

**EMBARGOED UNTIL 8.00 PM MONDAY 10 DECEMBER 2001**

**NEW ZEALAND – HONG KONG BUSINESS ASSOCIATION**

**NEW ZEALAND AND THE OUTSIDE WORLD**

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NEW ZEALAND BUSINESS ROUNDTABLE**

**HONG KONG  
10 DECEMBER 2001**

## **NEW ZEALAND AND THE OUTSIDE WORLD**

I am delighted to be here this week as a guest of the Hong Kong government, and to renew contacts with one of the dynamic hubs of the Asia Pacific region. And I am, of course, very pleased to be the guest of your Association today and to speak on the topic 'New Zealand and the Outside World'.

When you think about it, you probably couldn't make a speech on the topic 'Hong Kong and the Outside World'. It wouldn't make much sense given that the outside world is so much part of the fabric and the success of Hong Kong. You have built a thriving society on the idea of openness to the world.

For many years Hong Kong has been the best example of a free and open economy. I noted that your government recently described its approach in the following terms:

Hong Kong has established its credentials as a champion of free trade with an 'open door' policy on inward and outward investment ... a freely-convertible and stable currency, a duty and tariff-free port and one of the world's most business-friendly tax systems where companies pay only 16 percent profits tax and individuals pay no more than 15 percent salaries tax.

This pro-business environment is underpinned by the rule of law upheld by an independent judiciary, a clean administration, world-renowned anti-corruption enforcement, a level playing field for all who do business and a strong belief in 'maximum support – minimum interference' from government.<sup>1</sup>

The Hong Kong government has directed its efforts at assisting people to rise out of poverty. As it put it in its March 2001 budget:

A wealth gap is common among developed and developing countries. Some countries have tried to tackle this through welfarism and a high-tax policy. These measures have often created even greater problems than the ones they sought to remedy. They have brought upon their economies a series of structural problems. We must not make the same mistake. Our focus cannot be to remove this gap. Instead we must provide the poor with a basic level of social security and help them escape poverty ... the key to helping the poor is to ensure

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<sup>1</sup> 'Hong Kong: Asia's Premier International City', government of Hong Kong, 2000.

sustained economic development and the creation of more job opportunities and, at the same time, to enhance their employment prospects through education and training. And, of course, we must also ensure that our people from all walks of life can move between different occupational sectors and progress to better jobs. We must all strive to excel and help our children to do the same.

There are lessons for others in Hong Kong's record of economic management. For example, there is much to be said for Hong Kong's tax scale, which is close to a flat rate. A recent government review concluded that New Zealand should be moving to a lower, flatter income tax structure.

Hong Kong has embraced free trade because of your position at the crossroads of Asia – the world passed through your doorways and you took full advantage of your location. New Zealand came to the same conclusion but for the opposite reason – because of our geographic isolation. No one came knocking at our doors – except for a relaxing holiday. So for many years we have been a leading advocate of freer trade in order to obtain better access to world markets and to make our own industries more efficient by exposing them to competition. In recent years we have reduced our tariffs unilaterally – that is, without necessarily seeking reciprocity. This caused initial consternation, but the sky did not fall in and our formerly protected industries are now far more productive and export-oriented.

For New Zealand, most of the outside world is still a long way away. However, since the time I was directly involved in New Zealand's external relations in the late 1960s and early '70s, New Zealand's international engagement has changed profoundly. The country has built up a remarkable network of strong and durable relationships and connections, all designed in significant part to further our economic prosperity and expand our trade and business opportunities. Not least of these have been in North East Asia. Complementing our bilateral relationships has been a strong commitment to the multilateral economic agenda. Like Hong Kong, New Zealand is regarded as a serious participant in both the World Trade Organisation (WTO) and the Asia Pacific Economic Cooperation (APEC) forum.

We have built up a reputation as a steady, innovative member of the international community. Lee Kuan Yew has said "You know where you stand with New Zealanders – they don't jump around." Lee also once said to David Lange, on Lange's

first visit to Asia as prime minister, "If Singapore is the odd man out in Asia, New Zealand is the odd man in." It was a nice tribute to our standing in this region. That New Zealanders are currently heading both the WTO and the Commonwealth Secretariat is some sort of indicator of our international reputation.

New Zealand is still a major primary industry producer, and I see no cause for concern in that. The world is going to want a lot of food, fibre and forest products over the next 50 years. We should forget the notion that agriculture is not conducive to economic growth. Over the past 20 years productivity growth in agriculture in New Zealand has been nearly 4 percent annually – much faster than in most other industries. Well, it might be said – so much for the rest of the economy. As some of you may know, I have some views on that topic, but this is not the time and place for them.

Talking about international engagement brings me, inevitably, to September 11. There is probably nothing to say that has not been said before. The attacks on the United States brought the outside world closer to us all. There was no disposition in New Zealand to turn our isolation to account. On the contrary, the government's response took New Zealand straight into the unofficial coalition that reflected the overwhelming international commitment to counter terrorism, both immediately and over the longer term.

Have the events of 11 September fundamentally changed the international system? My own view is that they have not. There has been a successful APEC Summit in Shanghai and the successful WTO Summit at Doha. The impact on the developed economies has been immediate and inevitable – but surely not profound. All our economies have taken a knock, and at a time when they were coming under some cyclical pressure. But I do not see it as more serious than that.

Ironically, the events seem to have had some positive outcomes. The Bush administration has turned away from the unilateralism that seemed to characterise its early pronouncements on foreign policy. The international response to terrorism has moved Washington's engagement with Moscow and Beijing to a new level. And, as

one small part of this, New Zealand's response seems to have done something similar for Wellington's relationship with Washington.

For New Zealand, an especially important area of the outside world is North East Asia. Five of our top 10 economic relationships are in this region – China, Japan, Korea, Hong Kong and Taiwan. These relationships are highly valued. New Zealand has worked assiduously on them since the 1970s.

Time does not allow me to refer even briefly to all five relationships. But I should note that for New Zealand, as for so many other countries, nothing on the international agenda is more important than that the Chinese government and people continue steadily on the remarkable journey that they began in 1979 under Deng Xiao Ping. China's steady moves towards a market system are changing the face of the world economy. Its entry into the WTO this year is another landmark on the journey. New Zealand's relationship with the People's Republic is in excellent shape. Both the prime minister and the foreign minister have made successful visits to China this year.

I need not examine the relationship with Hong Kong – the Association has had speeches on this by prominent New Zealanders earlier this year. I will, however, mention the value that the New Zealand business community attaches to the negotiations currently under way to conclude a Closer Economic Partnership between New Zealand and Hong Kong. This will be a 'state of the art' FTA similar, I understand, to the CEP New Zealand concluded with Singapore last year – to the surprise of many in our region and beyond. The Singapore CEP was a pathfinder – more important in that respect than for what it held for the signatories (although it did open up a hitherto closed services sector to New Zealand professional services companies). It is notable that Australia is now hoping to conclude a similar agreement with Singapore.

The Hong Kong CEP is also, in part, designed to serve as an encouragement to others – not least to APEC as a whole as it begins to focus on its Bogor goals of 2010 and 2020. New Zealand is positive about consummating FTAs with just about all comers. The big prize is the United States. Australia is hoping to turn its special relationship with the United States to account and to negotiate a FTA with Washington. If this

happens, it will be almost inconceivable that New Zealand will not at some stage be included, given the direct relevance of our own free trade agreement with Australia.

These country-to-country FTAs do not, in my view, cut across the supreme importance of the multilateral global trade and services agenda of the WTO. They are a valuable accompaniment to it, as are regional arrangements such as the ASEAN Free Trade Area (AFTA) and the North American Free Trade Agreement (NAFTA). These must not, however, be regarded as a substitute for comprehensive liberalisation. The European Union is the prime example of the baleful and distorting effects of protectionist regional arrangements. New Zealand's CEP policy is light years away from Brussels.

In conclusion, let me briefly list what the New Zealand corporate sector sees as the key elements of New Zealand's all-important relationships with the five North East Asian countries. They are trade, investment, tourism, immigration and education. It is critical that New Zealand's policies in these five fields produce the right dividends for us and for our North East Asian partners.

I have already covered trade. The New Zealand business community thinks our government's energetic and imaginative approach is along the right lines. For New Zealand – and for Hong Kong – the trading world might be our oyster, but it takes a lot of work to prise it open.

New Zealand is starting to promote investment better. But much remains to be done if we are to be seen as attractive as Australia – and it is only realistic to see Australia as our direct competitor here. It will be difficult, given the relatively small size of our enterprises, to attract the serious interest of many Asian investors. A key issue for New Zealand is to improve its overall economic performance by continuing to upgrade its policy framework – we need to do more to stand out from the crowd. We also have to be more active and targeted in our promotion. I would welcome your views on this. It is concerning that despite some good work by Gary Langford in Trade NZ on the venture capital front, the results to date have been slim. I would like to see a joint VC fund established in Auckland by a group of Hong Kong or Taiwan VC companies. The returns would be fully in line with international standards. It is

interesting to note that in New Zealand our own VC companies are starting to expand and write some highly profitable business.

As to tourism, the government and the industry are devoting significant resources to international promotion, with some good returns. New Zealand has so much to offer the Asian tourist but the promotion needs to be more effectively and precisely targeted. Germans love skiing over cliffs. Sensibly, Asians do not.

On immigration, we must settle on a flexible, attractive policy and stick with it. The aftermath of the sudden shift and tightening in the mid '90s is still dogging New Zealand in Asia. This cut across Lee Kuan Yew's dictum about steady New Zealanders, and we have been paying for it. New Zealand is short of skills and of entrepreneurs. Asia has plenty of them. It was pleasing to see last week the introduction of a Talent Visa with attractive inducements to work in New Zealand. Migrants are an investment – we must look after their needs much better than we have to date.

Finally, we must also do a better job on education. There seems to be a disappointing lack of coordination among the official agencies involved, and between them and the New Zealand educational institutions. Australia is operating much more effectively. Again, I would welcome your views on this and on immigration.

In sum, New Zealand has a highly effective track record in the outside world in a general sense. We are well and extensively connected where it counts – not least in East Asia. But on some of the concrete specifics we could do better in this region. And we must keep on keeping on making our economy more competitive and attractive as a place to invest, work and do business. There are many lessons – in fields ranging from tax to education to welfare – that Hong Kong and other Asian countries can teach us to help with this project.