure 12**

Tourism has grown sharply, as has the share of visitors from Asia



SOURCE:  
Statistics New Zealand

## Tourist arrivals to NZ

Figure 13

Tourist arrivals from Asia have increased, led by China, but New Zealand's share remains small and has fallen across the majority of markets

Country	Tourist arrivals to NZ			Share of outbound		
	2019	Change from 2000		2019	Change from 2000	
China, People's Republic of	392,979	368,310	▲	0.25%	0.02%	▲
Japan	90,681	-54,301	▼	0.45%	-0.36%	▼
Rep. of Korea	84,946	20,550	▲	0.30%	-0.87%	▼
India	62,409	54,884	▲	0.23%	0.06%	▲
Singapore	56,686	25,300	▲	0.53%	-0.18%	▼
Hong Kong (SAR)	50,157	22,797	▲	0.05%	0.01%	▲
Malaysia	39,351	20,368	▲	—	—	
Thailand	26,209	401	▲	0.25%	-1.10%	▼
Indonesia	26,136	17,729	▲	0.22%	-0.16%	▼
Philippines	25,990	21,553	▲	0.36%	0.09%	▲
Rest of Asia	10,785	7,943	▲	0.13%	-0.08%	▼
Viet Nam	7,999	7,174	▲	—	—	
Sri Lanka	3,423	2,550	▲	0.24%	0.07%	▲
Macau (SAR)	2,814	2,460	▲	0.16%	—	
Cambodia	2,181	1,787	▲	0.11%	-0.85%	▼
Bangladesh	1,127	781	▲	0.07%	0.04%	▲
Nepal	983	881	▲	—	—	
Pakistan	958	597	▲	—	—	
Brunei Darussalam	952	140	▲	—	—	
Burma (Myanmar)	591	485	▲	—	—	
Laos	412	255	▲	0.02%	—	
Timor-Leste	214	108	▲	—	—	
Mongolia	213	156	▲	—	—	
Maldives	168	136	▲	—	—	
Bhutan	46	31	▲	0.06%	—	
<b>Asia</b>	<b>888,410</b>	<b>523,075</b>	<b>▲</b>	<b>0.25%</b>	<b>-0.25%</b>	<b>▼</b>

SOURCES:

Statistics New Zealand, World Bank

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## **GUARDING AGAINST OVER- TOURISM**

Beyond a certain point, tourists go from being an economic lifeforce to becoming economic and social liabilities, negatively impacting the very things that attracted them initially, such as the environment.

We should be mindful of the benefits of tourism, but they are not necessarily spread far and wide. Airlines, hotels, transport and hospitality operators benefit, but many of the local jobs tend to be seasonal, insecure and low paid.

The alternative for many may be no job at all, but you cannot build a resilient and successful economy on tourism alone. Places highly exposed to tourism are at the mercy of changing tourism patterns as well.

The costs and benefits of tourism are shared unequally across local communities and central government. The stresses on community infrastructure are borne by locals, but most of the revenue goes to central government in tax revenue from sales, wages and profits.

Unless tourism can grow in harmony with the host community's needs, including affordable housing and maintaining the authenticity and social fabric of a location, it becomes 'over-tourism'.

There is good reason to think about an optimal level of tourism and for using tools to maintain an equilibrium, such as limiting flight numbers, imposing taxes on accommodation, responsive housing supply and redistribution of tax revenue to tourism-intensive regions.

In 2021, the Parliamentary Commissioner for the Environment put forward a plan for more sustainable tourism post COVID-19. Any plans to leverage Asia's large and growing outbound tourism market should reflect the potential costs of tourism and any resulting target or policy needs to carefully consider what we are trying to achieve.

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## **UNCERTAIN OUTLOOK FOR EDUCATION**

While there have been some concerns about exploitation of foreign students by unscrupulous employers, and instances of fraudulent immigration documentation, the international education sector was clearly an important driver of services exports, economic contribution and support for education institutions. Education exports grew strongly until disrupted by the pandemic. Asia drove this growth, while student numbers from the rest of the world fell. In 2019, around 70 percent of international students were from Asia, up from 52 percent a decade earlier. The growth was mainly from China, India and the Philippines.

The sector supported around 27,400 jobs in New Zealand (24,000 in the education sector and a further 3,400 through tourism, including visiting friends and relatives). We estimate that these education jobs supported a further 21,000 jobs indirectly in other parts of the economy. For many education providers, the financial reliance is much greater than roll reliance. International students pay much higher fees and use other services such as dormitory accommodation more than domestic students; this means their impacts on profits and the local economy are large.

The outlook for the sector is unclear. The border closures during the pandemic and immigration settings on reopening are less favourable for international students.

Some targeted growth of the international education sector is, however, clearly warranted and advantageous.



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## WHERE TO FROM HERE?

Recommendations in the 2003 Seriously Asia report on growing trade, tourism and investment linkages with Asia are now familiar:

- Improve coordination across government agencies and between the public and private sector.
- Reduce barriers to inward foreign investment; pursue trade agreements.
- Promote collaboration among New Zealand companies.
- Develop the cultural intelligence and language capacity necessary for engagement with Asia.
- Focus on quality and value-added niches where New Zealand companies can command a premium, rather than competing on price, to promote an awareness of brand New Zealand.
- Develop strong, long-term relationships with partners in Asia, including through leveraging migrant entrepreneur networks.

These recommendations remain essential and relevant across government and the private sector, but there is scope to perform better in delivering most of them.

Efforts have been made to improve coordination across the NZ Inc ecosystem, but in some quarters the perception remains that the landscape is fragmented, some initiatives do not focus on high-value activities, and the limited absorptive capacity of many companies (which are mostly very small) reduces the utility of some support for international business growth.

Changes to the Overseas Investment Act have added to, rather than reduced, barriers to inward FDI. Although New Zealand continues to rank well on some measures of ease of doing business, the regulatory landscape has become more complex and compliance costs have increased.

Preferential trade agreements with the region have been achieved, notably with China and through the CPTPP and RCEP, but some countries continue to apply significant non-tariff trade barriers.

It is unclear whether there has been any improvement at all in the knowledge of Asia, cultural intelligence, and Asian language skills of the New Zealand workforce. Indeed, one of the shortcomings in the execution of recommendations from the 2003 Seriously Asia initiative is the lack of systematic monitoring of its implementation and achievements.

In some areas, there is a need for change. Based on the very mixed outcomes in trade and investment ties with the region described in this report, doing more of what we have been doing for the past 20 years will not deliver decisive improvements.

Our recommendations for doing things differently are grouped by category: government, business and the combined business-government (NZ Inc) effort.

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## GOVERNMENT POLICY AND ACTION

Public sector agencies need to adopt a more strategic mindset. This will recognise that the rationale for public sector support for international business growth lies in its potential to remedy identifiable market failures, or to provide clear public goods – benefits that will be underprovided by market participants acting independently.

These obviously include the economic diplomacy undertaken by (the Ministry of Foreign Affairs and Trade Manatū Aorere) MFAT, as well as government-to-government cooperation involving other agencies, to address ongoing regulatory barriers to trade. This will require developing country-specific relationships and programmes to unlock further potential benefits from current trade and cooperation agreements.

Government agencies should seek to identify the underlying sources of problem areas, such as persistent shortfalls in developing Asia expertise and language capacity, perceived fragmentation of the architecture for supporting business growth in international markets, and the need for coordinated policy across the whole of government. The collation and dissemination of statistical information and other metrics of New Zealand's engagement with Asian countries should be assigned to a public agency, to track progress in a timely manner.

There is a need for an evidence-based policy shift if New Zealand's long-term failures to raise productivity, address underperformance in education and work skills, and improve deficits in infrastructure are to be overcome. Impediments to improved business capability need to be clearly identified. This will also require an alignment of different policy areas and explicit recognition of areas where policy goals are in tension.

Given that structural change and unstable policy settings are disruptive, the public sector should seek to build broad-based consensus on core priorities and strategy, to build the political resilience necessary to deliver long-term goals.

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## BUSINESS ACTION

The business landscape remains relatively fragmented. Although business associations provide valuable services to their members, there is scope to develop opportunities for collaboration that could yield gains through economies of scale, knowledge-sharing, joint brand-building and marketing and, where appropriate, strategic partnerships to address common needs.

Gains from cooperation and partnerships require ongoing efforts to build capacity, maintain relationships and ensure adequate safeguards. While many companies have pursued relationships in Asian markets through trust, this creates vulnerability. Particularly in opaque market settings, there is a need to think in terms of safeguards and long-term incentives that sustain a partnership and invest in the capabilities required.

In addition to sharing success cases, there is a need to learn and share lessons from overseas ventures that have not delivered optimally.

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## NZ INC

Coordinated efforts to promote New Zealand in Asian markets should continue to be a priority. There is scope to improve communication and connections between parts of the NZ Inc landscape, particularly in respect of jointly devising solutions to specific barriers or disruptions to trade, tourism and investment, and leveraging the respective and strengths of public and private sector players.

Opportunities to lift New Zealand's game will depend on the articulation of shared objectives and a common understanding of strategy and focus. This will require a structure for communication and consensus-building that is efficient, accessible and responsive to changing conditions.

Consistency across initiatives is vital, so that efforts in areas such as brand development and marketing are aligned with policy settings and domestic capabilities to deliver what is promised. There is some gap between aspiration, policy and capacity to deliver in specific areas, including leveraging connections through migrant entrepreneurial networks, and the relationship between skills-based immigration settings and the entrepreneurial orientation of investor-migrants.

Sustainability and scalability matter. If the aim is to promote long-term diversification of our economy and its connections with Asia, there is a need to be mindful of environmental constraints and the social distribution of benefits. Tourism plans need to be firmly placed in the context of risks of over-tourism and impacts on sustainability. Quality control is critical to the success of exporters, where we have learnt that quality failures by individual firms in areas such as food safety or export education can create negative spillovers for the whole sector.

Currently, there is no articulated strategy for supporting outward direct investment by New Zealand companies, even though ODI is often a factor in moving to higher-value trade relationships. This remains an area of relative underperformance for New Zealand, with several high-profile failures in foreign ventures, as well as some successes. Potential NZ Inc support should be based on a clear strategic rationale. Although ODI is inherently a private sector-led activity, some specific barriers or areas of weakness suggest there is scope for targeted NZ Inc collaboration.

Across all areas of NZ Inc activity, there is a need to monitor both inputs and outcomes in order to refine strategies based on the lessons learnt.

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## SUMMARY

New Zealand is now more connected with Asia than it was 20 years ago, but much of the growth in trade and other economic links has been concentrated on China. We need to broaden our efforts across Asia. Most Asian countries have not become more connected to us, compared to the rest of the world. We can do better. To do that, we should continue to work on big policy tools like FTAs and promote a better understanding of Asia (at an individual country level). We also need to invest in developing business capacity, enhanced collaboration across the NZ Inc ecosystem, and a more strategic approach.

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## **ABOUT THE SERIOUSLY ASIA REVISITED THEMATIC PAPERS AND HUI**

### **Society and Culture**

In this paper, authors Professor Sekhar Bandyopadhyay and Dr Andrew Butcher discuss how New Zealand's demographic profile has changed in the past two decades and how this has impacted relationships with Asian countries and New Zealand's cultural landscape. It provides a summary of developments in immigration, international education, education initiatives and the media. The hui for this theme was held on Friday 29 July 2022 in Auckland.

### **Politics and Security**

Authors Professor David Capie and Professor Bethan K Greener examine how the political and security situation in Asia has changed since 2003, and the implications for New Zealand's engagement with the region. The hui for this theme was held on Friday 19 August 2022 in Wellington.

### **Trade, Tourism and Investment**

Authors Professor Natasha Hamilton-Hart and Shamubeel Eaqub assess how New Zealand's trade, tourism and investment relationships with Asia have performed since 2003, and discuss the opportunities and challenges in the decades ahead. This hui was held on Friday 9 September 2022 in Christchurch.

### **Innovation and Sustainable Development**

Authors Kenneth Leong and Hone McGregor examine the growth of innovation in Asia, the opportunities for New Zealand, and how Te Ao Māori perspectives on sustainable development are shaping relationships with Asia. This hui was held on Thursday 29 September 2022 in Queenstown.



# ABOUT THE ASIA NEW ZEALAND FOUNDATION

The Asia New Zealand Foundation Te Whītau Tūhono is New Zealand's leading non-partisan, non-profit authority on Asia. We were set up in 1994 to build New Zealanders' knowledge and understanding of Asia. We provide experiences and resources to help New Zealanders build their knowledge, skills, connections and confidence to thrive in Asia.

We work in partnership with influential individuals and organisations in New Zealand and Asia to provide high-level forums, cultural events, international collaborations, school programmes and professional development opportunities. Our activities cover more than 20 countries in Asia and are delivered through programmes with a focus on arts, leadership, entrepreneurship, sports, business, media, education, research and informal diplomacy (Track II).

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