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I was asked to speak to you on policy changes and challenges for New Zealand business and government arising from the economic transformations in East Asia.

New Zealand was one of the most prosperous countries in the world at the end of World War II. Its fortunes began to turn from the late 1960s, when the terms of trade moved against agricultural and commodity producers, when Britain joined the Common Market in 1971, and the two oil shocks in 1973 and 1979. New Zealand's principal exports were food and agricultural products. Their prices continued to weaken in the 1980s as new subsidised food supplies entered the international market.

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In the middle eighties, the New Zealand Labour government made a decisive break with the past when they implemented what was popularly called "Rogernomics", a hard headed free market approach. It has been a wrenching change from the comfortable life they had enjoyed, since before World War II, of price supports, subsidies, and social security.

As a result of these reforms, New Zealand can now look forward to non-inflationary growth, estimated for 1993-94 by the Reserve Bank of New Zealand at 5.3 per cent. Moody's Investors Service in March 1994 has upgraded New Zealand's credit rating from AA3 to AA2 in expectation of budget surpluses. This upgrade reverses the downward trend which had lasted since 1983. The lifting of import controls, removal of agricultural subsidies, corporatisation of the public sector, labour market reforms, the introduction of GST and other reforms are finally working their way through. The Organisation for Economic Cooperation and Development (OECD) 1993 Economic Survey of New Zealand concluded:

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> "The current policy framework is aimed at creating the basis for increasing economic and employment growth through the long-term enhancement of productivity growth and increased flexibility to meet changing market conditions."

However, it has taken so long to get the economy right that reform fatigue has set in. There is disenchantment with both the political parties, so much so that a long tried and trusted electoral system of first past the post is now to be abandoned for the Mixed Member Proportional (MMP) system. Experts believe that this will lead to more coalition governments. But whatever the composition of the government , it will still be necessary sooner or later, to complete the economic restructuring. New Zealand must want to improve its international competitiveness, otherwise it will always be vulnerable to price fluctuations in the commodity markets. It is safer to restructure the economy and be less dependent on primary commodities. An economy based on adding value in manufacturing and services, including tourism, is less vulnerable to price fluctuations.

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Dramatic changes have taken place in the international environment. The Communist system has collapsed. All the centrally planned or state dominated economies now want to become free market economies, seek investments and trade with the world. This means fiercer competition as well as greater opportunities in the huge markets, which will open up as these countries develop.

East Asia will increasingly be New Zealand's most important market. In the next 20 to 30 years, a whole belt of countries from Japan, Korea, China,

Taiwan, Hong Kong, Vietnam, Myanmar (Burma), Thailand, Malaysia, Singapore, Indonesia and the Philippines will grow at high rates. They are countries with young populations. Their economies are not mature and can grow very fast. Korea, China, Vietnam are people with old cultures, now rejuvenated, and capable of industrialising quickly and going international. They seek investments, trade , technology, expertise, and know-how.

Asia: Myth and reality

However, New Zealanders have to guard against an oversimple approach when looking to Asia's dynamism for a solution to New Zealand's economic problems. Asia is no Ali Baba cave of riches. East Asia is resource-poor. These countries are becoming richer by depending on their peoples' hard work, thrift, high savings, low consumption and high investments. They are intense people by culture. They are especially geared for scholarship and high performances. It is to make up for their poor resources that they have developed into intense cultures with habits of thrift and hard work. I have a theory which explains why resource-rich countries like Australia and Canada are different. They are large continents with small populations that will not be able to consume their cornucopia of national resources, not in a thousand years. This immense wealth has created the resource-rich syndrome. This syndrome results in a

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relaxed not intense society. Such a society lacks the motivation for high performances, because of the high social security and welfare their governments can afford. Through subsidies, price supports and welfare payments they spread the wealth equally around with little or no effort from the people. Hence Australians and Canadians and to a small extent New Zealanders have had high consumption, low savings, low competitiveness, high current account deficit and high debt.

The NIEs, Japan, Korea, Taiwan, Hong Kong, Singapore and also China, and Vietnam are resource-poor and therefore the opposite. They have low consumption, high savings, high competitiveness, current account surpluses and low debt. They have had to gear themselves culturally for a very hard-driving way of life.

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More doom and gloom unwarranted

History is full of surprises through discontinuities. Many flourishing civilisations were cut off on the vine. For New Zealand, more doom and gloom is unwarranted. The 1993 World Competitive Report of the World Economic Forum has ranked New Zealand eighth amongst OECD countries. Previously, New Zealand ranked 15th.

The US economy is on course for recovery. Commodity prices are slowly moving upwards as world demand picks up. The successful conclusion of General Agreement on Tariffs and Trade (GATT) will improve New Zealand's earnings from agriculture.

It is sound strategy for New Zealand and Australia, to establish more links and gear into these East Asian economies and benefit from their dynamism. New Zealand's comparative advantage in food and forestry products will find many opportunities in the region. New Zealand investment holdings now in traditional countries like Britain Europe and America will benefit from the higher returns available in East Asia. Already American and European fund managers have moved into these emerging markets. New Zealand can also attract investments and tourists into New Zealand itself from East Asia.

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The disadvantage of New Zealand's remote location in the South Pacific will continue to be reduced by advancing technology. The costs will go down. This will facilitate New Zealand's integration with the economies of East Asia and the world.

When I brought myself up-to-date with what New Zealand has been doing, I found that your government has been alive to the opportunities in East Asia. Just over two years in November 1991, the Asia 2000 initiative was launched by Deputy Prime Minister and Minister of Foreign Affairs and Trade Don McKinnon and Trade Negotiations Minister Philip Burdon. They aimed, rightly, to push New Zealand's export focus on to Asia, and second, to educate New Zealanders on the importance of Asia to their future.

You have decided to plug into East Asia. So let me say what the government in Singapore has been doing. We got together our entrepreneurs, statutory boards and government linked companies to synergise their strengths to invest in the region. The Prime Minister and the Minister for Trade and Industry and I have led delegations of Chief Executive Officers (CEOs) from both the public and the private sectors on visits to China, India, Vietnam and Myanmar. We had already established good government to government links. We helped open doors for these CEO's to meet their counterparts, and either on their own,

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or in joint ventures with the state enterprises of these host countries, they have invested in manufacturing and services, real estate, ship repair and the building of infrastructure.

The government has set aside a small sum of money for an Indochina fund to finance a technical aid programme to train Vietnamese, Cambodians and Laotians in skills necessary for their economic development, like port and airport management, transportation and other functions.

The government also has a special Myanmar technical development fund for similar technical training.

In China, we have agreed with the central government and the provincial government of Jiangsu Province to build in Suzhou in the next 10 years on 70 sq km of land, an integrated township of industrial, residential and commercial buildings. It is being developed by a consortium of Singapore businessmen who will invite multinationals - MNCs from America, Japan and Europe to invest in this township. There is a government-to-government, technical development programme. Singapore administrators and planners will show their Chinese counterparts how we plan, implement, administer and develop such a township.

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The Vietnamese government has asked for a similar agreement on 10 sq km of land in either Ho Chi Minh City or Hanoi. We are discussing the details.

The Singapore government also has an agreement with the provincial government of Shandong for cooperation in trade and industry, especially in new investments and the upgrading or renovation of their thousands of state-owned factories. We have together set up a Singapore-Shandong Business Council where high level private and public sector representatives meet regularly every year to expedite the work of joint ventures. We have also together set up a computer data base of Shandong's general and investment information which can be accessed from Singapore. In future, this data base will include details of the state-owned enterprises that Shandong wants to privatise or to convert into joint ventures with suitable partners.

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The government has taken a proactive role because these countries has few private entrepreneurs. Their bigger enterprises are all state-owned and run by officials, who are more accustomed to dealing with other officials than with private entrepreneurs. They are in the process of learning how to convert their state industries into private corporations, and welcome the intervention of the Singapore government.

The Singapore government's main role has been to get the fundamentals right: an open competitive economy. In going regional it has helped to open doors for our entrepreneurs, adding to confidence in them because officials and businessmen in these countries know that the Singapore government will help them.

The Singapore government has, in coordination with the German government, helped the formation of a German-Singapore Business Forum consisting of CEOs of Singapore and German companies. Their role is to facilitate the matching of interests between German and Singapore businessmen for joint ventures in China. The needs of China are vast and varied. Singapore officials and businessmen have easy access to Chinese officials because of the growing economic links and the convenience of the Chinese language and similar cultures. But Singaporeans do not have the range of technology or expertise that China needs. Hence, there are great possibilities when Germans and Singaporeans team up for joint ventures in China. This business forum has just been formed. Whilst it is to early to say how successful it can be, I believe the potential for successful ventures is good.

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I hope New Zealand businessmen may be interested in joint ventures with Singaporeans investing in the countries of East Asia. A good way for New

Zealand to enter the region is to start with the familiar in Southeast Asia. Singaporeans and Malaysians are your old friends. Your links with them go back some 50 years. New Zealand troops were stationed in Singapore right until July 1989. From Singapore you can get partners or friends who can be your guides in the region. Many European firms do this.

You may find this useful. To help the medium and small businessmen, the German government is building a centre for trade and industry. When completed in March 1995, it will provide showrooms, offices, assembly cum warehouse space. Rentals will be much cheaper than open market rates. A team of German specialists with expertise in Asia will assist with hands-on advice on specific problems. There will be telephone and fax answering services and business consultancy (finding agents, clients etc) and establishment of full-fledged subsidiaries (registration, recruitment and legal advice). New Zealand can work out similar arrangements to help its small and medium entrepreneurs to break into the region.

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Lessons for future

For future governments in Singapore the lessons of the past 35 years are clear. To prosper, Singapore had to develop an efficient market economy, internationally competitive and so able to export higher value added goods. This is the way we overcame our small domestic market.

The government provided the best of infrastructure. Next, it improved standards of education, work attitudes and productivity and inculcated the spirit for work excellence. This made possible ever higher quality in the goods and services we produced.

We have also had to learn about and become familiar with the language, culture and social mores of our regional partners. We spent time to know the people who helped us enter their markets. We did not have to be like them in order to do business with them. But we needed to build relationships which are easy and comfortable, good relationships which comes from an acceptance of each other and our differences.

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I have noticed many changes in New Zealand since I first came here in April 1965. New Zealand has become more diverse and more interesting. In particular, I see a growing Chinese community of Malaysians, Singaporeans and Hong Kongers. You also have Vietnamese. They can provide you with useful links to their former countries.

As you absorb more business and other immigrants from East Asia, you will more easily plug into these high growth economies.

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