

Executive Summary

Key thoughts and themes:

- New Zealand has held varied but not deep connections with China for 200 years, connections which have not depended on any rigorous effort to seek to understand the country and its culture.
- Fourteen years of reform and economic growth have wrought a sea change in China. A prescription has been found which meets China's circumstances and which, despite imperfections, is providing material prosperity under an increasingly market based system. Developing tastes are extending well beyond daily necessities.
- China is thus following its own path and seeking its own model. There are dangers in making assumptions about its future directions from foreign, particularly Western, experience. There are large differences too between its situation and that in the former Soviet Union and Eastern Europe which led to communism's collapse there from economic failure. China is understood on the basis of the 'Chinese characteristics' of any situation.
- So China remains complex. No foreign observer can expect to read the political currents with assurance, let alone predict how China will be faring in 2000. All modern Chinese states from Sun Yat-sen's have been tutelage systems, and the Chinese Communist Party (CCP) is the present custodian of that tradition. China has had *perestroika* without *glasnost*. It is in transition too to the post-Deng Xiaoping era, and the smooth handling of generational change is never easy.
- There are worst-case scenarios as there are best-case ones, push factors as much as pull ones.
- It helps to look below the surface, to the sources of dynamism, to the trends and phenomena that have wrought such great change already, and which seem set to affect future patterns even more markedly. By seeking legitimacy through economic success, the CCP has made itself hostage to the forces it has let loose. It wears the clothes of the market economy. There are new and strengthening social forces, regionalism and fragmentation in economic and cultural domains. Everywhere entrepreneurial opportunities are being seized. This points to an evolutionary process, to which politics will not be immune, the present political hiatus notwithstanding. The view that Chinese society

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and culture have enormous resilience commands respect.

- Successful East Asian models have a subtle impact on China, China through its own 'opening to the outside' having joined the ranks of Asia's dynamic market economies. Its economy is in transition, just like the others, undergoing major structural economic change, moving up through levels of development, and interacting vigorously with its neighbours. The interactions are the more notable because they are being driven by commercial or private interests, not governments.
- Especially interesting is the way in which China's reform has made its economy ever more compatible with those of Hong Kong and Taiwan. Equally significant is the impact upon the Chinese communities of Southeast Asia which comprise such a massive share of their respective economies. The effects are seen most dramatically in trade and investment flows, but they go deeper too.
- So there is gathering weight behind the view that the balance of economic power in Asia is tilting to the ethnic Chinese: their economic dynamism, China's growing wealth and the prospect now mooted by foreign analysts that it could pass total United States output in under 15 years, Beijing's role as cultural and historical centre, China's growing assertiveness regionally, its military power, its Security Council permanent membership, and so on.
- China accordingly has thrust itself into New Zealand contention in a way that it has not done in 200 years. It can become even by 2000 New Zealand's largest market in volume, diversity and value. Wider imperatives are driving it towards conformity with international economic norms. More than in any other external environment, New Zealand business success in Asia will influence the shape and scale of New Zealand's future economic growth, and particularly the living standards New Zealanders can expect by 2000.
- Yet a fulfilling future for New Zealand anywhere in Asia is not part of the natural order of things. It needs conscious shaping. Asian tears would not be shed if New Zealand fell off the map. New Zealand must be initiator more than respondent, but this requires a greater lifting of sights from the internal to the external adjustment.
- The challenge is as much cultural as economic and New Zealand is as ill-prepared on the one front as on the other. Insularity and complacency are bad bedfellows, and tokenism is no response.
- Though improving in the latest period, New Zealand's trade performance in China has been disappointing when measured against China's rapid growth and trade expansion, besides wool and wood deficits. Trade barriers are real

but are not a convincing explanation. Nor is competition. The problems stem from the structure of the New Zealand economy, besides traditional producer mindsets. The social context is not the same, but there is not a lot of difference in New Zealand sending wool to China in 1992 - even when much of it is scoured - and America's southern plantations sending cotton to Lancashire mills in the eighteenth century. There has also been an inability to find common ground on the transfer of technology, a keystone of China's open door policy.

- Business success depends on moving to the processor mindset, developing the capacity to become directly engaged in the market, rather than indirectly. With wool, the dominant product in the China trade, the New Zealand industry is coming to recognise the relentless drift away from Europe, and its increasing dependence on China. There the market is now driven by new local players making rational decisions based on profit. An altogether more substantial marketing commitment is needed to get closer to end users.
- China's future food strategy bears close watching. There is a strong self-sufficiency tradition for staples. Higher levels of food imports can be expected with higher living standards. China's confidence in its relations with food exporting countries will influence its willingness to enter world trade in agriculture.
- Much product development will take place close to the customer. New Zealand must chase those greater margins available on the way through. Some of the best Chinese or Asian investment for New Zealand may be investment in the region, with New Zealand partners.
- In this decade, the seemingly impenetrable is giving way to the more readily penetrable. China may be complex but it is not mysterious. Its sea change requires large adjustments in the ways New Zealanders deal with it, think about it, and keep abreast of a fast-changing scene. A growing convergence of interest across sectors in New Zealand will help. Interactions, networks - like the Hong Kong/Guangdong economic nexus - are shaping China. Networks within New Zealand can be exploited more fully. So too can the potential within the CER connection.
- It is important equally to keep abreast of the wider phenomenon of ethnic Chinese. The dynamics within the whole more and more provide invaluable clues as to the direction of any one economy or community. The varied influences are self-reinforcing: the ties of culture, language and family blending with the Chinese propensity to save and invest, the stress on education and social discipline, and the orientation to hard work. It is

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essential to understand how Chinese communities, including those in New Zealand – new and old – are establishing linkages and taking up opportunities.

- The challenge to New Zealand is at several levels and, other than at the official level, it is being addressed at snail's pace compared to Australia. Gaps are most immediately apparent at the information and skills level. First class business information, market research and economic analysis produces first class lateral thinking, which leads to first class partners. Also lacking is the research capacity to enable New Zealand to make effective inputs into wider regional debates bearing on Asia's future shape and direction. The paucity of informed debate is felt at home too.
- Ultimately the challenge is to open the New Zealand mind to Asia, bringing it within conceptual reach of the mainstream. This means quite deep change in policy on and content of education. A measure of the distance New Zealand still has to go, eight years from a new century when ethnic Chinese will be altogether more dominant, is that in 1991, 64 students were enrolled in Chinese courses from forms 3 to 7 compared to 15,921 in Japanese. Moreover, the language has been spoken in New Zealand only two decades or so less than English, and Chinese comprise the largest non-Polynesian ethnic minority.
- The fact that Hong Kong is prosperous because of Guangdong (and China) and not despite it, looks set to determine the point of balance between the natural apprehensions in Hong Kong about China's resumption of sovereignty in 1997, and the keen appreciation there of the advantages of an ever-increasing economic integration with Guangdong. Local realities there may call for some adjustment in traditional New Zealand thinking of political stability – and popular participation – as it applies to Hong Kong in the context of the looming transition.
- In Taiwan, the political equation is quite different. Whether the market forces driving economic ties between Taiwan and the mainland will produce commensurate movement of the political currents between the two lies in the realm of the indeterminate. Yet the economic pressures for closer integration will become more insistent. Taiwan will occupy an increasing place within New Zealand's China equation, just as much as it is becoming a major economic partner in its own right.