

**NEW ZEALAND MUST STRENGTHEN AID AND FOREIGN DIRECT  
INVESTMENT TO EMERGING ECONOMIES TO ACHIEVE  
GLOBAL RECOGNITION AND PLACE THE COUNTRY AT THE  
LEADING EDGE OF GLOBAL COMPETITION**

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## **RECOGNITION AND PLACE THE COUNTRY AT THE LEADING EDGE OF GLOBAL COMPETITION**

Seventy percent Of New Zealand's development assistance goes to South Pacific countries. Much of the remainder goes to parts of Asia and a small amount to Africa and Latin America. On December 9, 1998 The Rt. Hon. Jenny Shipley, Prime Minister of New Zealand, laid out **Strategic Priorities 1999-2002**. In the preamble she states, "Our strategic priorities center on lifting the productive capacity of our country to become a high value economy. We want to focus on ways to develop smart people with a sense of opportunity, smart products and services, new and expanding markets." One of her priorities is to, "Strengthen our external links by liberalizing trade and investment." Indeed, New Zealand's economy is now one of the most open, market oriented and lightly regulated amongst OECD (Organization for Economic Cooperation and Development) countries. She also set out several goals for the country. Two of note are 1) To develop a strongly growing internationally competitive enterprise economy; an economy which generates trade, employment, income and social opportunities in which all New Zealanders can participate and 2) To place New Zealand at the leading edge through our constructive international engagement. The following paper argues that New Zealand must exercise a greater effort to assist emerging economies outside of the South Pacific, as a form of constructive international engagement, if it wishes the global recognition it is seeking. A strong development assistance program as well as aggressive Foreign Direct Investment helps to globalize a country's people and products. New Zealand needs to move in this direction to attain Jenny Shipley's goals.

Historically, New Zealand's geographic isolation and the prosperity associated with an agricultural economy minimized its public interest in world affairs. The country's past efforts in emerging and developing markets has been minimal. Presently

it assists emerging economies in identifying and meeting economic and social needs through NZODA (New Zealand Official Development Assistance). NZODA provides support for economic and social development particularly in the South Pacific and Asia Regions. NZODA is under the management of DEV (Development Cooperation Division) which is a department of the Ministry of Foreign Affairs and Trade. Perhaps reflecting New Zealand's small population of just under four million its ODA (Overseas Development Assistance) budget currently is NZ\$196 million (US\$120million) which represents 0.24 percent of New Zealand's GNP. However, this is paltry compared to the 0.7 percent of GNP which is targeted by the UN. (In actuality, country effort in both 1996 and 1997 was 0.4 percent of GNP). It places New Zealand near the bottom of the OECD developed country rankings of Official Development Assistance (Appendix 1). NZODA's moneys are spread amongst several programs which includes NZ\$12 million (US\$6.24million) for financial and practical assistance to developing nations mostly in the South Pacific and an approximate NZ\$60million toward scholarships. Much of the remainder is for consultant fees to appraise and design new development assistance projects, and ADAF (Asian Development Assistance Facility) which offers assistance to New Zealand enterprises to establish linkages and business relationships internationally. This latter program is directed toward the promotion of sustainable development and contributes to private sector initiatives. In the ASEAN countries New Zealand provides regional development assistance through ANZECP (ASEAN-New Zealand Economic Cooperation Program) in the amount of NZ\$1.7 million (US\$884,000). In the Middle East there are a number of NGO workers from New Zealand. New Zealand also contributes to NGO and UN relief work in Africa. The many emerging economies of the world require significant assistance, particularly with infrastructure and privatization and although New Zealand is contributing some development assistance it needs to do more not only because it is right but it will also help the country meet its strategic goals.

Prime Minister Jenny Shepley is upholding her role as a politician but is not realistic in believing her country is at the leading edge and well positioned to face the global competitive landscape. If this were the case there would be good opportunities for the young people of the country as they seek challenging jobs in progressive global companies. The fact is that young people have been leaving the country as there is not enough employment for them at home. In December 1996 unemployment in New Zealand was 5.9 percent. As of December 1998 it was 7.7 percent. This rise in the unemployment rate is of significant social concern to the country.

One of New Zealand's 'Overarching Goals' spelled out by the government in its document **Goals and Priorities 1999-2002** is, "to develop a strongly growing internationally competitive enterprise economy; an economy which generates trade, employment, income and social opportunities in which all New Zealanders can participate." New Zealand must provide the seeds for its companies to grow if it wishes to reach this goal. An excellent strategy is to be more aggressive with development assistance to emerging and developing economies. Development assistance provided by countries to emerging and developing countries offers an ideal way for companies within the country to become immersed into the global business environment. The risks associated with doing business internationally are minimal to these companies as they are contracting with, and being paid by, their own government or by an international agency such as the World Bank. It allows a company the opportunity to familiarize itself with the nuances of doing business globally while, at the same time, it gives employees time to develop both the skills and the mindset necessary to compete globally. New Zealand might also consider strengthening programs that encourage firms to undertake investments in sometimes politically unstable economies. One possibility is initiating programs that make funds available to firms wishing to invest in developing economies. Outward investment enables firms to become and remain globally competitive and that creates and supports employment at home. It is interesting

to note that in 1990 net financial aid to emerging markets was four times the flow of private capital. By 1996 that ratio was reversed: the flow of private capital was five times that of government aid (Garten). According to a study of OECD countries a \$US1.00 of outward FDI (Foreign Direct Investment) is associated with US\$2.00 of additional exports as well as a trade surplus of US\$1.70. The same study points out that FDI is a contributing factor to the rising prosperity of developing countries and that, in turn, stimulates demand for higher value-added exports from these countries. According to the OECD, in a report released May, 1999, "More firms in more industries from more countries are expanding abroad through direct investment than ever before." In 1997 New Zealand's total net flow of financial resources to developing countries and multilateral organizations of US\$182million constituted 0.31 percent of its GNP (Appendix 2). This compares to an average of 0.86 percent for OECD countries. When ODA funds are subtracted from this figure the result is approximately US\$60 million of FDI from New Zealand to emerging economies.

To survive and grow in the New Competitive Landscape (a term used to describe the new global business environment within which companies must compete) a company must globalize as well as embrace technology. New Zealand's Foreign and Trade Policy states that, "The prosperity and security of New Zealand depends on its overseas links.....Today the need for us to engage fully with the international agenda is greater than ever.....Trade remains the engine of growth and job creation in New Zealand." However, the realism is that New Zealand has not ventured far from APEC (Asia Pacific Economic Cooperation) countries to conduct trade and for that matter to assist emerging economies. Seventy percent of New Zealand's exports are to APEC economies. The major portion of its ODA goes to APEC countries. Africa is the only country outside of APEC receiving meaningful development assistance from New Zealand and that amounted to only US\$10 million in 1997. Latin America and the

Caribbean received US\$5 million and the Middle East and North Africa received \$US2 million during this period of time (Appendix 3).

In a letter from Lockwood Smith, New Zealand's Minister for International Trade dated August 11, 1998 regarding the next round of multilateral trade negotiations commencing in the year 2000 and under the auspices of the World Trade Organization he states, "A key element of New Zealand's economic strategy is to achieve growth and jobs through trade." He continues ".....we have pursued outward-looking domestic policies which have made New Zealand a more competitive economy." Such statements by a top government official of the country do not correspond with actions the country is taking. Presently New Zealand's prosperity is based on exports from its efficient agricultural system. Manufactured exports in 1996, which includes food processing, were US\$9,922 million or US\$2756 per capita which placed New Zealand below the top thirty countries. The WTO (World Trade Organization) notes that over the past two decades the value of exports of mining (mostly fuels) and agricultural products has risen four and five times respectively while those of manufactured goods has risen nine times. On a volume basis, manufactured exports more than tripled, in contrast to gains of seventy percent for agricultural products. These figures strengthen the author's opinion that NZODA should be the engine that will power New Zealand's mission to becoming a more competitive economy. Adequate funding of NZODA has been a topic of debate by successive New Zealand governments but no commitment has yet been made to bring it up to a satisfactory level.

Globalization today is largely the result of rapid economic development and the opening of a multitude of emerging domestic markets to foreign firms. Much of the impetus that initially opened these markets came via development assistance from developed countries through their aid programs or through agencies such as the World Bank and the Asian Development Bank. Funding of these agencies has mainly come

from developed countries. Companies from these same developed countries have had the opportunity to “cut their teeth” and establish relationships in emerging economies while at the same time building core competencies while they carried out feasibility studies and projects relating to infrastructure and privatization. Such core competencies have placed these companies, along with their local strategic partners, in a solid position to compete in these new markets that now desire products and services as a result of their economic development and growth. These companies have now come to depend upon these markets for economies of scale, greater profits, and the acquisition of valuable knowledge. Among the results of increasing globalization is the creation of a new and somewhat complex competitive landscape that is challenging companies to develop flexible strategies that make use of a multitude of information, communication and manufacturing technologies. This is the new competitive landscape that New Zealand companies as well as companies around the world are facing. It is a landscape that, amongst other things, places significant emphasis on price, customization, quality, innovation, speed of delivery and compressed R&D time. As companies globalize, their own operating structures become more complex. Leadership characteristics change particularly as leaders cope with the need to develop a global mindset amongst employees. The global leader must be able to build and empower multicultural teams and often reengineer the company to gain a competitive advantage in the new competitive landscape. Stakeholders, whether they be shareholders, employees or even customers, must often be replaced as the vision and mission of the company refocuses, and will continue to do so, as the new competitive landscape rapidly changes. The uncertainty of this new competitive landscape demands a new set of criteria for making decisions which challenges today’s standard decision making tools such as net present value (NPV) which does not allow management to react to new circumstances which occur rapidly in the new competitive landscape. Many of today’s global companies are replacing NPV with the “real options theory.” Although complex, it simply says that in an environment of uncertainty a company must have several options.

The realism of the new competitive landscape thus raises the question of whether New Zealand companies are well positioned to compete and are indeed at the leading edge? Do New Zealand companies have the core competencies to reach the first overarching goal stated by the government in **Goals and Priorities 1999-2002**? That is, “We want a strongly growing internationally competitive enterprise economy; an economy which generates trade, employment, income and social opportunities in which all New Zealanders participate.”

New Zealand’s productivity growth is still well below that of other performing economies and lower than the rate required to close the country’s substantial per capita income gap relative to the OECD average. New Zealand exports mainly primary products such as meat, dairy products, wool, forest products, fish, fruit, vegetables and seafood. Such commodity type goods are considered lower performing sectors while higher performing sectors are those with higher value-added content such as manufactured products. In 1997, sixty-one percent of New Zealand’s merchandise exports were in agricultural products (Appendix 4). A minor portion of these products had value added to them in varying degrees. It is difficult to determine the exact value added because major product groups are listed, for example, as ‘beef, fresh/chilled/frozen.’ It is of interest to note at this point the following from a survey conducted by the OECD: Nineteen out of twenty-five OECD countries recorded above average growth of merchandise exports during 1985-94. These same countries reported that seventy to ninety-seven percent of their exports were manufactured goods. On the other hand, thirty-five countries had weak growth during this time period and only four of these countries principally exported manufactured goods.

Until and if New Zealand becomes a major competitor on world markets with manufactured products the country should strengthen its efforts in areas in which it does

have a strategic global advantage. Such an advantage is achieved when products or services are either rare or difficult to duplicate. New Zealand's tourism, wines and many of its value added agricultural products have such characteristics. These represent some of New Zealand's core competencies and they give the country a strategic advantage in the new competitive landscape. Properly nourished products and services such as these provide the employment opportunities the country needs.

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## **APPENDICES**

Appendix 1

## Appendix 2

## Appendix 3

## Appendix 4